W.W. Grainger, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INDUSTRY INFORMATION

W.W. Grainger, Inc. is a broad-line distributor of maintenance, repair and operating supplies, and other related products and services used by businesses and institutions. In this report, the words “Company” or “Grainger” mean W.W. Grainger, Inc. and its subsidiaries.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions are eliminated from the consolidated financial statements. For investments in which the Company owns or controls from 20% to 50% of the voting shares, the equity method of accounting is used. Changes in interest arising from the issuance of stock by an investee are accounted for as additional contributed capital. See Note 6 to the Consolidated Financial Statements.

MANAGEMENT ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company’s foreign subsidiaries are measured using the local currency as the functional currency. Net exchange gains or losses resulting from the translation of financial statements of foreign operations and related long-term debt are recorded as a separate component of other comprehensive earnings. See Note 14 to the Consolidated Financial Statements.

RECLASSIFICATIONS

Certain amounts in the 2010 and 2009 financial statements, as previously reported, have been reclassified to conform to the 2011 presentation.

REVENUE RECOGNITION

Revenues recognized include product sales, billings for freight and handling charges and fees earned for services provided. The Company recognizes product sales and billings for freight and handling charges primarily on the date products are shipped to, or picked up by, the customer. The Company’s standard shipping terms are FOB shipping point. On occasion, the Company will negotiate FOB destination terms. These sales are recognized upon delivery to the customer. Fee revenues, which account for less than 1% of total revenues, are recognized after services are completed.

COST OF MERCHANDISE SOLD

Cost of merchandise sold includes product and product-related costs, vendor consideration, freight-out and handling costs. The Company defines handling costs as those costs incurred to fulfill a shipped sales order.

VENDOR CONSIDERATION

The Company receives rebates and allowances from its vendors to promote their products. The Company utilizes numerous advertising programs to promote its vendors’ products, including catalogs and other printed media, Internet and other marketing programs. Most of these programs relate to multiple vendors, which makes supporting the specific, identifiable and incremental criteria difficult, and would require numerous assumptions and judgments. Based on the inexact nature of trying to track reimbursements to the exact advertising expenditure for each vendor, the Company treats most vendor advertising allowances as a reduction to Cost of merchandise sold rather than a reduction of operating (advertising) expenses. Rebates earned from vendors that are based on product purchases are capitalized into inventory as part of product purchase price. These rebates are credited to Cost of merchandise sold based on sales. Vendor rebates that are earned based on products sold are credited directly to Cost of merchandise sold.

ADVERTISING

Advertising costs are expensed in the year the related advertisement is first presented. Advertising expense was $144.6 million, $122.5 million and $114.6 million for 2011, 2010 and 2009, respectively. Most vendor-provided allowances are classified as an offset to Cost of merchandise sold. For additional information see VENDOR CONSIDERATION above.

Catalog expense is amortized equally over the life of the catalog, beginning in the month of its distribution. Advertising costs for catalogs that have not been distributed by year-end are capitalized as Prepaid expenses. Amounts included in Prepaid expenses at December 31, 2011 and 2010, were $49.5 million and $45.1 million, respectively.

WAREHOUSING, MARKETING AND ADMINISTRATIVE EXPENSES
Included in this category are purchasing, branch operations, information services, and marketing and selling expenses, as well as other types of general and administrative costs.

STOCK INCENTIVE PLANS
The Company measures all share-based payments using fair-value-based methods and records compensation expense related to these payments over the vesting period. See Note 12 to the Consolidated Financial Statements.

INCOME TAXES
Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between financial and tax reporting. The Company recognizes in the financial statements a provision for tax uncertainties, resulting from application of complex tax regulations in multiple tax jurisdictions. See Note 15 to the Consolidated Financial Statements.

OTHER COMPREHENSIVE EARNINGS (LOSSES)
The Company's Other comprehensive earnings (losses) include foreign currency translation adjustments, changes in fair value of derivatives designated as hedges and unrecognized gains (losses) on postretirement and other employment-related benefit plans. See Note 14 to the Consolidated Financial Statements.

CASH
The Company considers investments in highly liquid debt instruments, purchased with an original maturity of ninety days or less, to be cash equivalents.

CONCENTRATION OF CREDIT RISK
The Company places temporary cash investments with institutions of high credit quality and, by policy, limits the amount of credit exposure to any one institution.

The Company has a broad customer base representing many diverse industries doing business in all regions of the United States, Canada, Europe, Japan, Mexico, India, Puerto Rico, China, Colombia, Panama and Dominican Republic. Consequently, no significant concentration of credit risk is considered to exist.

ALLOWANCE FOR DOUBTFUL ACCOUNTS
The Company establishes reserves for customer accounts that are potentially uncollectible. The method used to estimate the allowances is based on several factors, including the age of the receivables and the historical ratio of actual write-offs to the age of the receivables. These analyses also take into consideration economic conditions that may have an impact on a specific industry, group of customers or a specific customer.

INVENTORIES
Inventories are valued at the lower of cost or market. Cost is determined primarily by the last-in, first-out (LIFO) method, which accounts for approximately 65% of total inventory. For the remaining inventory, cost is determined by the first-in, first-out (FIFO) method.

PROPERTY, BUILDINGS AND EQUIPMENT
Property, buildings and equipment are valued at cost. For financial statement purposes, depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on the declining-balance and sum-of-the-years-digits depreciation methods. The principal estimated useful lives for determining depreciation are as follows:

Buildings, structures and improvements	10 to 30 years
Furniture, fixtures, machinery and equipment	3 to 10 years

Improvements to leased property are amortized over the initial terms of the respective leases or the estimated service lives of the improvements, whichever is shorter.

The Company capitalized interest costs of $0.8 million, $0.5 million and $0.5 million in 2011, 2010 and 2009, respectively.

LONG-LIVED ASSETS
The carrying value of long-lived assets is evaluated whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired. An impairment loss is recognized when estimated undiscounted future cash flows resulting from use of the asset, including disposition, are less than the carrying value of the asset. Impairment is measured as the amount by which the carrying amount exceeds the fair value.

The Company recognized impairment charges of $8.2 million, $4.0 million and $9.0 million in 2011, 2010 and 2009, respectively, included in Warehousing, marketing and administrative expenses, to reduce the carrying value of certain long-lived assets to their estimated fair value pursuant to impairment indicators for property currently held for sale, lease terminations, idle assets and branch closures.

CAPITALIZED SOFTWARE
The Company capitalizes certain costs related to the purchase of internal-use software. Amortization of capitalized software is on a straight-line basis over three and five years. Amortization begins when the software is available for its intended use. Amortization expense was $19.1 million, $23.6 million and $22.7 million for the years ended December 31, 2011, 2010 and

2009, respectively. Capitalized software was $43.8 million and $33.6 million at December 31, 2011 and 2010, respectively. These costs are included in Other assets and intangibles – net on the Consolidated Balance Sheets.

