INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

December 31, 2011, 2010 and 2009

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of W.W. Grainger, Inc. (Grainger) is responsible for establishing and maintaining adequate internal control over financial reporting. Grainger's internal control system was designed to provide reasonable assurance to Grainger's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements under all potential conditions. Therefore, effective internal control over financial reporting provides only reasonable, and not absolute, assurance with respect to the preparation and presentation of financial statements.

Grainger's management assessed the effectiveness of Grainger's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (the COSO criteria). This assessment excluded the internal controls of the Fabory Group acquired on August 31, 2011, which constituted $183 million of net assets at December 31, 2011, and $109 million of revenues for the year then ended. Internal controls of the acquired businesses will be included in the 2012 assessment. Based on its assessment under that framework and the criteria established therein, Grainger's management concluded that Grainger's internal control over financial reporting was effective as of December 31, 2011.

Ernst & Young LLP, an independent registered public accounting firm, has audited Grainger's internal control over financial reporting as of December 31, 2011, as stated in their report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
W.W. Grainger, Inc.

We have audited W.W. Grainger, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). W.W. Grainger, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report On Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the Fabory Group, which is included in the 2011 consolidated financial statements of W.W. Grainger, Inc. and subsidiaries and constituted $183 million of net assets as of December 31, 2011 and $109 million of revenues for the year then ended. Our audit of internal control over financial reporting of W.W. Grainger, Inc. and subsidiaries also did not include an evaluation of the internal control over financial reporting of the Fabory Group.

In our opinion, W.W. Grainger, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of W.W. Grainger, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011, of W.W. Grainger, Inc. and subsidiaries and our report dated February 27, 2012, expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 27, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
W.W. Grainger, Inc.

We have audited the accompanying consolidated balance sheets of W.W. Grainger, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of W.W. Grainger, Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), W.W. Grainger, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012, expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 27, 2012

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of dollars, except for per share amounts)

	For the Years Ended December 31,		
	2011	2010	2009
Net sales	$8,078,185	$7,182,158	$6,221,991
Cost of merchandise sold	4,567,393	4,176,474	3,623,465
Gross profit	3,510,792	3,005,684	2,598,526
Warehousing, marketing and administrative expenses	2,458,363	2,145,209	1,933,302
Operating earnings	1,052,429	860,475	665,224
Other income and (expense):			
Interest income	2,068	1,215	1,358
Interest expense	(9,091)	(8,187)	(8,766)
Equity in net income (loss) of unconsolidated entities	314	(182)	1,497
Gain on investment in unconsolidated entities	7,639	—	47,343
Other non-operating income	709	1,608	964
Other non-operating expense	(2,541)	(1,151)	(283)
Total other income and (expense)	(902)	(6,697)	42,113
Earnings before income taxes	1,051,527	853,778	707,337
Income taxes	385,115	340,196	276,565
Net earnings	666,412	513,582	430,772
Less: Net earnings attributable to noncontrolling interest	7,989	2,717	306
Net earnings attributable to W.W. Grainger, Inc.	$ 658,423	$ 510,865	$ 430,466
Earnings per share:			
Basic	$ 9.26	$ 7.05	$ 5.70
Diluted	$ 9.07	$ 6.93	$ 5.62
Weighted average number of shares outstanding:			
Basic	69,690,854	70,836,945	73,786,346
Diluted	71,176,158	72,138,858	74,891,852

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands of dollars)

	For the Years Ended December 31,		
	2011	2010	2009
Net earnings	$666,412	$513,582	$430,772
Other comprehensive earnings (losses):			
Foreign currency translation adjustments, net of tax benefit (expense) of $1,325, $(3,397) and $(7,813), respectively	(36,117)	46,450	54,693
Reclassification of cumulative currency translation gain	525	—	(3,145)
Defined postretirement benefit plan, net of tax benefit of $18,725, $1,821 and $984, respectively	(30,038)	(2,874)	(1,552)
Other employment-related benefit plans and derivatives, net of tax benefit of $89, $2,321 and $205, respectively	(1,932)	(4,287)	(554)
Total other comprehensive earnings (losses)	(67,562)	39,289	49,442
Comprehensive earnings, net of tax	598,850	552,871	480,214
Less: Comprehensive earnings attributable to noncontrolling interest:			
Net earnings	7,989	2,717	306
Foreign currency translation adjustments	4,127	8,712	(1,457)
Comprehensive earnings attributable to W.W. Grainger, Inc.	$586,734	$541,442	$481,365

