UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-5684

W.W. Grainger, Inc.

(Exact name of registrant as specified in its charter)

Illinois	**36-1150280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Grainger Parkway, Lake Forest, Illinois	**60045-5201**
(Address of principal executive offices)	(Zip Code)

(847) 535-1000

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock $0.50 par value	New York Stock Exchange Chicago Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes __X__ No ____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ____ No __X__

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ____ No __X__

The aggregate market value of the voting common equity held by nonaffiliates of the registrant was $10,123,345,795 as of the close of trading as reported on the New York Stock Exchange on June 30, 2011. The Company does not have nonvoting common equity.

The registrant had 70,104,501 shares of common stock outstanding as of January 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the annual meeting of shareholders of the registrant to be held on April 25, 2012, are incorporated by reference into Part III hereof.

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PART I

Item 1: Business

The Company

W.W. Grainger, Inc., incorporated in the State of Illinois in 1928, is a broad-line distributor of maintenance, repair and operating supplies and other related products and services used by businesses and institutions primarily in the United States and Canada, with expanding global operations. In this report, the words "Grainger" or "Company" mean W.W. Grainger, Inc. and its subsidiaries.

Grainger uses a multichannel business model to provide customers with a range of options for finding and purchasing products utilizing sales representatives, direct marketing materials, catalogs and eCommerce. Grainger serves approximately 2.0 million customers worldwide through a network of highly integrated branches, distribution centers, multiple websites and export services.

During 2011, Grainger acquired the Fabory Group, a European distributor of fasteners and related maintenance, repair and operating products, representing Grainger's first entry into the European market. See the Other Businesses discussion below for a description of this business.

Grainger's two reportable segments are the United States and Canada. The United States segment reflects the results of Grainger's U.S. business. The Canada segment reflects the results for Acklands – Grainger Inc. (Acklands – Grainger), Grainger's Canadian business. Other businesses include the following significant operations: the Fabory Group, MonotaRO, Mexico, China and Colombia. These businesses generate revenue through the distribution of maintenance, repair and operating supplies and products and provide related services. For segment and geographical information and consolidated net sales and operating earnings see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 17 to the Consolidated Financial Statements.

Grainger has centralized business support functions that provide coordination and guidance in the areas of accounting and finance, business development, communications and investor relations, compensation and benefits, information systems, health and safety, global supply chain functions, human resources, risk management, internal audit, legal, real estate, security, tax and treasury. These services are provided in varying degrees to all business units.

Grainger does not engage in product research and development activities. Items are regularly added to and deleted from Grainger's product lines on the basis of customer demand, market research, recommendations of suppliers, sales volumes and other factors.

United States

The United States business offers a broad selection of maintenance, repair and operating supplies and other related products and services through local branches, catalogs and the Internet. A combination of product breadth, local availability, speed of delivery, detailed product information and competitively priced products and services is provided by this business. Products offered include material handling equipment, safety and security supplies, lighting and electrical products, power and hand tools, pumps and plumbing supplies, cleaning and maintenance supplies, forestry and agriculture equipment, building and home inspection supplies, vehicle and fleet components and many other items primarily focused on the facilities maintenance market. Services offered include inventory management and energy efficiency solutions.

The United States business operates in all 50 states through a network of 368 branches. These branches are located in close proximity to the majority of U.S. businesses and serve the immediate needs of customers in their local markets by allowing them to pick up items directly from the branches. Branches range in size from small branches to large master branches. The branch network has approximately 4,700 employees who primarily fulfill counter and will-call product purchases and provide customer service. An average branch is 23,000 square feet in size, has 13 employees and handles about 160 transactions per day. In the normal course of business, Grainger continually reviews the effectiveness of its branch network. In 2011, 35 branches were closed and one opened. The number of branch closures during 2011 reflects the shift of volume from counter and will-call purchases to shipments out of the distribution centers.

The logistics network in the United States is comprised of a network of 15 distribution centers (DCs) of various sizes. In 2011, a new DC was opened and began operations in northern California. Automated equipment and processes in the larger DCs allow them to handle the majority of the customer shipping for next-day product availability and replenish the branches that provide same day availability.

Customers range from small and medium-sized businesses to large corporations, government entities and other institutions. They are primarily represented by purchasing managers or workers in facilities maintenance departments and service shops across a wide range of industries such as manufacturing, hospitality, transportation, government, retail, healthcare and education. Sales transactions during 2011 were made to approximately 1.6 million customers averaging 105,000 daily transactions. No single customer accounted for more than 2% of total sales.

The business has a sales force of almost 2,700 professionals who help businesses and institutions select the right products to find immediate solutions to maintenance problems and to reduce operating expenses and improve cash flows. The sales force increased over the prior year with the majority of the new sales representatives focused on acquiring additional business from existing medium-sized customers as well as acquiring new business across the United States.

Another area in which the United States business helps customers be more productive is through inventory management. A comprehensive program was launched in 2006 called KeepStock® that includes on-site services and vendor-managed inventory. During the past couple of years the program has expanded to over 14,000 customers and 30,000 unique customer installations.

Customers can also purchase products through grainger.com. More customers are migrating to online and electronic purchasing and Grainger continues to enhance its eCommerce platform. With access to more than 800,000 products, grainger.com serves as a prominent channel for the United States business. Grainger.com provides real-time price and product availability and detailed product information, and offers advanced features such as product search and compare capabilities. For customers with sophisticated electronic purchasing platforms, Grainger utilizes technology that allows these systems to communicate directly with grainger.com. Customers can also purchase products through several other branded websites.

The majority of the products sold by the United States business are well recognized national branded products, including private label items bearing Grainger's registered trademarks, such as DAYTON® motors, SPEEDAIRE® air compressors, AIR HANDLER® air filtration equipment, DEM-KOTE® spray paints, WESTWARD® tools, CONDOR® safety products and LUMAPRO® lighting products. Grainger has taken steps to protect these trademarks against infringement and believes that they will remain available for future use in its business.

The Grainger catalog, most recently issued in February 2012, offers approximately 410,000 facilities maintenance and other products and is used by customers to assist in product selection. Approximately 2.1 million copies of the catalog were produced. In addition, Grainger's United States business issues targeted catalogs for its multiple branded products, as well as other marketing materials.

The United States business purchases products for sale from more than 2,000 key suppliers, most of which are manufacturers. Through a global sourcing operation, the business procures competitively priced, high-quality products produced outside the United States from approximately 300 suppliers. Grainger sells these items primarily under private label brands. Products obtained through the global sourcing operation include DAYTON® motors, WESTWARD® tools, LUMAPRO® lighting products and CONDOR® safety products, as well as products bearing other trademarks. No single supplier comprised more than 5% of total purchases and no significant difficulty has been encountered with respect to sources of supply.

Canada

Acklands – Grainger is Canada's leading broad-line distributor of industrial and safety supplies. A combination of product breadth, local availability, speed of delivery, detailed product information and competitively priced products and services is provided by this business. In 2011, Acklands – Grainger acquired one business, Fercomat, Inc. Fercomat is based in Quebec and has been a leading distributor of hardware, tools and fasteners since 1957.

The Canadian business serves customers through 172 branches and six DCs across Canada. Acklands – Grainger distributes tools, fasteners, safety supplies, instruments, welding and shop equipment, and many other items. During 2011, approximately 15,000 sales transactions were completed daily. A comprehensive catalog, printed in both English and French, was most recently issued in February 2012. The catalog has more than 110,000 products and is used by customers to assist in product selection. In addition, customers can purchase products through acklandsgrainger.com, a fully bilingual website.

Other Businesses

Included in other businesses are the operations in Europe, Japan, Mexico, India, Puerto Rico, China, Colombia, Panama and Dominican Republic. The more significant businesses in this group are described below.

Fabory Group

In 2011, Grainger acquired the Fabory Group, a European distributor of fasteners, tools and industrial supplies. The Fabory Group is headquartered in Tilburg, the Netherlands, and has more than 100 locations in 15 countries. Customers have access to approximately 80,000 products through a catalog and through fabory.com.

Japan

Grainger operates in Japan through its 53% interest in MonotaRO Co. MonotaRO provides small and mid-sized domestic businesses with products that help them operate and maintain their facilities. MonotaRO is a catalog and web-based direct marketer with approximately 80% of orders being conducted through monotaro.com. MonotaRO has no branches and fulfills all orders from two DCs.

Mexico

Grainger's operations in Mexico provide local businesses with maintenance, repair and operating supplies and other related products primarily from Mexico and the United States. Mexico distributes products through a network of branches and one DC where customers have access to approximately 84,000 products through a Spanish-language catalog and through grainger.com.mx.

China

Grainger operates in China from a DC in Shanghai and two small regional warehouses. In addition, there are six sales offices in eastern China that allow sales representatives to work remotely and meet with customers. Customers have access to approximately 59,000 products through a Chinese-language catalog and through grainger.com.cn.

Colombia

Grainger owns an 80% position in a joint venture in Colombia. Colombia provides businesses with facilities maintenance supplies and other products, with an emphasis on fastener products, through a network of branches and one DC. Customers have access to approximately 30,000 products through torhefe.com.

Seasonality

Grainger's business in general is not seasonal, however, there are some products that typically sell more often during the winter or summer season. In any given month, unusual weather patterns, i.e., unusually hot or cold weather, could impact the sales volumes of these products, either positively or negatively.

Competition

Grainger faces competition in all markets it serves, from manufacturers (including some of its own suppliers) that sell directly to certain segments of the market, wholesale distributors, catalog houses, retail enterprises and Internet-based businesses.