GOODWILL AND OTHER INTANGIBLES

Goodwill is recognized as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather tested for impairment on an annual basis and more often if circumstances require. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value.

The Company recognizes an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or whenever it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their estimated useful lives unless the estimated useful life is determined to be indefinite. Amortizable intangible assets are being amortized over useful lives of one to 22 years. Impairment losses are recognized if the carrying amount of an intangible, subject to amortization, is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

The Company also maintains intangible assets with indefinite lives, which are not amortized. These intangibles are tested for impairment on an annual basis and more often if circumstances require. Impairment losses are recognized whenever the implied fair value of these assets is less than their carrying value. See Notes 2 and 3 to the Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value due to the short-term nature of these financial instruments. The carrying value of long-term debt also approximates fair value due to the variable interest rates. The fair value of the Company's qualifying derivative instruments is recorded in the Consolidated Balance Sheets and is discussed in more detail in Note 9.

DERIVATIVE INSTRUMENTS AND HEDGING

The Company uses derivative financial instruments to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The Company does not enter into derivative financial instruments for trading or speculative purposes. All derivative instruments are recognized as either assets or liabilities in the balance sheet at their fair value. Changes in the fair value of derivatives are recognized in net earnings or other comprehensive earnings (losses) depending on whether the derivative is designated as part of a qualifying hedging relationship. The ineffective portion of a qualifying hedging derivative and derivatives not designated as a hedge are recognized immediately in earnings. Instruments that do not qualify for hedge accounting are marked to market with the change recognized in current period earnings. See Notes 9 and 14 to the Consolidated Financial Statements for additional information on the Company's derivative activities.

INSURANCE RESERVES

The Company purchases insurance for catastrophic exposures and those risks required to be insured by law. It also 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. Reserves for these potential losses are based on an external analysis of the Company's historical claims results and other actuarial assumptions.

WARRANTY RESERVES

The Company generally warrants the products it sells against defects for one year. For a significant portion of warranty claims, the manufacturer of the product is responsible for expenses. For warranty expenses not covered by the manufacturer, the Company provides a reserve for future costs based primarily on historical experience. Amounts included in warranty reserves at December 31, 2011 and 2010, were $3.1 million and $3.2 million, respectively.

NEW ACCOUNTING STANDARDS

In September 2011, the FASB (Financial Accounting Standards Board) issued updated guidance on the periodic testing of goodwill for impairment. This guidance allows companies to assess qualitative factors to determine if it is more likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is applicable for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company elected to early adopt this pronouncement and its adoption did not have a material effect on the consolidated financial statements. See Note 3 of the Consolidated Financial Statements.

NOTE 2 – BUSINESS ACQUISITIONS

On August 31, 2011, the Company acquired the Fabory Group, a European distributor of fasteners and related maintenance, repair and operating products. Fabory is headquartered in Tilburg, the Netherlands, and has more than 100 locations in 15 countries. In 2010, Fabory had sales of approximately $300 million.

The Company paid $358 million for the Fabory acquisition, less cash acquired, and recorded intangibles, including goodwill, of approximately $257 million. The purchase price allocation has not been finalized and is subject to change, as the Company obtains additional information during the measurement period related to the valuation of acquired assets and liabilities, including deferred taxes.

Purchased identified intangible assets totaled approximately $122 million. Acquired intangibles primarily consist of customer relationships and trade names. Customer relationships ($80 million) will be amortized on a straight-line basis over 22 years. The indefinite-lived intangible ($42 million) is related to the Fabory trade name.

During 2010, the Company acquired four companies and obtained a majority ownership in one joint venture for approximately $62 million, less cash acquired.

During 2009, the Company acquired three companies and obtained majority ownership in two joint ventures for approximately $123 million, net of cash acquired. See Note 6 to the Consolidated Financial Statements for additional information.

The results of these acquisitions are included in the Company's consolidated results from the respective dates of acquisition. Due to the immaterial nature of these transactions, both individually and in the aggregate, disclosures of amounts assigned to the acquired assets and assumed liabilities and pro forma results of operations were not considered necessary.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is recognized as the excess cost of an acquired entity over the amount assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather tested for impairment on an annual basis and more often if circumstances require. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value.

The changes in the carrying amount of goodwill by segment from January 1, 2010 to December 31, 2011, are as follows (in thousands of dollars):

	United States	Canada	Other Businesses	Total
Balance at January 1, 2010	$156,429	$137,906	$ 56,847	$351,182
Acquisitions	1,012	8,592	14,531	24,135
Purchase price adjustments	(6,221)	—	2,286	(3,935)
Translation	—	7,424	8,426	15,850
Balance at December 31, 2010	151,220	153,922	82,090	387,232
Acquisitions	—	171	135,080	135,251
Purchase price adjustments	11	—	—	11
Translation	—	(3,448)	(9,863)	(13,311)
Balance at December 31, 2011	$151,231	$150,645	$207,307	$509,183

The Company tests goodwill and intangible assets with indefinite lives for impairment annually 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 goodwill for impairment at the reporting unit level. During the fourth quarter 2011, the Company early adopted FASB's new accounting guidance, which allows companies to assess qualitative factors such as current company 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. In the two-step goodwill test, the Company compares the carrying value of a reporting unit to its fair value. If the carrying value of the reporting unit exceeds its estimated fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value, to determine the amount of impairment.

The Company completed the annual impairment testing in the fourth quarter using the qualitative approach and one reporting unit with the carrying value of goodwill of $17 million was determined to be subject to the two-step quantitative impairment testing. The results of this goodwill impairment test indicated no impairment as of the test date. However, changes in management's estimates and assumptions can have a significant impact on the fair value of forecasted cash flows and results of future impairment tests.

Intangible assets included in Other assets and intangibles – net in the Consolidated Balance Sheets were comprised of the following (in thousands of dollars):

	As of December 31,					
	2011			2010		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer lists and relationships...	$270,460	$114,422	$156,038	$193,254	$105,591	$ 87,663
Amortized trademarks, trade names and other	35,280	19,914	15,366	37,855	16,305	21,550
Non-amortized intangibles	76,025	—	76,025	36,135	—	36,135
Total intangible assets	$381,765	$134,336	$247,429	$267,244	$121,896	$145,348

The estimated useful lives for acquired intangibles are as follows:

Customer lists and relationships...	6 to 22 years
Amortized trademarks, trade names and other..	5 to 17 years

Amortization expense recognized on intangible assets was $12.0 million for 2011, $11.6 million for 2010 and $6.7 million for 2009, and is included in Warehousing, marketing, and administrative expenses on the Consolidated Statement of Earnings.