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except for per share amounts)

ASSETS	As of December 31, 2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 335,491	$ 313,454
Accounts receivable (less allowances for doubtful accounts of $18,801 and $24,552, respectively)	888,697	762,895
Inventories – net	1,268,647	991,577
Prepaid expenses and other assets	100,081	87,125
Deferred income taxes	47,410	44,627
Prepaid income taxes	54,574	38,393
Total current assets	2,694,900	2,238,071
PROPERTY, BUILDINGS AND EQUIPMENT		
Land	252,161	249,119
Buildings, structures and improvements	1,186,002	1,133,392
Furniture, fixtures, machinery and equipment	1,127,159	995,249
	2,565,322	2,377,760
Less: Accumulated depreciation and amortization	1,505,027	1,414,088
Property, buildings and equipment – net	1,060,295	963,672
DEFERRED INCOME TAXES	100,830	87,244
GOODWILL	509,183	387,232
OTHER ASSETS AND INTANGIBLES – NET	350,854	228,158
TOTAL ASSETS	$4,716,062	$3,904,377

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS – CONTINUED

(In thousands of dollars, except for per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY	As of December 31, 2011	2010
CURRENT LIABILITIES		
Short-term debt	$ 119,970	$ 42,769
Current maturities of long-term debt	221,539	31,059
Trade accounts payable	477,648	344,295
Accrued compensation and benefits	207,010	169,343
Accrued contributions to employees' profit sharing plans	159,950	145,119
Accrued expenses	178,652	130,836
Income taxes payable	23,156	5,882
Total current liabilities	1,387,925	869,303
LONG-TERM DEBT (less current maturities)	175,055	420,446
DEFERRED INCOME TAXES, TAX UNCERTAINTIES AND DERIVATIVE INSTRUMENTS	106,573	82,502
ACCRUED EMPLOYMENT-RELATED BENEFITS COSTS	322,230	244,456
SHAREHOLDERS' EQUITY		
Cumulative preferred stock – $5 par value – 12,000,000 shares authorized; none issued nor outstanding	—	—
Common Stock – $0.50 par value – 300,000,000 shares authorized;109,659,219 shares issued	54,830	54,830
Additional contributed capital	700,826	637,686
Retained earnings	4,806,110	4,326,761
Accumulated other comprehensive (losses) earnings	(28,738)	42,951
Treasury stock, at cost – 39,696,367 and 40,281,417 shares, respectively	(2,904,243)	(2,857,012)
Total W.W. Grainger, Inc. shareholders' equity	2,628,785	2,205,216
Noncontrolling interest	95,494	82,454
Total shareholders' equity	2,724,279	2,287,670
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,716,062	$3,904,377

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

	For the Years Ended December 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 666,412	$ 513,582	$ 430,772
Provision for losses on accounts receivable	4,761	6,718	10,748
Deferred income taxes and tax uncertainties	1,666	(5,553)	21,683
Depreciation and amortization	149,200	149,678	147,531
Stock-based compensation	54,020	49,796	43,301
Gain on investment in unconsolidated entities	(7,639)	—	(47,343)
Change in operating assets and liabilities – net of business acquisitions:			
Accounts receivable	(85,083)	(127,790)	2,794
Inventories	(219,680)	(80,545)	175,286
Prepaid expenses and other assets	(24,228)	(8,806)	(11,180)
Trade accounts payable	86,395	36,219	(16,736)
Other current liabilities	50,718	49,576	(52,944)
Current income taxes payable	16,827	(1,503)	2,472
Accrued employment-related benefits costs	45,680	18,128	22,080
Other – net	7,059	(3,055)	3,932
Net cash provided by operating activities	746,108	596,445	732,396
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, buildings and equipment	(196,942)	(127,124)	(142,414)
Proceeds from sale of property, buildings and equipment	7,278	6,508	1,684
Cash paid for business acquisitions, net of cash acquired	(359,296)	(62,072)	(123,093)
Other – net	13,892	13,529	1,260
Net cash used in investing activities	$(535,068)	$(169,159)	$(262,563)