Grainger provides local product availability, a broad product line, sales representatives, competitive pricing, catalogs (which include product descriptions and, in certain cases, extensive technical and application data), and electronic and Internet commerce technology. Other services such as inventory management and energy efficiency solutions to assist customers in lowering their total facilities maintenance costs are also offered. Grainger believes that it can effectively compete with manufacturers on small orders, but manufacturers may have an advantage in filling large orders.

Grainger serves a number of diverse markets. Grainger estimates the North American market for facilities maintenance and related products to be approximately $140 billion, of which Grainger's share is approximately 5%. There are several large competitors, although the majority of the market is served by small local and regional competitors.

Employees

As of December 31, 2011, Grainger had approximately 21,400 employees, of whom approximately 20,000 were full-time and 1,400 were part-time or temporary. Grainger has never had a major work stoppage and considers employee relations to be good.

Website Access to Company Reports

Grainger makes available, through its website, free of charge, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports, as soon as reasonably practicable after this material is electronically filed with or furnished to the Securities and Exchange Commission. This material may be accessed by visiting grainger.com/investor.

Item 1A: Risk Factors

The following is a discussion of significant risk factors relevant to Grainger's business that could adversely affect its financial position or results of operations.

Weakness in the economy could negatively impact Grainger's sales growth. Economic and industry trends affect Grainger's business environments. Economic downturns can cause customers, both domestic and international, to idle or close facilities, delay purchases and otherwise reduce their ability to purchase Grainger's products and services as well as their ability to make full and timely payments. Thus, a significant or prolonged slowdown in economic activity in the United States, Canada or any other major world economy could negatively impact Grainger's sales growth and results of operations.

The facilities maintenance industry is highly fragmented, and changes in competition could result in a decreased demand for Grainger's products and services. There are several large competitors in the industry, although most of the market is served by small local and regional competitors. Grainger faces competition in all markets it serves, from manufacturers (including some of its own suppliers) that sell directly to certain segments of the market, wholesale distributors, catalog houses, retail enterprises and Internet-based businesses. Competitive pressures could adversely affect Grainger's sales and profitability.

Volatility in commodity prices may adversely affect operating margins. Some of Grainger's products contain significant amounts of commodity-priced materials, such as steel, copper, petroleum derivatives or rare earth minerals, and are subject to price changes based upon fluctuations in the commodities market. Increases in the price of fuel could also drive up transportation costs. Grainger's ability to pass on increases in costs depends on market conditions. The inability to pass along cost increases could result in lower operating margins. In addition, higher prices could impact demand for these products, resulting in lower sales volumes.

Unexpected product shortages could negatively impact customer relationships, resulting in an adverse impact on results of operations. Grainger's competitive strengths include product selection and availability. Products are purchased from more than 3,500 key suppliers located in various countries around the world, no one of which accounted for more than 5% of total purchases. Historically, no significant difficulty has been encountered with respect to sources of supply; however, disruptions could occur due to factors beyond Grainger's control, such as economic downturns, political unrest, trade issues, etc., any of which could adversely affect a supplier's ability to manufacture or deliver products. If Grainger were to experience difficulty in obtaining products, there could be a short-term adverse effect on results of operations and a longer-term adverse effect on customer relationships and Grainger's reputation. In addition, Grainger has strategic relationships with key vendors. In the event Grainger was unable to maintain those relations, there might be a loss of competitive pricing advantages which could, in turn, adversely affect results of operations.

The addition of new product lines could impact future sales growth. Grainger is continuing in a multiyear product line expansion program. The continued success of this program is expected to be a driver of growth in 2012 and beyond. Its success will depend on Grainger's ability to accurately forecast market demand, obtain products from suppliers and effectively integrate these products into the supply chain. As such, there is a risk that the product line expansion program will not deliver the expected results, which could negatively impact anticipated future sales growth.

Disruptions in Grainger's supply chain could result in an adverse impact on results of operations. A disruption within Grainger's logistics or supply chain network, including damage, destruction, and other events which would cause one or more of the distribution centers to become non-operational, could adversely affect Grainger's ability to deliver inventory in a timely manner, impair Grainger's ability to meet customer demand for products and result in lost sales or damage to Grainger's reputation. Such a disruption could adversely impact the results of operations.

Interruptions in the proper functioning of information systems could disrupt operations and cause unanticipated increases in costs and/or decreases in revenues. The proper functioning of Grainger's information systems, including its websites, is critical to the successful operation of its business. Grainger continues to invest in software, hardware and network infrastructures in order to effectively manage its information systems and websites. Although Grainger's information systems are protected with robust backup and security systems, including physical and software safeguards and remote processing capabilities, information systems are still vulnerable to natural disasters, power losses, computer viruses, telecommunication failures and other problems. If critical information systems fail or otherwise become unavailable, among other things, Grainger's ability to process orders, maintain proper levels of inventories, collect accounts receivable and disburse funds could be adversely affected. Any such interruption of Grainger's information systems could also subject Grainger to additional costs.

Breaches of information systems security could damage Grainger's reputation, disrupt operations, increase costs and/or decrease revenues. Through Grainger's sales and eCommerce channels, Grainger collects and stores confidential information that customers provide to, among other things, purchase products or services, enroll in promotional programs and register on the website. Grainger also acquires and retains information about suppliers and employees in the normal course of business. Despite instituted safeguards for the protection of such information, computer hackers may attempt to penetrate Grainger's or its vendors' information systems and, if successful, misappropriate confidential customer, supplier, employee or other business information. In addition, a Grainger employee, contractor or other third party with whom Grainger does business may attempt to circumvent security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of customer, supplier, employee or other business information could disrupt operations, damage Grainger's reputation, and expose Grainger to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and other persons, any of which could have an adverse effect on Grainger, its financial condition and results of operations. In addition, compliance with tougher privacy and information security laws and standards may result in significant additional expense due to increased investment in technology and the development of new operational processes.

Fluctuations in foreign currency have an effect on reported results of operations. Foreign currency exchange rates and fluctuations have an impact on sales, costs and cash flows from international operations, and could affect reported financial performance.

Acquisitions involve a number of inherent risks, any of which could result in the benefits anticipated not being realized and could have an adverse effect on results of operations. Acquisitions, both foreign and domestic, involve various inherent risks, such as uncertainties in assessing the value, strengths, weaknesses, liabilities and potential profitability of acquired companies. There is a risk of potential losses of key employees of an acquired business and of an inability to achieve identified operating and financial synergies anticipated to result from an acquisition. Additionally, problems could arise from the integration of the acquired business including unanticipated changes in the business or industry, or general economic conditions that affect the assumptions underlying the acquisition. Any one or more of these factors could cause Grainger not to realize the benefits anticipated to result from the acquisitions or have a negative impact on the fair value of the reporting units. Accordingly, goodwill and intangible assets recorded as a result of acquisitions could become impaired.

In order to compete, Grainger must attract, retain and motivate key employees, and the failure to do so could have an adverse effect on results of operations. In order to compete and have continued growth, Grainger must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and support positions. Grainger competes to hire employees and then must train them and develop their skills and competencies. Grainger's operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs.

Grainger's continued success is substantially dependent on positive perceptions of Grainger's reputation. One of the reasons why customers choose to do business with Grainger and why employees choose Grainger as a place of employment is the reputation that Grainger has built over many years. To be successful in the future, Grainger must continue to preserve, grow and leverage the value of Grainger's brand. Reputational value is based in large part on perceptions of subjective qualities. Even an isolated incident, or the aggregate effect of individually insignificant incidents, can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation, and as a result, could tarnish Grainger's brand and lead to adverse effects on Grainger's business.

Grainger's business is subject to various government regulations. Grainger's business is subject to a wide array of laws and regulations in every jurisdiction where it operates and compliance with these laws and regulations increases the cost of doing business. As a government contractor selling to federal, state and local government entities, Grainger is subject to a variety of laws and regulations, including without limitation import and export requirements, the Foreign Corrupt Practices Act, tax laws (including U.S. taxes on foreign subsidiaries), foreign exchange controls and cash repatriation restrictions, data privacy requirements, labor laws and anti-competition regulations, and is also subject to audits and inquiries in the ordinary course of business. Changes to the legal and regulatory environments could increase the cost of doing business, and such costs may increase in the future as a result of changes in these laws and regulations or in their interpretation. Furthermore, Grainger has implemented policies and procedures designed to facilitate compliance with these laws and regulations, but there can be no assurance that employees, contractors or agents will not violate such laws and regulations or Grainger's policies. Any such violations could individually or in the aggregate materially adversely affect Grainger's financial condition or operating results.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

As of December 31, 2011, Grainger's owned and leased facilities totaled approximately 26.3 million square feet, an increase of approximately 13% from December 31, 2010. This increase is primarily the result of the Fabory acquisition. The United States business and Acklands – Grainger accounted for the majority of the total square footage. Branches in the United States range in size from approximately 1,400 to 109,000 square feet. Most are located in or near major metropolitan areas with many located in industrial parks. Typically, a branch is on one floor, consists primarily of warehouse space, sales areas and offices and has off-the-street parking for customers and employees. Distribution centers in the United States range in size from approximately 39,000 to 1,300,000 square feet. Grainger believes that its properties are generally in excellent condition and well maintained. Acklands – Grainger facilities are located throughout Canada.