Estimated amortization expense for future periods is as follows (in thousands of dollars):

Year	Expense
2012..	$ 12,633
2013..	11,983
2014..	11,614
2015..	11,300
2016..	11,011
Thereafter	112,863

NOTE 4 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table shows the activity in the allowance for doubtful accounts (in thousands of dollars):

	For the Years Ended December 31,	
	2011	2010
Balance at beginning of period..	$24,552	$25,850
Provision for uncollectible accounts..	4,761	6,718
Write-off of uncollectible accounts, net of recoveries	(8,138)	(8,302)
Business acquisitions, foreign currency and other	(2,374)	286
Balance at end of period..	$18,801	$24,552

NOTE 5 – INVENTORIES

Inventories primarily consist of merchandise purchased for resale. Inventories would have been $354.5 million and $336.8 million higher than reported at December 31, 2011 and 2010, respectively, if the FIFO method of inventory accounting had been used for all Company inventories. Net earnings would have increased by $10.9 million, $2.1 million and $10.0 million for the years ended December 31, 2011, 2010 and 2009, respectively, using the FIFO method of accounting. Inventory values using the FIFO method of accounting approximate replacement cost. The Company provides reserves for excess and obsolete inventory. The reserve balance was $124.7 million and $112.6 million as of December 31, 2011 and 2010, respectively. The increase was due to the Fabory Group acquisition and a higher reserve requirement in Canada. The reserve decreased in the United States due primarily to a more favorable experience than previously estimated on product added in recent years as part of the product line expansion initiative.

NOTE 6 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

In October 2011, Grainger divested its 49% stake in a joint venture in MRO Korea Co., Ltd. for $12 million resulting in a pretax gain of $8 million ($5 million after-tax) net of the cumulative foreign currency losses reclassified from Accumulated other comprehensive earnings. The Company previously accounted for this investment under the equity method.

In September 2009, the Company acquired 380,000 common shares of MonotaRO Co., Ltd. (MonotaRO) for approximately $4 million, increasing its interest from 48% to 53%. The results of MonotaRO are now included in the Company's consolidated results from the date of obtaining a controlling voting interest. The Company previously accounted for its 48% interest in MonotaRO as an equity method investment. Upon obtaining the controlling interest, the previously held equity interest was remeasured to fair value, resulting in a pretax gain of $47 million ($28 million after-tax) reported in the Company's Consolidated Statement of Earnings. The gain includes $3 million reclassified from Accumulated other comprehensive earnings.

NOTE 7 – SHORT-TERM DEBT

The following summarizes information concerning short-term debt (in thousands of dollars):

	As of December 31,	
	2011	2010
Lines of credit	$ 69,004	$42,769
Commercial paper	50,000	—
Other short-term borrowings	966	—
	$119,970	$42,769

Lines of Credit

The Company had $135.5 million and $112.3 million of uncommitted lines of credit denominated in foreign currencies at December 31, 2011 and 2010, respectively. Foreign subsidiaries utilize the lines of credit to meet business growth and operating needs. The maximum month-end balance outstanding during the year was $69.0 million and $42.8 million for 2011 and 2010, respectively. The weighted average interest rates were 5.59% and 4.97% during 2011 and 2010, respectively. As of December 31, 2011 and 2010, the weighted average interest rates were 5.37% and 5.26%, respectively.

The Company had a committed line of credit of $400 million in 2011 and 2010 for which the Company paid a commitment fee of 0.10% in 2011 and 2010. This line of credit supports the issuance of commercial paper. The current line is due to expire in July 2014. There were no borrowings under this committed line of credit.

Commercial Paper

On July 30, 2010, the Company issued $200 million of commercial paper and proceeds were used to make a partial prepayment of the bank term loan. The commercial paper had been classified as long-term debt on the Consolidated Balance Sheet at December 31, 2010, as the Company had the intent and the ability to maintain it on a long-term basis. During 2011, the Company repaid $150 million of its $200 million commercial paper balance and accordingly, the Company reclassified the remaining $50 million from long-term debt to short-term debt as of December 31, 2011. The weighted average interest rate paid during the year was 0.20% and the weighted average interest rate as of December 31, 2011 was 0.14%.

Letters of Credit

The Company had $26.3 million and $27.0 million of letters of credit at December 31, 2011 and 2010, respectively, primarily related to the Company's insurance program. Letters of credit were also issued to facilitate the purchase of products. Issued amounts were $4.1 million and $4.5 million at December 31, 2011 and 2010, respectively.

NOTE 8 – LONG-TERM DEBT

Long-term debt consisted of the following (in thousands of dollars):

	As of December 31,	
	2011	2010
Bank term loan	$219,932	$248,311
Commercial paper	—	200,000
Euro denominated bank term loan	155,340	—
Other	21,322	3,194
Less current maturities	(221,539)	(31,059)
	$175,055	$420,446

In May 2008, the Company entered into a $500 million, unsecured four-year bank term loan, which matures in May 2012. The weighted average interest rate paid during 2011 was 0.99%.

In August 2011, the Company entered into a €120 million, unsecured five-year bank term loan in connection with the acquisition of the Fabory Group, maturing in August 2016. The Company, at its option, may prepay this term loan in whole or in part. Payments of €2.5 million are due semi-annually, beginning February 28, 2013, with the remaining balance due at maturity. The weighted average interest rate paid during the year was 2.18%. The weighted average interest rate includes inputs from variable rates and a fixed interest rate swap. See Note 9 of the Consolidated Financial Statements.

The scheduled aggregate principal payments are due as follows (in thousands of dollars):

Year	Payment Amount
2012	$221,539
2013	9,547
2014	9,549
2015	9,544
2016	138,552
Thereafter	7,863

The Company's debt instruments include only standard affirmative and negative covenants for debt instruments of similar amounts and structure. The Company's debt instruments do not contain financial or performance covenants restrictive to the business of the Company, reflecting its strong financial position. The Company is in compliance with all debt covenants for the year ended December 31, 2011.

NOTE 9 – DERIVATIVE INSTRUMENTS

The fair value of significant derivative instruments included in Deferred income taxes, tax uncertainties and derivative instruments was as follows (in thousands of dollars):

	As of December 31,	
Derivatives Designated as Hedges	2011	2010
Interest rate swap	$1,574	$ —
Foreign currency forwards	$4,781	$5,816

The fair values of the these instruments are determined by using quoted market forward rates (level 2 inputs) and reflects the present value of the amount that the Company would pay for contracts involving the same notional amounts and maturity dates.