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(In thousands of dollars)

	For the Years Ended December 31,		
	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under lines of credit	$ 218,885	$ 35,297	$ 46,125
Payments against lines of credit	(194,325)	(29,799)	(43,583)
Proceeds from issuance of long-term debt	172,464	200,000	—
Payments of long-term debt and commercial paper	(179,296)	(239,122)	(18,856)
Proceeds from stock options exercised	84,337	86,528	91,165
Excess tax benefits from stock-based compensation	52,098	25,650	19,030
Purchase of treasury stock	(151,082)	(504,803)	(372,727)
Cash dividends paid	(180,527)	(152,338)	(134,684)
Net cash used in financing activities	(177,446)	(578,587)	(413,530)
Exchange rate effect on cash and cash equivalents	(11,557)	4,884	7,278
NET CHANGE IN CASH AND CASH EQUIVALENTS	22,037	(146,417)	63,581
Cash and cash equivalents at beginning of year	313,454	459,871	396,290
Cash and cash equivalents at end of year	$ 335,491	$ 313,454	$ 459,871
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 8,996	$ 8,188	$ 8,766
Cash payments for income taxes	312,616	319,754	235,043

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands of dollars, except for per share amounts)

	W.W. Grainger, Inc. Shareholders' Equity					
	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Treasury Stock	Noncontrolling Interest
Balance at January 1, 2009	$54,830	$564,728	$3,670,726	$ (38,525)	$(2,217,954)	$ —
Exercise of stock options	—	(15,614)	—	—	106,255	96
Tax benefits on stock-based compensation awards	—	21,924	—	—	—	—
Stock option expense	—	16,100	—	—	—	98
Amortization of other stock-based compensation awards	—	24,307	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(15,087)	—	—	7,599	—
Purchase of treasury stock	—	—	—	—	(362,250)	—
Net earnings	—	—	430,466	—	—	306
Other comprehensive earnings	—	—	—	50,899	—	(1,457)
Cash dividends paid ($1.78 per share)	—	—	(134,684)	—	—	—
Fair value at acquisition	—	—	—	—	—	64,436
Balance at December 31, 2009	$54,830	$596,358	$3,966,508	$ 12,374	$(2,466,350)	$63,479
Exercise of stock options	—	(11,211)	—	—	98,052	171
Tax benefits on stock-based compensation awards	—	28,225	—	—	—	—
Stock option expense	—	17,163	—	—	—	333
Amortization of other stock-based compensation awards	—	29,725	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(22,090)	—	—	9,297	—
Purchase of treasury stock	—	(484)	—	—	(498,011)	(428)
Net earnings	—	—	510,865	—	—	2,717
Other comprehensive earnings	—	—	—	30,577	—	8,712
Cash dividends paid ($2.08 per share)	—	—	(150,612)	—	—	(1,726)
Fair value at acquisition	—	—	—	—	—	9,196
Balance at December 31, 2010	$54,830	$637,686	$4,326,761	$ 42,951	$(2,857,012)	$82,454
Exercise of stock options	—	(11,506)	—	—	95,384	459
Tax benefits on stock-based compensation awards	—	55,824	—	—	—	—
Stock option expense	—	16,838	—	—	—	294
Amortization of other stock-based compensation awards	—	33,162	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(31,067)	—	—	8,257	—
Purchase of treasury stock	—	(111)	—	—	(150,872)	(99)
Net earnings	—	—	658,423	—	—	7,989
Other comprehensive earnings	—	—	—	(71,689)	—	4,127
Cash dividends paid ($2.52 per share)	—	—	(179,074)	—	—	(1,453)
Other	—	—	—	—	—	1,723
Balance at December 31, 2011	$54,830	$700,826	$4,806,110	$ (28,738)	$(2,904,243)	$95,494

The accompanying notes are an integral part of these consolidated financial statements.