A brief description of significant facilities follows:

Location	Facility and Use (6)	Size in Square Feet (in 000's)
United States (1)	368 United States branch locations	8,277
United States (2)	15 Distribution Centers	6,644
United States (3)	Other facilities	3,569
Canada (4)	185 Acklands – Grainger facilities	2,700
Other Businesses (5)	Other facilities	3,826
Chicago Area (2)	Headquarters and General Offices	1,327
	Total Square Feet	26,343

(1) United States branches consist of 271 owned and 97 leased properties. Most leases expire between 2012 and 2018.
(2) These facilities are primarily owned.
(3) These facilities include both owned and leased locations, consisting of storage facilities, office space, and idle properties including a one million square foot facility for a new distribution center in Illinois to be opened in 2012.
(4) Acklands – Grainger facilities consist of general offices, distribution centers and branches, of which 64 are owned and 121 leased.
(5) These facilities include owned and leased locations in Europe, Japan, Mexico, India, Puerto Rico, China, Colombia, Panama, Trinidad, Dominican Republic and Costa Rica.
(6) Owned facilities are not subject to any mortgages.

Item 3: Legal Proceedings

Information on specific and significant legal proceedings is set forth in Note 19 to the Consolidated Financial Statements included under Item 8.

Item 4: Mine Safety Disclosure

Not applicable.

PART II

Item 5: Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information and Dividends

Grainger's common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange, with the ticker symbol GWW. The high and low sales prices for the common stock and the dividends declared and paid for each calendar quarter during 2011 and 2010 are shown below.

		Prices		
	Quarters	High	Low	Dividends
2011	First	$140.17	$129.01	$0.54
	Second	154.68	137.75	0.66
	Third	165.55	124.33	0.66
	Fourth	193.21	141.36	0.66
	Year	$193.21	$124.33	$2.52
2010	First	$109.98	$ 96.13	$0.46
	Second	116.07	96.50	0.54
	Third	121.84	96.81	0.54
	Fourth	139.09	117.25	0.54
	Year	$139.09	$ 96.13	$2.08

Grainger expects that its practice of paying quarterly dividends on its common stock will continue, although the payment of future dividends is at the discretion of Grainger's Board of Directors and will depend upon Grainger's earnings, capital requirements, financial condition and other factors.

Holders

The approximate number of shareholders of record of Grainger's common stock as of January 31, 2012, was 880 with approximately 85,600 additional shareholders holding stock through nominees.

Issuer Purchases of Equity Securities – Fourth Quarter

Period	Total Number of Shares Purchased (A)	Average Price Paid per Share (B)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (C)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
Oct. 1 – Oct. 31	46,025	169.98	46,025	7,299,316 shares
Nov. 1 – Nov. 30	212,436	174.61	212,436	7,086,880 shares
Dec. 1 – Dec. 31	25,101	186.13	25,101	7,061,779 shares
Total	283,562	174.88	283,562	

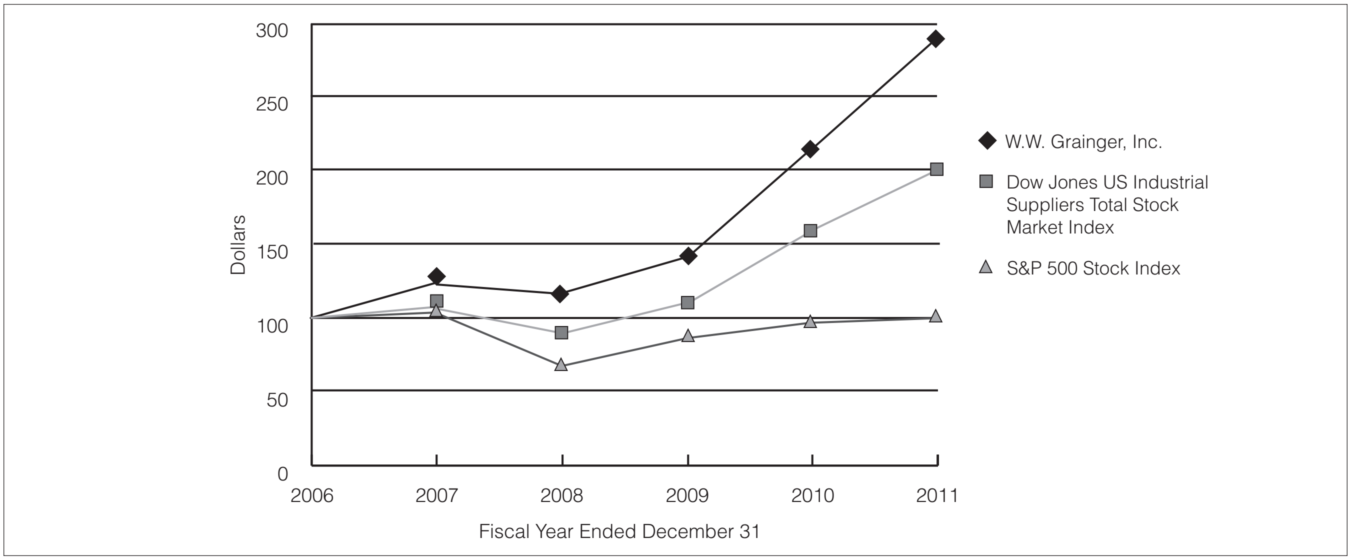
(A) There were no shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock awards.

(B) Average price paid per share includes any commissions paid and includes only those amounts related to purchases as part of publicly announced plans or programs.

(C) Purchases were made pursuant to a share repurchase program approved by Grainger's Board of Directors on July 28, 2010. The program has no specified expiration date. Activity is reported on a trade date basis.

Company Performance

The following stock price performance graph compares the cumulative total return on an investment in Grainger common stock with the cumulative total return of an investment in each of the Dow Jones US Industrial Suppliers Total Stock Market Index and the S&P 500 Stock Index. It covers the period commencing December 31, 2006, and ending December 31, 2011. The graph assumes that the value for the investment in Grainger common stock and in each index was $100 on December 31, 2006, and that all dividends were reinvested.



	December 31,					
	2006	2007	2008	2009	2010	2011
W.W. Grainger, Inc.	$100	$127	$117	$146	$213	$293
Dow Jones US Industrial Suppliers Total Stock Market Index	100	114	89	112	157	201
S&P 500 Stock Index	100	105	66	84	97	99

Item 6: Selected Financial Data

	2011	2010	2009	2008	2007
	(In thousands of dollars, except for per share amounts)				
Net sales	$8,078,185	$7,182,158	$6,221,991	$6,850,032	$6,418,014
Net earnings attributable to W.W. Grainger, Inc.	658,423	510,865	430,466	475,355	420,120
Net earnings per basic share	9.26	7.05	5.70	6.07	5.01
Net earnings per diluted share	9.07	6.93	5.62	5.97	4.91
Total assets	4,716,062	3,904,377	3,726,332	3,515,417	3,094,028
Long-term debt (less current maturities)	175,055	420,446	437,500	488,228	4,895
Cash dividends paid per share	$ 2.52	$ 2.08	$ 1.78	$ 1.55	$ 1.34

Net earnings for 2011 included a $0.16 per share expense for U.S. branch closures, a $0.12 per share benefit related to the settlement of prior year tax reviews and a $0.07 per share benefit for a gain on the sale of the MRO Korea Joint Venture, which when combined, resulted in a net benefit of $0.03 per share.

There were two non-cash items included in 2010 earnings, a $0.28 per share benefit from a change to the paid time off policy and a $0.15 per share tax expense related to the tax treatment of retiree healthcare benefits following the passage of the Patient Protection and Affordable Care Act, which when combined, resulted in a net benefit of $0.13 per share. Results for 2009 included a $0.37 per share non-cash gain from the MonotaRO transaction in September 2009.

For further information see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

General. Grainger is a broad-line distributor of maintenance, repair and operating supplies, and other related products and services used by businesses and institutions. Grainger's operations are primarily in the United States and Canada, with an expanding presence in Europe, Asia and Latin America. Grainger uses a multichannel business model to provide customers with a range of options for finding and purchasing products utilizing sales representatives, catalogs and direct marketing materials and eCommerce. Grainger serves approximately 2.0 million customers worldwide through a network of highly integrated branches, distribution centers, multiple websites and export services.

Grainger's two reportable segments are the United States and Canada. The United States segment reflects the results of Grainger's U.S. operating segment. The Canada segment reflects the results for Acklands – Grainger Inc., Grainger's Canadian operating segment. Other Businesses include the following significant operating segments which are not material individually and in the aggregate: Fabory Group, MonotaRO, Mexico, China and Colombia.

Business Environment. Several economic factors and industry trends tend to shape Grainger's business environment. The overall economy and leading economic indicators provide general insight into projecting Grainger's growth. Historically, Grainger's sales have tended to correlate with industrial production and non-farm payrolls. According to the Federal Reserve, overall industrial production increased 2.9% from December 2010 to December 2011. The United States' GDP grew an estimated 1.7% in 2011 and Canada's GDP grew an estimated 2.3%. The improvement in the economy has positively affected Grainger's sales growth for 2011. In addition, changes in business inventory levels are a factor in Grainger's sales trends. The need for businesses to replenish inventories in 2010 and 2011 after the economic downturn contributed to Grainger's sales growth. According to the Bureau of Economic Analysis, inventory levels increased 3.5% and 2.1% in 2010 and 2011, respectively.