During the fourth quarter of 2011, the Company entered into a pay-fixed / receive-floating interest rate swap with a notional value of €60 million maturing in August 2016 to hedge the future interest expense of the euro denominated 5-year term loan entered into to fund a portion of the Fabory Group acquisition. The swap is accounted for as a cash flow hedge. The effective portion of the changes in fair value of the derivative are reported as a component of other comprehensive earnings (losses) and reclassified to net income when the hedged transaction affects earnings.

During the fourth quarter of 2010, the Company entered into multiple foreign currency forward contracts with a total notional value of Canadian $160 million maturing in September 2014. These forward contracts are designated and qualify as a hedge of an intercompany net investment in the Company's Canadian subsidiary. The Company uses the forward method of assessing hedge effectiveness for derivatives designated as hedging instruments of a net investment in a foreign subsidiary and all changes in fair value of the derivatives are reported as a component of other comprehensive earnings (losses), net of tax effects, as long as specific hedge accounting criteria are met.

Other foreign currency forward contracts entered into during the current and prior periods to hedge non-functional currency-denominated intercompany note receivables and forecasted U.S. dollar-denominated obligations by foreign subsidiaries of the Company were not material.

See Note 1 to the Consolidated Financial Statements for a description of the Company's Accounting Policy regarding derivative instruments and Note 14 – Accumulated Other Comprehensive Earnings for additional information.

NOTE 10 – EMPLOYEE BENEFITS

The Company provides various retirement benefits to eligible employees, including contributions to defined contribution plans, pension benefits associated with defined benefit plans, postretirement medical benefits and benefits. Eligibility requirements and benefit levels vary depending on employee location. Various foreign benefit plans cover employees in accordance with local legal requirements.

Defined Contribution Plans

A majority of the Company's U.S. employees are covered by a noncontributory profit sharing plan. This plan provides for annual employer contributions based upon a formula related primarily to earnings before federal income taxes, limited to a percentage of the total eligible compensation paid to eligible employees. The annual contribution is limited to a minimum of 8% and a maximum of 18% of total eligible compensation paid to eligible employees. The profit sharing plan expense was $155.9 million, $143.1 million and $118.5 million for 2011, 2010 and 2009, respectively.

The Company also sponsors additional defined contribution plans available to certain U.S. and foreign employees for which contributions are paid by the Company and participating employees. The expense associated with these defined contribution plans totaled $9.3 million, $8.3 million and $9.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Defined Benefit Plans and Other Retirement Plans

The Company sponsors a defined benefit plan which provides pension benefits for certain employees in the Netherlands. The annual pension benefit is based on 1.75 percent of a career average pay. The plan is insured and accordingly, all risks with respect to investments, mortality and longevity are covered by an insurance company. The assets of the plan are invested in a separate account with the insurer. A December 31 measurement date is utilized to value plan assets and obligations. Funding of the plan takes place through single premiums for obligations regarding future service years. As of December 31, 2011, the pension plan is in an overfunded position with a net pension asset of $12.7 million. In 2011, the expense related to this plan was insignificant to the Company.

In certain countries pension contributions are made to government-sponsored social security pension plans in accordance with local legal requirements. For these plans, the Company has no continuing obligations other than the payment of contributions. The cost of these programs is not significant to the Company.

Executive Death Benefit Plan

The Executive Death Benefit Plan provides one of three potential benefits: a supplemental income benefit (SIB), an executive death benefit (EDB) or a postretirement payment. The SIB provides income continuation at 50% of total compensation, payable for ten years to the beneficiary of a participant if that participant dies while employed by the Company. The EDB provides an after-tax lump sum payment of one-time final total compensation to the beneficiary of a participant who dies after retirement. In addition, pre-2008 participants may elect to receive a reduced postretirement payment instead of the EDB. Effective January 1, 2010, the plan is not available to new participants.

The net periodic benefits costs charged to operating expenses were $1.0 million, $1.1 million and $1.2 million in 2011, 2010 and 2009, respectively. The net loss recognized in Accumulated other comprehensive earnings (AOCE) was $0.7 million as of December 31, 2011. Net gains recognized in AOCE were $0.4 million as of December 31, 2010 and 2009. The plan benefits are paid as they come due from the general assets of the Company. The plan benefit obligation was $17.2 million and $15.6 million as of December 31, 2011 and 2010, respectively.

Postretirement Benefits

The Company has a postretirement healthcare benefits plan that provides coverage for a majority of its United States employees and their dependents should they elect to maintain such coverage upon retirement. Covered employees become eligible for participation when they qualify for retirement while working for the Company. Participation in the plan is voluntary and requires participants to make contributions toward the cost of the plan, as determined by the Company.

The Company's accumulated postretirement benefit obligation (APBO) and net periodic benefit costs include the effect of the federal subsidy provided by the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Medicare Act). The Medicare Act provides a federal subsidy to retiree healthcare benefit plan sponsors that provide a prescription drug benefit that is at least actuarially equivalent to that provided by Medicare. As a result of the subsidy, the APBO has been reduced by $67.6 million, $52.3 million and $43.0 million as of December 31, 2011, 2010 and 2009, respectively. The subsidy has reduced net periodic benefits costs by approximately $6.6 million, $6.3 million and $4.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The net periodic benefits costs charged to operating expenses, which were valued with a measurement date of January 1 for each year, consisted of the following components (in thousands of dollars):

	For the Years Ended December 31,		
	2011	2010	2009
Service cost	$15,762	$14,293	$12,305
Interest cost	13,352	12,852	10,730
Expected return on assets	(5,790)	(4,434)	(3,402)
Amortization of prior service credit	(495)	(495)	(1,215)
Amortization of transition asset	(143)	(143)	(143)
Amortization of unrecognized losses	3,269	3,649	4,135
Net periodic benefits costs	$25,955	$25,722	$22,410

The Company has elected to amortize the amount of net unrecognized losses over a period equal to the average remaining service period for active plan participants expected to retire and receive benefits of approximately 16.3 years for 2011.