In February 2012, *Consensus Forecasts-USA* projected 2012 Industrial Production growth of 3.4%, GDP growth of 2.2% and business inventory growth of 2.5% for the United States. In addition, *Consensus Forecasts-USA* projected GDP growth of 2.0% for Canada.

The light and heavy manufacturing customer sectors, which comprised approximately 27% of Grainger's total 2011 sales, have historically correlated with manufacturing employment levels and manufacturing production. Manufacturing employment levels in the United States increased approximately 2.0% from December 2010 to December 2011, while manufacturing output increased 1.3%. This increase in manufacturing employment and output contributed to a mid-teen percent increase in the heavy manufacturing customer sector and a high single-digit percent increase in the light manufacturing customer sector for Grainger in 2011.

Outlook. Grainger plans to continue to make investments in growth drivers such as product line expansion, sales force expansion, eCommerce, inventory services, distribution centers and international expansion. These multi-year initiatives are expected to contribute to continued market share growth by helping businesses and institutions streamline their purchasing processes and reduce costs. As of January 25, 2012, Grainger forecasted 2012 sales growth to be in the range of 10 to 14%. Volume growth is expected to contribute 5 to 8% of the sales growth, price 2 to 3% and acquisitions an additional 3%. Earnings per share is forecasted to be in the range of $9.90 to $10.65 for the full year of 2012, reflecting higher sales growth and gross profit margin expansion, partially offset by growth investments. The guidance anticipated continued strong organic growth with increased investments. The forecasted gross profit margins, while expected to continue to expand, will also be tempered by faster growth from larger, contract customers with lower gross profit margins. Operating expenses as a percent of sales is expected to improve in 2012, although the cost leverage provided by faster growth and productivity improvements will be partially offset by the continued investments in the growth drivers.

Matters Affecting Comparability. There were 255 sales days in 2011, 254 in 2010 and 255 in 2009.

Grainger completed several acquisitions throughout 2011 and 2010, all of which were immaterial individually and in the aggregate. Grainger's operating results have included the results of each business acquired since the respective acquisition dates.

Results of Operations

The following table is included as an aid to understanding changes in Grainger's Consolidated Statements of Earnings:

	For the Years Ended December 31,				
	As a Percent of Net Sales			Percent Increase/(Decrease) from Prior Year	
	2011	2010	2009	2011	2010
Net sales	100.0%	100.0%	100.0%	12.5%	15.4%
Cost of merchandise sold	56.5	58.2	58.2	9.4	15.3
Gross profit	43.5	41.8	41.8	16.8	15.7
Operating expenses	30.5	29.9	31.1	14.6	11.0
Operating earnings	13.0	11.9	10.7	22.3	29.4
Other income (expense)	—	(0.1)	0.7	(86.5)	(115.9)
Income taxes	4.8	4.7	4.5	13.2	23.0
Noncontrolling interest	0.1	—	—	194.0	—
Net earnings attributable to W.W. Grainger, Inc.	8.1%	7.1%	6.9%	28.9%	18.7%

2011 Compared to 2010

Grainger's net sales of $8,078.2 million for 2011 increased 12.5% when compared with net sales of $7,182.2 million for 2010. There was one more selling day in 2011 versus 2010. Daily sales were up 12.0%. For 2011, approximately 8 percentage points of the sales growth came from an increase in volume. Approximately 2 percentage points came from business acquisitions, 2 percentage points from price and 1 percentage point due to foreign exchange, partially offset by a 1 percentage point decrease related to 2010 sales of products used to assist with the oil spill cleanup in the Gulf of Mexico. Sales to all customer end-markets except one increased for 2011. The overall increase in net sales was led by a mid-teen percent increase to heavy manufacturing customers, followed by a high single-digit increase in light manufacturing. The agriculture and mining customer end-market declined due to the difficult comparison from the oil spill in 2010. Refer to the *Segment Analysis* below for further details.

Gross profit of $3,510.8 million for 2011 increased 16.8%. The gross profit margin for 2011 was 43.5%, up 1.7 percentage points versus 2010. The gross profit margin was favorably affected by price increases exceeding product costs increases, a decline in sales of low margin sourced products and lower excess and obsolete inventory requirements.

Operating expenses of $2,458.4 million for 2011 increased 14.6% from $2,145.2 million for 2010. Operating expenses increased primarily driven by volume-related costs, expenses from the Fabory Group acquisition and incremental spending on the Company's growth programs. The 2011 year also included approximately $18 million of costs related to the closure of branches in the United States. In addition, 2010 benefited by $33.1 million from a paid time off policy change, which reduced the related liability.

Operating earnings of $1,052.4 million for 2011 increased 22.3% from $860.5 million for 2010. The increase in operating earnings was due to higher sales and an improved gross profit margin, partially offset by operating expenses increasing at a faster rate than sales.

Net earnings attributable to Grainger for 2011 increased by 28.9% to $658.4 million from $510.9 million in 2010. The increase in net earnings for 2011 primarily resulted from an increase in operating earnings. Diluted earnings per share of $9.07 in 2011 were 30.9% higher than $6.93 for 2010, due to increased net earnings and fewer shares outstanding. Earnings for 2011 included a $0.16 per share expense for branch closures, a $0.07 per share gain on the sale of a joint venture investment, and a $0.12 per share benefit from the settlement of tax reviews, which when combined, resulted in a net benefit of $0.03 per share. There were two non-cash items included in 2010 earnings, a $0.28 per share benefit from a change to a paid time off policy and a $0.15 per share tax expense related to the tax treatment of retiree healthcare benefits following the passage of the Patient Protection and Affordable Care Act, which when combined, resulted in a net benefit of $0.13 per share. Excluding these items from both years, net earnings increased 30.8% and earnings per share increased 32.9% in 2011 versus 2010.

Segment Analysis

The following comments at the reportable segment and other business unit level include external and intersegment net sales and operating earnings. See Note 17 to the Consolidated Financial Statements.

United States

Net sales were $6,501.3 million for 2011, an increase of $481.2 million, or 8.0%, when compared with net sales of $6,020.1 million for 2010. Daily sales in the United States were up 7.6%. Approximately 7 percentage points of the sales growth came from an increase in volume and approximately 3 percentage points was due to price, partially offset by a 2 percentage point decrease related to the 2010 sales of products used to assist with the oil spill cleanup in the Gulf of Mexico. Sales to all customer end-markets except one increased for 2011. The overall increase in net sales was led by a mid-teen percent increase to heavy manufacturing customers and a high single-digit increase to light manufacturing customers. The agriculture and mining customer end-market declined due to the difficult comparisons from the oil spill in 2010.

The segment gross profit margin increased 1.7 percentage points in 2011 over 2010. The gross profit margin benefited from price increases exceeding product cost increases, a decline in sales of low margin sourced products and a lower excess and obsolete inventory requirement.

Operating expenses were up 10.1% for 2011 versus 2010. Operating expenses increased driven by volume and growth-related spending including new sales representatives, eCommerce, advertising and incremental expenses for the new distribution center in northern California. The 2011 year also included costs for the closure of 35 branches. Grainger continually reviews the effectiveness of the branch network. Currently, there are no plans for any significant branch openings or closures. In addition, 2010 included a $29.7 million benefit that resulted from a paid time off policy change, which reduced the related liability. Excluding the branch closure costs from 2011 and the 2010 benefit, operating expenses increased 7.1%.

For the segment, operating earnings of $1,066.3 million for 2011 increased 15.9% over $920.2 million in 2010. The improvement in operating earnings for 2011 was due to an increase in net sales and gross profit margin, partially offset by operating expenses increasing at a faster rate than sales.

Canada

Net sales were $992.8 million for 2011, an increase of $171.9 million, or 20.9%, when compared with $820.9 million for 2010. Daily sales were up 20.5%. In local currency, daily sales increased 15.7% for 2011. Contributing to the sales growth was 3 percentage points from acquisitions. The increase in net sales was led by growth to heavy manufacturing, retail, oil and gas, and agriculture and mining customers.

The gross profit margin increased 2.3 percentage points in 2011 over 2010, primarily driven by lower product costs and stronger sales of private label products which carry higher margins.

Operating expenses increased 9.7% in 2011. In local currency, operating expenses increased 5.4% primarily due to increased payroll and benefits costs driven by higher bonus expense, headcount and incremental costs for acquisitions made over the last year. Non-payroll related expenses also increased driven by volume-related occupancy and warehouse costs.

Operating earnings of $107.6 million for 2011 were up $60.8 million, or 129.7%, versus 2010. In local currency, operating earnings increased 121.2% due to higher sales, an improved gross profit margin and operating expenses increasing at a slower rate than sales.

Other Businesses

Net sales for other businesses, which include the following significant operations: the Fabory Group, MonotaRO, Mexico, China and Colombia, were up 66.2% for 2011. Daily sales increased 65.6%. The increase in net sales was due primarily to the Fabory Group acquired on August 31, 2011, along with strong growth from all the other international businesses. Operating earnings for other businesses were $31.0 million for 2011 compared to $11.7 million for 2010. The increase was primarily driven by improved performance in Japan and Mexico.

Other Income and Expense

Other income and expense was $0.9 million of expense in 2011 compared with $6.7 million in 2010. The following table summarizes the components of other income and expense (in thousands of dollars):

	For the Years Ended December 31, 2011	For the Years Ended December 31, 2010
Other income and (expense):		
Interest income (expense) – net	$(7,023)	$(6,972)
Equity in net income (loss) of unconsolidated entities	314	(182)
Gain on sale of investment in unconsolidated entity	7,639	—
Other non-operating income	709	1,608
Other non-operating expense	(2,541)	(1,151)
	$ (902)	$(6,697)

The reduction in net expense was primarily attributable to a gain of $7.6 million in the fourth quarter of 2011 related to the divestiture of Grainger's 49% ownership in the MRO Korea Co., Ltd. joint venture.