Reconciliations of the beginning and ending balances of the APBO, which is calculated using a December 31 measurement date, the fair value of plan assets and the funded status of the benefit obligation follow (in thousands of dollars):

	2011	2010
Benefit obligation at beginning of year	$257,978	$222,117
Service cost	15,762	14,293
Interest cost	13,352	12,852
Plan participants' contributions	2,103	1,862
Amendments	—	—
Actuarial loss	44,883	12,288
Benefits paid	(5,551)	(5,729)
Medicare Part D Subsidy received	385	295
Benefit obligation at end of year	328,912	257,978
Plan assets available for benefits at beginning of year	96,507	73,919
Actual returns (losses) on plan assets	(720)	9,017
Employer's contributions	11,180	17,438
Plan participants' contributions	2,103	1,862
Benefits paid	(5,551)	(5,729)
Plan assets available for benefits at end of year	103,519	96,507
Noncurrent postretirement benefit obligation	$225,393	$161,471

The amounts recognized in AOCE consisted of the following components (in thousands of dollars):

	As of December 31,		
	2011	2010	2009
Prior service credit (cost)	$ (1,542)	$ (1,047)	$ (552)
Transition asset	428	571	714
Unrecognized losses	(118,612)	(70,487)	(66,430)
Deferred tax asset	46,330	27,605	25,784
Net losses	$ (73,396)	$ (43,358)	$ (40,484)

The components of AOCE related to the postretirement benefit costs that will be amortized into net periodic postretirement benefit costs in 2012 are estimated as follows (in thousands of dollars):

	2012
Amortization of prior service credit	$ (495)
Amortization of transition asset	(143)
Amortization of unrecognized losses	7,277
Estimated amount to be amortized from AOCE into net periodic postretirement benefit costs	$ 6,639

The benefit obligation was determined by applying the terms of the plan and actuarial models. These models include various actuarial assumptions, including discount rates, assumed rates of return on plan assets and healthcare cost trend rates. The actuarial assumptions also anticipate future cost-sharing changes to retiree contributions that will maintain the current cost-sharing ratio between the Company and the retirees. The Company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and historical experience.

The following assumptions were used to determine net periodic benefit costs at January 1:

	For the Years Ended December 31,		
	2011	2010	2009
Discount rate	5.60%	6.00%	5.90%
Expected long-term rate of return on plan assets, net of tax at 40%	6.00%	6.00%	6.00%
Initial healthcare cost trend rate	9.00%	9.50%	10.00%
Ultimate healthcare cost trend rate	5.00%	5.00%	5.00%
Year ultimate healthcare cost trend rate reached	2019	2019	2019

The following assumptions were used to determine benefit obligations at December 31:

	2011	2010	2009
Discount rate	4.50%	5.60%	6.00%
Expected long-term rate of return on plan assets, net of tax at 40%	6.00%	6.00%	6.00%
Initial healthcare cost trend rate	8.50%	9.00%	9.50%
Ultimate healthcare cost trend rate	5.00%	5.00%	5.00%
Year ultimate healthcare cost trend rate reached	2019	2019	2019

The discount rate assumptions reflect the rates available on high-quality fixed income debt instruments as of December 31, the measurement date, of each year. These rates have been selected due to their similarity to the projected cash flows of the postretirement healthcare benefit plan. As of December 31, 2011, the Company reduced the discount rate from 5.6% to 4.5% to reflect the decrease in the market interest rates which contributed to the increase in the unrealized actuarial loss at December 31, 2011.

The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1 percentage point change in assumed healthcare cost trend rates would have the following effects on 2011 results (in thousands of dollars):

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

The Company has established a Group Benefit Trust (Trust) to fund the plan obligations and process benefit payments. In December 2010, the Company began to transition the target allocation of the Trust assets from 100% U.S. equities to 50% U.S. equities and 50% non-U.S. equities. This investment strategy reflects the long-term nature of the plan obligation and seeks to take advantage of the earnings potential of equity securities in the global markets. The assets of the Trust are invested in funds designed to track to either the Standard & Poor's 500 Index (S&P 500) or the Total International Composite Index. The Total International Composite Index tracks non-U.S. stocks within developed and emerging market economies. The plan's assets are stated at fair value which represents the net asset value of shares held by the plan in the registered investment companies at the quoted market prices (Level 1 input) as of December 31 (in thousands of dollars):

	2011	2010
Registered investment companies		
Fidelity Spartan U.S. Equity Index Fund	$ 44,138	$43,260
Vanguard 500 Index Fund	44,265	43,363
Vanguard Total International Stock	18,379	13,215
Total Assets	$106,782	$99,838

The Company uses the long-term historical return on the plan assets and the historical performance of the S&P 500 and, beginning in 2010, the Total International Composite Index to develop its expected return on plan assets. The required use of an expected long-term rate of return on plan assets may result in recognition of income that is greater or less than the actual return on plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income recognition that more closely matches the pattern of the services provided by the employees.

The Company's investment policies include periodic reviews by management and trustees at least annually concerning: (1) the allocation of assets among various asset classes (e.g., domestic stocks, international stocks, short-term bonds, long-term bonds, etc.); (2) the investment performance of the assets, including performance comparisons with appropriate benchmarks; (3) investment guidelines and other matters of investment policy; and (4) the hiring, dismissal, or retention of investment managers.

The funding of the trust is an estimated amount that is intended to allow the maximum deductible contribution under the Internal Revenue Code of 1986 (IRC), as amended, and was $7.0 million, $17.4 million and $9.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. There are no minimum funding requirements and the Company intends to follow its practice of funding the maximum deductible contribution under the IRC.

The Company forecasts the following benefit payments (which include a projection for expected future employee service) and subsidy receipts for the next ten years (in thousands of dollars):

	Estimated gross benefit payments	Estimated Medicare subsidy receipts
2012	$ 5,272	$ (427)
2013	6,161	(503)
2014	7,046	(602)
2015	8,132	(713)
2016	9,417	(843)
2017 – 2021	70,378	(6,975)

NOTE 11 – LEASES

The Company leases certain land, buildings and equipment under noncancellable operating leases that expire at various dates through 2036. There were no significant capital leases at December 31, 2011. Many of the building leases obligate the Company to pay real estate taxes, insurance and certain maintenance costs, and contain multiple renewal provisions, exercisable at the Company's option. Leases that contain predetermined fixed escalations of the minimum rentals are recognized in rental expense on a straight-line basis over the lease term. Cash or rent abatements received upon entering into certain operating leases are also recognized on a straight-line basis over the lease term.

At December 31, 2011, the approximate future minimum lease payments for all operating leases were as follows (in thousands of dollars):

	Future Minimum Lease Payments
2012	$ 55,601
2013	46,744
2014	38,233
2015	29,900
2016	21,606
Thereafter	30,769
Total minimum payments required	222,853
Less amounts representing sublease income	(1,835)
	$221,018

Rent expense, including items under lease and items rented on a month-to-month basis, was $72.4 million, $53.4 million and $45.3 million for 2011, 2010 and 2009, respectively. These amounts are net of sublease income of $1.6 million, $0.9 million and $0.7 million for 2011, 2010 and 2009, respectively.