Income Taxes

Income taxes of $385.1 million in 2011 increased 13.2% as compared with $340.2 million in 2010. Grainger's effective tax rates were 36.6% and 39.8% in 2011 and 2010, respectively. The Company settled various tax reviews providing a benefit to the 2011 effective tax rate. Tax law changes in Japan enacted in late November of 2011 also benefited the year. The 2010 effective tax rate included a tax expense related to the U.S. healthcare legislation enacted in the first quarter of 2010. Excluding these items in both years, the effective tax rate for 2011 was 38.1% compared to 39.1% in 2010, primarily the result of lower state tax expense and higher earnings in foreign jurisdictions with lower tax rates.

For 2012, Grainger is estimating its effective tax rate to be approximately 37.9%.

2010 Compared to 2009

Grainger's net sales of $7,182.2 million for 2010 increased 15.4% when compared with net sales of $6,222.0 million for 2009. There was one less selling day in 2010 versus 2009. Daily sales were up 15.9%. For 2010, approximately 10 percentage points of the sales growth came from an increase in volume, 4 percentage points came from business acquisitions, and 2 percentage points due to foreign exchange. Sales of products used to assist with the oil spill cleanup in the Gulf of Mexico and sales of seasonal products each contributed approximately 1 percentage point to the volume growth for 2010. Sales to all customer end-markets increased for 2010. The overall increase in net sales was led by a 30 percent increase to reseller customers, driven by sales of products used in the oil spill cleanup, a high-teen percent increase to heavy manufacturing customers, followed by a low double-digit increase in light manufacturing. Refer to the *Segment Analysis* below for further details.

Gross profit of $3,005.7 million for 2010 increased 15.7%. The gross profit margin for 2010 was 41.8%, flat versus 2009. The gross profit margin was favorably affected by flat prices while product costs decreased, offset by faster sales growth from the lower margin international businesses and by an increase in sales to large customers, which are generally at lower margins.

Operating expenses of $2,145.2 million for 2010 increased 11.0% from $1,933.3 million for 2009. Operating expenses increased primarily due to higher commissions, bonuses and profit sharing costs due to improved performance, partially offset by a $33.1 million benefit that resulted from a paid time off policy change, which reduced the related liability.

Operating earnings of $860.5 million for 2010 increased 29.4% from $665.2 million for 2009. The increase in operating earnings was primarily due to the strong sales growth and operating expenses increasing at a slower rate than sales.

Net earnings attributable to Grainger for 2010 increased by 18.7% to $510.9 million from $430.5 million in 2009. The increase in net earnings for 2010 primarily resulted from an increase in operating earnings. Diluted earnings per share of $6.93 in 2010 were 23.3% higher than $5.62 for 2009, due to increased net earnings and fewer shares outstanding. There were two non-cash items included in 2010 earnings, a $0.28 per share benefit from a change to a paid time off policy and a $0.15 per share tax expense related to the tax treatment of retiree healthcare benefits following the passage of the Patient Protection and Affordable Care Act, which when combined, resulted in a net benefit of $0.13 per share. Results for 2009 included a $0.37 per share non-cash gain from the MonotaRO transaction in September 2009. Excluding these items from both years, net earnings increased 29.4% and earnings per share increased 29.5% in 2010 versus 2009.

Segment Analysis

The following comments at the reportable segment and other business unit level include external and intersegment net sales and operating earnings. See Note 17 to the Consolidated Financial Statements.

United States

Net sales were $6,020.1 million for 2010, an increase of $574.7 million, or 10.6%, when compared with net sales of $5,445.4 million for 2009. Daily sales in the United States were up 11.0%. Approximately 9 percentage points of the sales growth came from an increase in volume. In addition, acquisitions and price each added 1 percentage point. Sales to all customer end-markets except contractor customers increased for 2010. The overall increase in net sales was led by a mid-20 percent increase to reseller customers driven by the sales of products used to assist in the oil spill cleanup, a high-teen percent increase to heavy manufacturing customers and a low double-digit increase to light manufacturing customers.

The segment gross profit margin increased 0.6 percentage point in 2010 over 2009. The gross profit margin benefited from price increases exceeding product cost increases, partially offset by an increase in sales to large customers, which are generally at lower margins.

Operating expenses were up 6.0% for 2010 versus 2009. Operating expenses increased primarily due to higher commissions, bonus expense and profit sharing costs due to improved performance, partially offset by a $29.7 million benefit that resulted from a paid time off policy change, which reduced the related liability.

For the segment, operating earnings of $920.2 million for 2010 increased 25.1% over $735.6 million in 2009. The improvement in operating earnings for 2010 was primarily due to an increase in net sales and gross profit margin, and operating expenses increasing at a slower rate than sales.

Canada

Net sales were $820.9 million for 2010, an increase of $169.7 million, or 26.1%, when compared with $651.2 million for 2009. Daily sales were up 26.6%. In local currency, daily sales increased 14.9% for 2010. Contributing to the sales growth was 3 percentage points for acquisitions. The increase in net sales was led by growth to oil and gas, construction, and agriculture and mining customers.

The gross profit margin increased 0.4 percentage point in 2010 over 2009, primarily driven by lower product costs including the positive effect of foreign currency exchange on buying products in U.S. dollars.

Operating expenses increased 32.0% in 2010. In local currency, operating expenses increased 19.7% primarily due to increased payroll and benefits costs including higher commissions and bonus expense, increased volume-related headcount and incremental costs for acquisitions made over the last year. Non-payroll related expenses also increased driven by higher travel, entertainment and advertising due to the sponsorship of the 2010 Winter Olympic Games, and increased occupancy and warehouse costs driven in part by the incremental costs for a distribution center opened in the 2010 second quarter.

Operating earnings of $46.8 million for 2010 were up $3.1 million, or 7.1%, versus 2009 due to the foreign exchange rate impact. In local currency, operating earnings decreased 1% primarily due to increased operating expenses as discussed above.

Other Businesses

Net sales for other businesses, which include the following significant operations: MonotaRO, Mexico, China and Colombia, were up 136.1% for 2010. Daily sales increased 137.0%. The increase in net sales was due primarily to the inclusion of a full year of results for Japan after obtaining controlling interest in September 2009 and Colombia, acquired in June 2010, along with strong growth from all the other international businesses. Operating earnings for other businesses were $11.7 million for 2010 compared to operating losses of $11.6 million for 2009.

Other Income and Expense

Other income and expense was $6.7 million of expense in 2010 compared with $42.1 million of income in 2009. The following table summarizes the components of other income and expense (in thousands of dollars):

	For the Years Ended December 31,	
	2010	2009
Other income and (expense):		
Interest income (expense) – net	$(6,972)	$ (7,408)
Equity in net (loss) income of unconsolidated entities	(182)	1,497
Gain on previously held equity interest	—	47,343
Other non-operating income	1,608	964
Other non-operating expense	(1,151)	(283)
	$(6,697)	$42,113

The change from net income to net expense was primarily attributable to the non-cash gain of $47.4 million in 2009 from the step-up of the investment in MonotaRO after Grainger became a majority owner.

Income Taxes

Income taxes of $340.2 million in 2010 increased 23.0% as compared with $276.6 million in 2009. Grainger's effective tax rates were 39.8% and 39.1% in 2010 and 2009, respectively. The increase in the tax rate in 2010 was primarily driven by a one-time tax expense related to the U.S. healthcare legislation passed in the first quarter of 2010. Excluding this tax expense, the 2010 effective tax rate was 39.1%.

Financial Condition

Grainger expects its strong working capital position, cash flows from operations and borrowing capacity to continue, allowing it to fund its operations, including growth initiatives, capital expenditures, acquisitions and repurchase of shares, as well as to pay cash dividends.

Cash Flow

Fiscal year 2011 compared with fiscal year 2010

Cash from operating activities continues to serve as Grainger's primary source of liquidity. Net cash flows from operations in 2011 were $746.1 million and increased $149.7 million from $596.4 million in 2010. The primary driver of the improvement was an increase in net earnings of $152.8 million. Higher accounts receivable and inventory balances, driven by growth in sales volumes and a new distribution center in northern California, partially offset by an increase in accounts payable, reduced the operating cash flow from net earnings.

Net cash used in investing activities of $535.1 million in 2011 was driven by net cash expended for property, buildings, equipment and software of $189.7 million and net cash paid for business acquisitions of $359.3 million. Additional information regarding capital spending is detailed in the *Capital Expenditures* section below. Net cash used in investing activities was $365.9 million more than in 2010 due primarily to an increase in net cash paid for business acquisitions of $297.2 million versus 2010.

Net cash used in financing activities of $177.4 million in 2011 decreased $401.2 million from $578.6 million in 2010. The decrease was primarily due to lower treasury shares repurchases in 2011 versus 2010. Cash paid for treasury share purchases was $151.1 million in 2011 versus $504.8 million in 2010, a reduction of $353.7 million.

Fiscal year 2010 compared with fiscal year 2009

Net cash flows from operations of $596.4 million in 2010 decreased $136.0 million from $732.4 million in 2009. Excluding business acquisitions, the decrease was primarily due to increases in accounts receivable of $127.8 million and inventories of $80.5 million, driven by the higher sales volumes. The decrease was partially offset by an increase in net earnings.

Net cash used in investing activities of $169.2 million in 2010 decreased $93.4 million versus $262.6 million in 2009. Net cash expended for property, buildings, equipment and software of $120.6 million decreased $20.1 million from $140.7 million in 2009. Additional information regarding capital spending is detailed in the *Capital Expenditures* section below. In addition, net cash paid for business acquisitions decreased $61.0 million versus 2009.

Net cash used in financing activities of $578.6 million in 2010 increased $165.1 million from $413.5 million in 2009. Grainger repaid $239.1 million of long-term debt in 2010 and issued $200.0 million of commercial paper, resulting in a net use of cash. Cash paid for treasury share purchases of $504.8 million was $132.1 million higher than $372.7 million in 2009. Grainger repurchased 4.6 million shares in 2010 compared to 4.5 million shares in 2009.

Working Capital

Internally generated funds are the primary source of working capital and funds used in business expansion, supplemented by debt. In addition, funds are expended on facilities to support growth initiatives, as well as for business and systems development and other infrastructure improvements.

Working capital, defined as current assets less current liabilities, was $1,307.0 million at December 31, 2011, compared with $1,368.8 million at December 31, 2010. At these dates, the ratio of current assets to current liabilities was 1.9 and 2.6. The $61.8 million decrease in working capital and lower current ratio was primarily due to an increase in current maturities of long-term debt and accounts payable, partially offset by an increase in accounts receivable and inventory. The changes were primarily driven by higher sales volumes, the acquisition of the Fabory Group and a new distribution center in northern California.

Capital Expenditures

In each of the past three years, a portion of operating cash flow has been used for additions to property, buildings, equipment and capitalized software as summarized in the following table (in thousands of dollars):

	For the Years Ended December 31,		
	2011	2010	2009
Land, buildings, structures and improvements	$ 51,249	$ 61,001	$ 68,745
Furniture, fixtures, machinery and equipment	118,228	50,152	64,766
Subtotal	169,477	111,153	133,511
Capitalized software	27,465	15,971	8,903
Total	$196,942	$127,124	$142,414

In 2011, significant expenditures were made to build new distribution centers in the United States and for distribution center expansion in Canada. Also, a large investment was made to update and improve the eCommerce platform in the United States business. Finally, the Company continued to invest in new and existing international businesses, as well as for normal recurring replacement of equipment.

In 2010 and 2009, significant capital expenditures included investments in the distribution center network in the U.S. and Canada. Additional expenditures were for normal recurring replacement of equipment.

Capital expenditures are expected to range from $200 million to $225 million in 2012. Projected spending includes continued investments in the supply chain (primarily the new Chicago distribution center and distribution centers in Canada), technology infrastructure, and continued investments in eCommerce. Grainger expects to fund 2012 capital investments from operating cash flows.

Debt

Grainger maintains a debt ratio and liquidity position that provides flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, Grainger has various sources of financing available, including bank borrowings under lines of credit. Refer to Notes 7 and 8 of the Consolidated Financial Statements included in Item 8. Total debt as a percent of total capitalization was 15.9% and 17.8% as of December 31, 2011 and 2010, respectively. The reduction in total debt as a percent of total capitalization was primarily due to increased retained earnings associated with strong earnings in 2011. Grainger believes any circumstances that would trigger early payment or acceleration with respect to any outstanding debt obligations would not have a material impact on its results of operations or financial position.

Commitments and Other Contractual Obligations

At December 31, 2011, Grainger's contractual obligations, including estimated payments due by period, are as follows (in thousands of dollars):

	Payments Due by Period				
	Total Amounts Committed	Less than 1 Year	1 – 3 Years	4 – 5 Years	More than 5 Years
Long-term debt obligations	$ 396,594	$221,539	$ 19,096	$148,096	$ 7,863
Interest on long-term debt	19,523	4,709	7,607	6,039	1,168
Operating lease obligations	222,853	55,601	84,977	51,506	30,769
Purchase obligations:					
Uncompleted additions to property, buildings and equipment	45,558	45,558	—	—	—
Commitments to purchase inventory	343,185	343,185	—	—	—
Other purchase obligations	166,017	93,734	63,055	9,228	—
Other liabilities	433,597	170,417	20,494	22,639	220,047
Total	$1,627,327	$934,743	$195,229	$237,508	$259,847

Purchase obligations for inventory are made in the normal course of business to meet operating needs. While purchase orders for both inventory purchases and non-inventory purchases are generally cancelable without penalty, certain vendor agreements provide for cancellation fees or penalties depending on the terms of the contract.

Other liabilities represent future benefit payments for postretirement benefit plans and postemployment disability medical benefits as determined by actuarial projections, and other employee benefit plans. Other employment-related benefits costs of $60.3 million have not been included in this table as the timing of benefit payments is not statistically predictable. See Note 10 to the Consolidated Financial Statements.

See also Notes 8 and 11 to the Consolidated Financial Statements for further detail related to the interest on long-term debt and operating lease obligations, respectively.

Grainger has recorded a noncurrent liability of $23.9 million for tax uncertainties and interest at December 31, 2011. This amount is excluded from the table above, as Grainger cannot make reliable estimates of these cash flows by period. See Note 15 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

Grainger does not have any material exposures to off-balance sheet arrangements. Grainger does not have any variable interest entities or activities that include non-exchange-traded contracts accounted for at fair value.

Critical Accounting Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in Grainger's results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of Grainger's financial condition, changes in financial condition or results of operations.

Note 1 to the Consolidated Financial Statements describes the significant accounting policies used in the preparation of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates follow. Actual results in these areas could differ materially from management's estimates under different assumptions or conditions.

Allowance for Doubtful Accounts. Grainger considers several factors to estimate the allowance for uncollectible accounts receivable including the age of the receivables, the percent past due and the historical ratio of actual write-offs to the age of the receivables. The analyses performed also take into consideration economic conditions that may have an impact on a specific industry, group of customers or a specific customer. Based on analysis of actual historical write-offs of uncollectible accounts receivable, Grainger's estimates and assumptions have been materially accurate in regards to the valuation of its allowance for doubtful accounts. However, write-offs could be materially different than the reserves established if business or economic conditions change or actual results deviate from historical trends, and Grainger's estimates and assumptions may be revised as appropriate to reflect these changes. For years 2011, 2010 and 2009, actual results did not vary materially from estimated amounts.

Inventory Reserves. Grainger establishes inventory reserves for shrinkage and excess and obsolete inventory.

Provisions for inventory shrinkage are based on historical experience to account for unmeasured usage or loss. For fiscal years 2011, 2010 and 2009, actual results did not vary materially from estimated amounts.

Grainger regularly reviews inventory to evaluate continued demand and identify any obsolete or excess quantities. Grainger records provisions for the difference between excess and obsolete inventory and its estimated realizable value. Estimated realizable value is based on anticipated future product demand, market conditions and liquidation values. As Grainger's inventory consists of approximately 900,000 stocked products, it is not practical to quantify the actual disposition of excess and obsolete inventory against estimated amounts at a SKU level and no individual SKU is material. There were no material differences noted between reserve levels compared to the level of write-offs historically. Grainger's methodology for estimating reserves is continually evaluated based on current experience and the methodology provides for a materially accurate level of reserves at any reporting date. Actual results could differ materially from projections and require changes to reserves which could have a material effect on Grainger's results of operations based on significant changes in product demand, market conditions or liquidation value. If business or economic conditions change, Grainger's estimates and assumptions may be revised as appropriate. For fiscal years 2011, 2010 and 2009, actual results did not vary materially from estimated amounts.

Goodwill and Indefinite Lived Intangible Assets. Grainger's business acquisitions result in the recording of goodwill and identified intangible assets which affect the amount of amortization expense and possibly impairment write-downs that may occur in future periods. Grainger annually reviews goodwill and intangible assets that have indefinite lives for impairment in the fourth quarter and when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Grainger tests for goodwill impairment at the reporting unit level.

During the fourth quarter of 2011, Grainger early adopted the Financial Accounting Standard Board's new accounting guidance, which allows companies to assess qualitative factors such as a reporting unit's current performance and overall economic factors to determine if it is more-likely-than-not that the goodwill might be impaired and whether it is necessary to perform the two-step quantitative goodwill impairment test. Grainger completed the annual impairment testing using the qualitative approach for all of its reporting units and the two-step quantitative test for one of its reporting units with the carrying value of goodwill of $17 million. The estimated fair value of the reporting unit exceeded its carrying value and no indication of impairment existed as of the test date. Grainger uses the discounted cash flow method to derive the fair value of a reporting unit. The discounted cash flow method requires considerable management judgment, assumptions and estimates regarding future profitability and cash flows of its reporting units and general market conditions, including terminal growth rate and discount rate assumptions. Due to the inherent uncertainties associated with these unobservable Level 3 inputs, the results of these tests may differ and impairment charges could occur in future periods. While Grainger will continue to consider the economic environment and other pertinent factors that may have an adverse effect on its reporting units, there can be no assurance that Grainger's estimates and assumptions regarding forecasted cash flows or other inputs used in forecasting the fair value of future cash flows will prove to be accurate projections.