NOTE 12 – STOCK INCENTIVE PLANS

The Company maintains stock incentive plans under which the Company may grant a variety of incentive awards to employees and directors. Shares of common stock were authorized for issuance under the plans in connection with awards of non-qualified stock options, stock appreciation rights, restricted stock units and other stock-based awards. At December 31, 2011, restricted stock units, performance shares, stock units and non-qualified stock options have been granted.

In 2010, the shareholders of the Company approved the 2010 Incentive Plan (Plan), which replaced all prior active plans (Prior Plans). Awards previously granted under Prior Plans will remain outstanding in accordance with their terms. A total of 5.9 million shares of common stock have been reserved for issuance under the Plan. As of December 31, 2011, there were 3,405,291 shares available for grant under the Plan.

Pretax stock-based compensation expense was $50.5 million, $47.4 million, and $40.7 million in 2011, 2010 and 2009, respectively. Related income tax benefits recognized in earnings were $17.9 million, $16.9 million and $14.1 million in 2011, 2010 and 2009, respectively.

Options

In 2011, 2010 and 2009, the Company issued stock option grants to employees as part of their incentive compensation. Stock option grants were 520,327, 689,450 and 763,370 shares for the years 2011, 2010 and 2009, respectively.

In 2010 and 2009, the Company provided broad-based stock option grants covering 256,000 and 181,100 shares, respectively, to those employees who reached major service milestones and were not participants in other stock option programs.

Option awards are granted with an exercise price equal to the closing market price of the Company's stock on the last trading day preceding the date of grant. The options generally vest over three years, although accelerated vesting is provided in certain circumstances. Awards generally expire ten years from the grant date.

Transactions involving stock options are summarized as follows:

	Shares Subject to Option	Weighted Average Price Per Share	Options Exercisable
Outstanding at January 1, 2009	6,353,867	$ 62.95	3,633,612
Granted	944,470	$ 79.69	
Exercised	(1,689,581)	$ 57.18	
Canceled or expired	(134,160)	$ 78.98	
Outstanding at December 31, 2009	5,474,596	$ 68.07	3,141,996
Granted	945,450	$106.70	
Exercised	(1,444,898)	$ 64.39	
Canceled or expired	(93,900)	$ 84.02	
Outstanding at December 31, 2010	4,881,248	$ 77.61	2,486,478
Granted	520,327	$149.15	
Exercised	(1,323,883)	$ 63.08	
Canceled or expired	(117,017)	$ 89.18	
Outstanding at December 31, 2011	3,960,675	$ 91.53	1,808,667

At December 31, 2011, there was $15.7 million of total unrecognized compensation expense related to nonvested option awards, which the Company expects to recognize over a weighted average period of 1.2 years.

The following table summarizes information about stock options exercised (in thousands of dollars):

	For the Years Ended December 31,		
	2011	2010	2009
Fair value of options exercised	$ 20,933	$ 22,665	$ 24,442
Total intrinsic value of options exercised	124,441	75,204	57,702
Fair value of options vested	13,549	17,974	23,303
Settlements of options exercised	83,504	87,024	92,213

Information about stock options outstanding and exercisable as of December 31, 2011, is as follows:

	Options Outstanding				Options Exercisable			
		Weighted Average				Weighted Average		
Range of Exercise Prices	Number	Remaining Contractual Life	Exercise Price	Intrinsic Value (000's)	Number	Remaining Contractual Life	Exercise Price	Intrinsic Value (000's)
$45.50 – $ 76.61	1,117,852	3.68 years	$ 63.92	$137,794	967,252	3.15 years	$ 62.64	$120,468
$77.65 – $ 83.08	996,798	6.66 years	$ 81.60	105,248	368,428	5.52 years	$ 81.82	38,820
$85.82 – $102.26	676,865	6.93 years	$ 91.54	64,742	449,065	6.34 years	$ 86.10	45,394
$108.15 – $154.84	1,169,160	8.77 years	$126.38	71,091	23,922	8.39 years	$110.66	1,831
	3,960,675	6.49 years	$ 91.53	$378,875	1,808,667	4.49 years	$ 73.01	$206,513

The Company uses a binomial lattice option pricing model for the valuation of stock options. The weighted average fair value of options granted in 2011, 2010 and 2009 was $33.95, $24.53 and $19.32, respectively. The fair value of each option 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 holder exercise and termination behavior. Expected volatility is based upon implied and historical volatility of the closing price of the Company's stock over a period equal to the expected life of each option grant. Historical company information is also the primary basis for selection of expected dividend yield assumptions.

Performance Shares

The Company awards performance-based shares to certain executives. Receipt of Company stock is contingent upon the Company meeting sales growth and return on invested capital (ROIC) performance goals. Each participant is granted a base number of shares. At the end of the performance period, the number of shares granted will be increased, decreased or remain the same based upon actual Company-wide sales versus target sales. The shares, as determined at the end of the performance period, are issued at the end of the third year if the Company's average target ROIC is achieved during the vesting period.

Performance share value is based upon closing market prices on the last trading day preceding the date of award and is charged to earnings on a straight-line basis over the three year period based on the number of shares expected to vest. Holders of performance share awards are not entitled to receive cash payments equivalent to cash dividends. If the performance shares vest, they will be settled by the issuance of Company common stock in exchange for the performance shares on a one-for-one basis.

The following table summarizes the transactions involving performance-based share awards:

	2011		2010		2009	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested shares outstanding	177,120	$ 84.74	72,362	$80.01	117,896	$75.13
Issued	96,236	$127.43	140,400	$87.29	36,720	$73.17
Cancelled	(13,056)	$ 87.24	(1,069)	$86.00	(3,319)	$83.40
Vested	(67,560)	$ 72.86	(34,573)	$86.00	(78,935)	$68.64
Ending nonvested shares outstanding	192,740	$109.16	177,120	$84.74	72,362	$80.01

At December 31, 2011, there was 10.0 million of total unrecognized compensation expense related to performance-based share awards that the Company expects to recognize over a weighted average period of 1.7 years.

Restricted Stock Units (RSUs)

RSUs granted vest over periods from two to seven years from issuance, although accelerated vesting is provided in certain instances. Holders of RSUs are entitled to receive cash payments equivalent to cash dividends and other distributions paid with respect to common stock. At various times after vesting, RSUs will be settled by the issuance of stock evidencing the conversion of the RSUs into shares of the Company common stock on a one-for-one basis. Compensation expense related to RSUs is based upon the closing market price on the last trading day preceding the date of award and is charged to earnings on a straight-line basis over the vesting period.