Stock Incentive Plans. Grainger maintains stock incentive plans under which a variety of incentive grants may be awarded to employees and directors. Grainger uses a binomial lattice option pricing model to estimate the value of stock option grants. The model requires projections of the risk-free interest rate, expected life, volatility, expected dividend yield and forfeiture rate of the stock option grants. The fair value of options granted in 2011, 2010 and 2009 used the following assumptions:

	For the Years Ended December 31,		
	2011	2010	2009
Risk-free interest rate	2.6%	2.9%	2.4%
Expected life	6 years	6 years	6 years
Expected volatility	24.6%	24.7%	28.8%
Expected dividend yield	1.8%	2.0%	2.3%

The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected term of the options being valued. The expected life selected for options granted during each year presented represents the period of time that the options are expected to be outstanding based on historical data of option holders' exercise and termination behavior. Expected volatility is based upon implied and historical volatility of the closing price of Grainger's stock over a period equal to the expected life of each option grant. Historical information is also the primary basis for selection of the expected dividend yield assumptions. Because stock option compensation expense is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures, using historical forfeiture experience.

The amount of stock option compensation expense is significantly affected by the valuation model and these assumptions. If a different valuation model or different assumptions were used, the stock option compensation expense could be significantly different from what is recorded in the current period.

Compensation expense for other stock-based awards is based upon the closing market price on the last trading date preceding the date of the grant.

For additional information concerning stock incentive plans, see Note 12 to the Consolidated Financial Statements.

Postretirement Healthcare Benefits. Postretirement healthcare obligations and net periodic costs are dependent on assumptions and estimates used in calculating such amounts. The assumptions used include, among others, discount rates, assumed rates of return on plan assets and healthcare cost trend rates, and certain employee-related factors, such as turnover, retirement age and mortality rates. Changes in these and other assumptions (caused by conditions in equity markets or plan experience, for example) could have a material effect on Grainger's postretirement benefit obligations and expense, and could affect its results of operations and financial condition. These changes in assumptions may also affect voluntary decisions to make additional contributions to the trust established for funding the postretirement benefit obligation.

The discount rate assumptions used by management reflect the rates available on high-quality fixed income debt instruments as of December 31, the measurement date, of each year. A lower discount rate increases the present value of benefit obligations and net periodic benefit costs. As of December 31, 2011, Grainger decreased the discount rate used in the calculation of the postretirement plan obligation from 5.6% to 4.5% to reflect the decrease in market interest rates. Grainger estimates that this decrease could reduce 2012 pretax earnings by approximately $9.1 million. However, other changes in assumptions may increase, decrease or eliminate this effect.

Grainger considers the long-term historical actual return on plan assets and the historical performance of the Standard & Poor's 500 Index and the Total International Composite Index in developing its expected long-term return on plan assets. In 2011, Grainger maintained the expected long-term rate of return on plan assets of 6.0% (net of tax at 40%) based on the historical average of long-term rates of return.

A 1 percentage point change in assumed healthcare cost trend rates would have had the following effects on December 31, 2011 results (in thousands of dollars):

	1 Percentage Point	
	Increase	(Decrease)
Effect on total of service and interest cost	$ 7,330	$ (5,567)
Effect on accumulated postretirement benefit obligation	77,550	(59,424)

Grainger may terminate or modify the postretirement plan at any time, subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code, as amended. In the event the postretirement plan is terminated, all assets of the Group Benefit Trust inure to the benefit of the participants. The foregoing assumptions are based on the presumption that the postretirement plan will continue. Were the postretirement plan to terminate, different actuarial assumptions and other factors might be applicable.

Grainger has used its best judgment in making assumptions and estimates and believes such assumptions and estimates used are appropriate. Changes to the assumptions may be required in future years as a result of actual experience or new trends and, therefore, may affect Grainger's retirement plan obligations and future expense. For additional information concerning postretirement healthcare benefits, see Note 10 to the Consolidated Financial Statements.

Insurance Reserves. Grainger retains a significant portion of the risk of certain losses related to workers' compensation, general liability and property losses through the utilization of high deductibles and self-insured retentions. There are also certain other risk areas for which Grainger does not maintain insurance.

Grainger is responsible for establishing accounting policies on insurance reserves. Although it relies on outside parties to project future claims costs, it retains control over actuarial assumptions, including loss development factors and claim payment patterns. Grainger performs ongoing reviews of its insured and uninsured risks, which it uses to establish the appropriate reserve levels. In calculating the liability, historical trends, claims experience and loss development patterns are analyzed and appropriate loss development factors are applied to the incurred costs associated with the claims made.

The use of assumptions in the analysis leads to fluctuations in required reserves over time. Any change in the required reserve balance is reflected in the current period's results of operations. Grainger believes its estimates are reasonable based on the information currently available and the methodology used to estimate these reserves has been consistently applied. There were no material adjustments based on Grainger's historical experience in 2011, 2010 and 2009. If actual trends, including the nature, severity or frequency of claims differ from our estimates, or if business or economic conditions change, Grainger's estimates and assumptions may be revised as appropriate and the results of operations could be materially impacted.

Income Taxes. Grainger recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The tax balances and income tax expense recognized by Grainger are based on management's interpretations of the tax laws of multiple jurisdictions. Income tax expense reflects Grainger's best estimates and assumptions regarding, among other items, the level of future taxable income, interpretation of tax laws and tax planning opportunities and uncertain tax positions. Future rulings by tax authorities and future changes in tax laws and their interpretation, changes in projected levels of taxable income and future tax planning strategies could impact the actual effective tax rate and tax balances recorded by Grainger.

Other. Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. Policies such as revenue recognition, depreciation, intangibles, long-lived assets, fair value measurements and valuations, and warranties require judgments on complex matters that are often subject to multiple external sources of authoritative guidance such as the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission. Possible changes in estimates or assumptions associated with these policies are not expected to have a material effect on the financial condition or results of operations of Grainger. More information on these additional accounting policies can be found in Note 1 to the Consolidated Financial Statements.

Inflation

Inflation during the last three years has not had a significant effect on operations. The predominant use of the last-in, first-out (LIFO) method of accounting for inventories and accelerated depreciation methods for financial reporting and income tax purposes result in a substantial recognition of the effects of inflation in the financial statements.

Some of Grainger's products contain significant amounts of commodity-priced materials, such as steel, copper, petroleum derivatives or rare earth minerals, and are subject to price changes based upon fluctuations in the commodities market. Grainger has been able to successfully pass on cost increases to its customers minimizing the effect of inflation on results of operations.

Grainger believes the most positive means to combat inflation and advance the interests of investors lie in the continued application of basic business principles, which include improving productivity, maintaining working capital turnover and offering products and services that can command appropriate prices in the marketplace.

Forward-Looking Statements

This Form 10-K contains statements that are not historical in nature but concern future results and business plans, strategies and objectives and other matters that may be deemed to be "forward-looking statements" under the federal securities laws. Grainger has generally identified such forward-looking statements by using words such as "anticipate, anticipated, assumed, assumes, assumption, assumptions, believe, believes, can, continue, continued, continues, continues to believe it has complied, continuing, could, estimate, estimated, estimates, expect, expectation, expected, expects, forecast, forecasts, if, intend, intended, intends, may, might, plans, predict, predictable, presumption, project, projected, projecting, projection, projections, potential, potentially, reasonably likely, scheduled, should, strategy, tended, timing and outcome are uncertain, unanticipated, will, will be realized, and would" or similar expressions.

Grainger cannot guarantee that any forward-looking statement will be realized, although Grainger does believe that its assumptions underlying its forward-looking statements are reasonable. Achievement of future results is subject to risks and uncertainties that could cause Grainger's results to differ materially from those which are presented.

Factors that could cause actual results to differ materially from those presented or implied in a forward-looking statement include, without limitation: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies or business strategies; the outcome of pending and future litigation or governmental or regulatory proceedings; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; litigation involving appropriate payment for wages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes; unanticipated weather conditions; and the factors identified in Item 1A, Risk Factors.

Caution should be taken not to place undue reliance on Grainger's forward-looking statements and Grainger undertakes no obligation to publicly update the forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Grainger may use financial instruments to reduce its exposure to adverse fluctuations in foreign currency exchange rates and interest rates as part of its overall risk management strategy. The derivative positions reduce risk by hedging certain underlying economic exposures. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments are generally offset by reciprocal changes in the value of the underlying exposure. Grainger does not enter into derivative financial instruments for trading or speculative purposes. See Notes 9 and 14 to the Consolidated Financial Statements for additional information on Grainger's derivative activities.

Foreign Currency Exchange Rates

As Grainger's international businesses grow, the greater the effect that foreign currency fluctuations have on the Company's consolidated earnings. For 2011, a uniform 10% strengthening of the U.S. dollar relative to foreign currencies that affect Grainger's international subsidiaries would have resulted in a $7.5 million decrease in net earnings. Comparatively, in 2010 a uniform 10% strengthening of the U.S. dollar relative to foreign currencies that affect Grainger international subsidiaries would have resulted in a $2.7 million decrease in net earnings. A uniform 10% weakening of the U.S. dollar would have resulted in a $9.2 million increase in net earnings for 2011, as compared with an increase in net earnings of $3.3 million for 2010. This sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in potential changes in sales levels or local currency prices or costs.

Interest Rates

Grainger is subject to interest rate risk related to its variable rate debt portfolio. Grainger may enter into interest rate swap agreements to manage those risks. Based on the Company's variable rate debt and derivative instruments outstanding, a 1 percentage point increase in interest rates paid by Grainger would have resulted in a decrease to net earnings of approximately $3.0 million for 2011 and $3.1 million for 2010. A 1 percentage point decrease in interest rates would have resulted in an increase to net earnings of approximately $3.0 million for 2011 and $3.1 million for 2010. This sensitivity analysis of the effects of changes in interest rates on long-term debt does not factor in potential changes in long-term debt levels.

Grainger has limited primary exposure to commodity price risk on certain products for resale, but does not purchase commodities directly.

Item 8: Financial Statements and Supplementary Data

The financial statements and supplementary data are included on pages 27 to 59. See the Index to Financial Statements and Supplementary Data on page 26.

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Disclosure Controls and Procedures

Grainger carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of Grainger's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Grainger's disclosure controls and procedures were effective as of the end of the period covered by this report.

Internal Control Over Financial Reporting

(A) Management's Annual Report on Internal Control Over Financial Reporting

Management's report on the Company's internal control over financial reporting is included on page 27 of this Report under the heading Management's Annual Report on Internal Control Over Financial Reporting.

(B) Attestation Report of the Registered Public Accounting Firm

The report from Ernst & Young LLP on its audit of the effectiveness of Grainger's internal control over financial reporting as of December 31, 2011, is included on page 28 of this Report under the heading Report of Independent Registered Public Accounting Firm.

(C) Changes in Internal Control Over Financial Reporting

There have been no changes in Grainger's internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Grainger's internal control over financial reporting.

Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 25, 2012, under the captions "Election of Directors," "Board of Directors and Board Committees" and "Section 16(a) Beneficial Ownership Reporting Compliance." Information required by this item regarding executive officers of Grainger is set forth below under the caption "Executive Officers."

Grainger has adopted a code of ethics that applies to the principal executive officer, principal financial officer and principal accounting officer. This code of ethics is incorporated into Grainger's business conduct guidelines for directors, officers and employees. Grainger intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to its code of ethics by posting such information on its website at www.grainger.com/investor. A copy of the code of ethics incorporated into Grainger's business conduct guidelines is also available in print without charge to any person upon request to Grainger's Corporate Secretary. Grainger has also adopted Operating Principles for the Board of Directors, which are available on its website and are available in print to any person who requests them.

Executive Officers

Following is information about the Executive Officers of Grainger including age as of February 27, 2012. Executive Officers of Grainger generally serve until the next annual election of officers, or until earlier resignation or removal.

Name and Age	Positions and Offices Held and Principal Occupations and Employment During the Past Five Years
Laura D. Brown (48)	Senior Vice President, Communications and Investor Relations, a position assumed in 2010 after serving as Vice President, Global Business Communications, a position assumed in 2009 and Vice President, Investor Relations, a position assumed in 2008. Previously, Ms. Brown served as Vice President, Marketing, a position assumed in 2005. After joining Grainger in 2000, she served in various management positions including Vice President, Finance and Vice President, Internet Business Analysis and Supplier Management.
Court D. Carruthers (39)	Senior Vice President and President, Grainger U.S., a position assumed in 2012 after serving as President, Grainger International, a position assumed in 2009, and Senior Vice President of Grainger, a position assumed in 2007. Previously, Mr. Carruthers served as President of Acklands – Grainger Inc., a position assumed in 2006. Prior to assuming the last-mentioned position, he served as Vice President, National Accounts and Sales of Acklands – Grainger Inc., a position assumed in 2002 when he joined that company.
John L. Howard (54)	Senior Vice President and General Counsel, a position assumed in 2000.
Gregory S. Irving (53)	Vice President and Controller, a position assumed in 2008. Previously, Mr. Irving served as Vice President, Finance, for Acklands – Grainger Inc. since 2004. After joining Grainger in 1999 he served in various management positions including Vice President, Financial Services and Director, Internal Audit.
Ronald L. Jadin (51)	Senior Vice President and Chief Financial Officer, a position assumed in 2008. Previously, Mr. Jadin served as Vice President and Controller, a position assumed in 2006 after serving as Vice President, Finance. Upon joining Grainger in 1998, he served as Director, Financial Planning and Analysis.
Donald G. Macpherson (44)	Senior Vice President and President, Global Supply Chain and Corporate Strategy, a position assumed in 2012 after having served as Senior Vice President, Global Supply Chain, a position assumed in 2008. Mr. Macpherson joined Grainger in 2008 as Senior Vice President, Supply Chain. Before joining Grainger, he was Partner and Director of the Boston Consulting Group, a global management consulting firm and advisor on business strategy.
Michael A. Pulick (47)	Senior Vice President and President, Grainger International, a position assumed in 2012 after having served as Senior Vice President and President, Grainger U.S., a position assumed in 2008. Previously, Mr. Pulick served as Senior Vice President of Customer Service, a position assumed in 2006. After joining Grainger in 1999, Mr. Pulick has held a number of increasingly responsible positions in Grainger's supplier and product management areas including Vice President, Product Management and Vice President, Merchandising.

James T. Ryan (53) — Chairman of the Board, President and Chief Executive Officer of Grainger, positions assumed in 2009, 2006 and 2008, respectively. Mr. Ryan became Chief Operating Officer and was appointed to Grainger's Board of Directors in 2007. Prior to that, Mr. Ryan served as Group President, a position assumed in 2004. He has served Grainger in increasingly responsible roles since 1980, including Executive Vice President, Marketing, Sales and Service; Vice President, Information Services; President, Grainger.com; and President, Grainger Parts.

Item 11: Executive Compensation

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 25, 2012, under the captions "Board of Directors and Board Committees," "Director Compensation," "Report of the Compensation Committee of the Board" and "Compensation Discussion and Analysis."

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 25, 2012, under the captions "Ownership of Grainger Stock" and "Equity Compensation Plans."

Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 25, 2012, under the captions "Election of Directors" and "Transactions with Related Persons."

Item 14: Principal Accounting Fees and Services

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 25, 2012, under the caption "Audit Fees and Audit Committee Pre-Approval Policies and Procedures."

PART IV

Item 15: Exhibits and Financial Statement Schedules

(a) 1. Financial Statements. See Index to Financial Statements and Supplementary Data.

2. Financial Statement Schedules. The schedules listed in Reg. 210.5-04 have been omitted because they are either not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

(3) (a) Restated Articles of Incorporation, incorporated by reference to Exhibit 3(i) to Grainger's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

(b) Bylaws, as amended February 17, 2010, incorporated by reference to Exhibit 3(b) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(a) No instruments which define the rights of holders of Grainger's Industrial Development Revenue Bonds are filed herewith, pursuant to the exemption contained in Regulation S-K, Item 601(b)(4)(iii). Grainger hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any such instrument.

(10) Material Contracts

(a) (i) A Credit Agreement with Wachovia Bank, National Association, as administrative agent, and other lenders, incorporated by reference to Exhibit 10 to Grainger's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

(b) Compensatory Plans or Arrangements

(i) Director Stock Plan, as amended, incorporated by reference to Exhibit 10(c) to Grainger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(ii) 1990 Long-Term Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10(a) to Grainger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(iii) 2001 Long-Term Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10(b) to Grainger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(iv) Form of Indemnification Agreement between Grainger and each of its directors and certain of its executive officers, incorporated by reference to Exhibit 10(b)(i) to Grainger's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

(v) Frozen Executive Death Benefit Plan, as amended, incorporated by reference to Exhibit 10(b)(v) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2007.

  (1) First amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(v)(1) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2008.

  (2) Second amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(iv)(2) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(vi) Supplemental Profit Sharing Plan, as amended, incorporated by reference to Exhibit 10(viii) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2003.

(vii) Supplemental Profit Sharing Plan II, as amended, incorporated by reference to Exhibit 10(b)(ix) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2007.

(viii) Voluntary Salary and Incentive Deferral Plan, as amended, incorporated by reference to Exhibit 10(b)(xi) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2007.

(ix) Summary Description of the 2012 Directors Compensation Program.

(x) 2005 Incentive Plan, as amended, incorporated by reference to Exhibit 10(d) to Grainger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

(xi) 2010 Incentive Plan, incorporated by reference to Exhibit B of Grainger's Proxy Statement dated March 12, 2010.

(xii) Form of Stock Option Award Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(xiv) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2005.

(xiii) Form of Stock Option Award and Restricted Stock Unit Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(xv) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2005.

(xiv) Form of Stock Option Award Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvi) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(xv) Form of Stock Option and Restricted Stock Unit Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvii) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(xvi) Form of Restricted Stock Unit Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xviii) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2010.

(xvii) Form of 2009 Performance Share Award Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xx) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(xviii) Form of 2010 Performance Share Award Agreement between Grainger and certain of its executive officers.

(xix) Form of 2011 Performance Share Award Agreement between Grainger and certain of its executive officers.

(xx) Offer of Employment Letter to Mr. D.G. Macpherson dated December 14, 2007, incorporated by reference to Exhibit 10(b)(xxi) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(xxi) Letter of Agreement - Long Term International Assignment to Mr. Court D. Carruthers dated December 22, 2011.

(xxii) Summary Description of the 2012 Management Incentive Program.

(xxiii) Incentive Program Recoupment Agreement, incorporated by reference to Exhibit 10(b)(xxv) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2009.

(xxiv) Form of Change in Control Employment Agreement between Grainger and certain of its executive officers incorporated by reference to Exhibit 10(b)(xxvii) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2010.

(21) Subsidiaries of Grainger.

(23) Consent of Independent Registered Public Accounting Firm.

(31) Rule 13a – 14(a)/15d – 14(a) Certifications

- (a) Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (b) Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32) Section 1350 Certifications

Chief Executive Officer and Chief Financial Officer certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.