The following table summarizes RSUs activity:

	2011		2010		2009	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested units	1,205,787	$ 88.65	1,241,364	$ 80.96	1,237,246	$77.88
Issued	242,212	$152.55	274,740	$109.63	284,825	$83.10
Cancelled	(92,202)	$ 89.57	(61,745)	$ 82.59	(81,572)	$78.47
Vested	(236,309)	$ 86.13	(248,572)	$ 77.37	(199,135)	$63.57
Ending nonvested units	1,119,488	$100.76	1,205,787	$ 88.65	1,241,364	$80.96
Fair value of shares vested (in millions)	$20.4		$19.2		$12.4	

At December 31, 2011, there was $55.0 million of total unrecognized compensation expense related to nonvested RSUs that the Company expects to recognize over a weighted average period of 2.1 years.

Director Stock Awards

The Company provides members of the Board of Directors with deferred stock unit grants. A stock unit is the economic equivalent of a share of common stock. Beginning in April 2010, the number of units covered by each grant is equal to the grant divided by the 200-day average stock price as of January 31st in the year of the grant. Prior to 2010, the number of units covered by each grant was equal to the grant divided by the fair market value of a share of common stock at the time of the grant. Beginning in April 2011, the Directors were awarded $115,000 of deferred stock units annually. Prior to 2011, Directors were awarded $100,000 of deferred stock units. The Company also awards stock units in connection with elective deferrals of director fees and dividend equivalents on existing stock units. Deferred fees and dividend equivalents on existing stock units are converted into stock units on the basis of the market value of the stock at the relevant times. Payment of the value of stock units is scheduled to be made after termination of service as a director. As of December 31, 2011, 2010 and 2009, there were eleven nonemployee directors who held stock units. As of December 31, 2011 and 2010, there was also one former nonemployee director who held stock units.

The Company recognizes (income) expense for the (depreciation) appreciation in value of equivalent stock units based on the market price of the Company's common stock as of the balance sheet date. The following table summarizes activity for stock units related to deferred director fees (dollars in thousands):

	2011		2010		2009	
	Units	Dollars	Units	Dollars	Units	Dollars
Beginning balance	130,377	$ 18,006	113,509	$ 10,991	93,221	$ 7,350
Dividends	2,244	350	2,416	261	2,338	192
Deferred fees	12,601	1,878	14,452	1,563	17,950	1,463
Retirement distribution	(2,425)	(335)	—	—	—	—
Unit appreciation	—	6,831	—	5,191	—	1,986
Ending balance	142,797	$ 26,730	130,377	$ 18,006	113,509	$ 10,991

NOTE 13 – CAPITAL STOCK

The Company had no shares of preferred stock outstanding as of December 31, 2011, 2010 and 2009. The activity related to outstanding common stock and common stock held in treasury was as follows:

	2011		2010	
	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock
Balance at beginning of period	69,377,802	40,281,417	72,276,516	37,382,703
Exercise of stock options, net of 0 and 2,608 shares swapped in stock-for-stock exchange, respectively	1,323,883	(1,323,883)	1,442,290	(1,442,290)
Cancellation of shares related to tax withholdings on restricted stock vesting	—	—	(3,014)	3,014
Settlement of restricted stock units, net of 141,467 and 85,205 shares retained, respectively	257,931	(257,931)	163,367	(163,367)
Settlement of performance share units, net of 11,731 and 26,077 shares retained, respectively	22,842	(22,842)	52,858	(52,858)
Purchase of treasury shares	(1,019,606)	1,019,606	(4,554,215)	4,554,215
Balance at end of period	69,962,852	39,696,367	69,377,802	40,281,417

NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE EARNINGS

The following table sets forth the components of Accumulated other comprehensive earnings (losses) (in thousands of dollars):

	As of December 31,	
	2011	2010
Foreign currency translation adjustments	$ 76,234	$113,151
Derivative instruments	(6,286)	(5,816)
Postretirement benefit plan	(119,726)	(70,963)
Other employment-related benefit plans	(3,170)	(1,619)
Deferred tax asset	35,592	15,453
Total accumulated other comprehensive earnings (losses)	(17,356)	50,206
Less: Foreign currency translation adjustments attributable to noncontrolling interest	11,382	7,255
Total accumulated other comprehensive earnings (losses) attributable to W.W. Grainger, Inc.	$ (28,738)	$ 42,951

Foreign currency translation adjustments result from the translation of assets and liabilities of foreign subsidiaries. The decrease in foreign currency translation adjustments in 2011 was primarily due to the strengthening of the U.S. dollar versus the Euro, Canadian dollar and Mexican peso. The increase in foreign currency translation adjustments in 2010 was primarily due to the weakening of the U.S. dollar versus the Canadian dollar, Japanese yen and Mexican peso.

The increase in unrecognized losses related to the postretirement benefit plan in 2011 was primarily due to a decrease in the discount rate. See Note 10 – Employee Benefits.

NOTE 15 – INCOME TAXES

The Company 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.

Income tax expense consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2011	2010	2009
Current provision:			
Federal	$275,489	$283,481	$203,375
State	49,098	48,241	36,078
Foreign	45,405	21,235	15,860
Total current	369,992	352,957	255,313
Deferred tax provision (benefit):			
Federal	19,204	(7,875)	16,446
State	480	(1,384)	2,894
Foreign	(4,561)	(3,502)	1,912
Total deferred	15,123	(12,761)	21,252
Total provision	$385,115	$340,196	$276,565

Net earnings before income taxes by geographical area consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2011	2010	2009
United States	$ 917,820	$802,135	$679,648
Foreign	133,707	51,643	27,689
	$1,051,527	$853,778	$707,337

The income tax effects of temporary differences that gave rise to the net deferred tax asset were (in thousands of dollars):

	As of December 31, 2011	2010
Deferred tax assets:		
Inventory	$ 26,845	$ 32,438
Accrued expenses	30,411	31,116
Accrued employment-related benefits	170,514	145,440
Foreign operating loss carryforwards	58,813	13,117
Other	23,870	21,346
Deferred tax assets	310,453	243,457
Less valuation allowance	(53,739)	(20,087)
Deferred tax assets, net of valuation allowance	$ 256,714	$ 223,370
Deferred tax liabilities:		
Property, buildings and equipment	(22,498)	—
Intangibles	(112,569)	(80,055)
Software	(10,194)	(4,419)
Prepaids	(20,038)	(28,897)
Other	(16,893)	(18,160)
Deferred tax liabilities	(184,192)	(131,531)
Net deferred tax asset	$ 72,522	$ 91,839
The net deferred tax asset is classified as follows:		
Current assets	$ 47,410	$ 44,627
Noncurrent assets	100,830	87,244
Noncurrent liabilities (foreign)	(75,718)	(40,032)
Net deferred tax asset	$ 72,522	$ 91,839

At December 31, 2011, the Company had $228.8 million of operating loss carryforwards related primarily to foreign operations, including operating loss carryforwards related to the acquisition of the Fabory Group. See Note 2 of the Consolidated Financial Statements. Some of the operating loss carryforwards will expire at various dates through 2020. The valuation allowance represents a provision for uncertainty as to the realization of the tax benefits of these carryforwards. In addition, the Company recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized.

The changes in the valuation allowance were as follows (in thousands of dollars):

	For the Years Ended December 31, 2011	2010
Beginning balance	$ 20,087	$ 20,810
Increase (decrease) related to foreign net operating loss carryforwards	33,652	(723)
Ending balance	$ 53,739	$ 20,087

The increase in valuation allowance for foreign net operating loss carryforwards at December 31, 2011, relates primarily to the acquisition of the Fabory Group.

A reconciliation of income tax expense with federal income taxes at the statutory rate follows (in thousands of dollars):

	For the Years Ended December 31, 2011	2010	2009
Federal income tax at the 35% statutory rate	$368,034	$298,822	$247,568
State income taxes, net of federal income tax benefit	32,226	30,457	25,332
Other – net	(15,145)	10,917	3,665
Income tax expense	$385,115	$340,196	$276,565
Effective tax rate	36.6%	39.8%	39.1%

Included in other – net are the tax benefit related to settlement of various tax reviews during 2011 and the benefit of tax law changes in Japan enacted in the fourth quarter of 2011. In 2010, other – net included an expense related to the U.S. healthcare legislation passed in the first quarter of 2010.

Undistributed earnings of foreign subsidiaries at December 31, 2011, amounted to $160.5 million. No provision for deferred U.S. income taxes has been made for these subsidiaries because the Company intends to permanently reinvest such earnings in its foreign operations.

The changes in the liability for tax uncertainties, excluding interest, are as follows (in thousands of dollars):

	2011	2010
Balance at beginning of year	$34,060	$26,540
Additions based on tax positions related to the current year	8,067	8,304
Additions for tax positions of prior years	2,175	3,815
Reductions for tax positions of prior years	(8,087)	(2,062)
Reductions due to statute lapse	(696)	(2,413)
Settlements, audit payments, refunds – net	(12,759)	(124)
Balance at end of year	$22,760	$34,060

The Company classifies the liability for tax uncertainties in Deferred income taxes, tax uncertainties and derivative instruments. Included in this amount are $3.2 million and $11.9 million at December 31, 2011 and 2010, respectively, of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Any changes in the timing of deductibility of these items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authorities to an earlier period.

The Company regularly undergoes examination of its federal income tax returns by the Internal Revenue Service (IRS). During 2011, the Company concluded the review of its 2007 and 2008 federal income tax returns with the IRS. For federal income tax purposes, tax years 2009 forward remain subject to audit. The Company is also subject to audit by state, local and foreign taxing authorities. Tax years 2002–2011 remain subject to state and local audits and 2005–2011 remain subject to foreign audits. The estimated amount of liability associated with the Company's uncertain tax positions may change within the next twelve months due to the pending audit activity, expiring statutes or tax payments.

The Company recognizes interest expense in the provision for income taxes. During 2011 and 2009, the Company recognized a net benefit of $0.8 million and $0.5 million, respectively, primarily due to settlement of audits and statute lapse. During 2010 the Company recognized an expense of $0.5 million. As of December 31, 2011 and 2010, the Company accrued $1.1 million and $1.9 million, respectively, for interest.

NOTE 16 – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share under the two-class method (in thousands of dollars, except for share and per share amounts):

	For the Years Ended December 31,		
	2011	2010	2009
Net earnings attributable to W.W. Grainger, Inc. as reported	$658,423	$510,865	$430,466
Distributed earnings available to participating securities	(3,216)	(3,086)	(2,990)
Undistributed earnings available to participating securities	(9,635)	(8,355)	(7,059)
Numerator for basic earnings per share – Undistributed and distributed earnings available to common shareholders	645,572	499,424	420,417
Undistributed earnings allocated to participating securities	9,635	8,355	7,059
Undistributed earnings reallocated to participating securities	(9,438)	(8,208)	(6,957)
Numerator for diluted earnings per share – Undistributed and distributed earnings available to common shareholders	$645,769	$499,571	$420,519
Denominator for basic earnings per share – weighted average shares	69,690,854	70,836,945	73,786,346
Effect of dilutive securities	1,485,304	1,301,913	1,105,506
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities	71,176,158	72,138,858	74,891,852
Earnings per share two-class method			
Basic	$ 9.26	$ 7.05	$ 5.70
Diluted	$ 9.07	$ 6.93	$ 5.62

NOTE 17 – SEGMENT INFORMATION

The Company has two reportable segments: the United States and Canada. The United States operating segment reflects the results of Grainger's U.S. business. The Canada operating segment reflects the results for Acklands – Grainger Inc., the Company's Canadian business. Other businesses include the following significant operations: Fabory Group, MonotaRO, Mexico, China and Colombia. Operating segments generate revenue almost exclusively through the distribution of maintenance, repair and operating supplies, as service revenues account for less than 1% of total revenues for each operating segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment transfer prices are established at external selling prices, less costs not incurred due to a related party sale. The segment results include certain centrally incurred costs for shared services that are charged to the segments based upon the relative level of service used by each operating segment.

Following is a summary of segment results (in thousands of dollars):

	2011			
	United States	Canada	Other Businesses	Total
Total net sales	$6,501,343	$992,823	$647,666	$8,141,832
Intersegment net sales	(62,766)	(163)	(718)	(63,647)
Net sales to external customers	6,438,577	992,660	646,948	8,078,185
Segment operating earnings	1,066,324	107,582	30,984	1,204,890
Segment assets	1,492,092	335,900	331,892	2,159,884
Depreciation and amortization	100,017	12,840	11,035	123,892
Additions to long-lived assets	$ 148,803	$ 29,744	$ 13,402	$ 191,949

	2010			
	United States	Canada	Other Businesses	Total
Total net sales	$6,020,069	$820,941	$389,621	$7,230,631
Intersegment net sales	(47,913)	(137)	(423)	(48,473)
Net sales to external customers	5,972,156	820,804	389,198	7,182,158
Segment operating earnings	920,222	46,836	11,661	978,719
Segment assets	1,292,655	313,133	151,221	1,757,009
Depreciation and amortization	105,478	12,407	7,809	125,694
Additions to long-lived assets	$ 100,194	$ 20,745	$ 5,660	$ 126,599

	2009			
	United States	Canada	Other Businesses	Total
Total net sales	$5,445,390	$651,166	$165,051	$6,261,607
Intersegment net sales	(39,057)	(154)	(405)	(39,616)
Net sales to external customers	5,406,333	651,012	164,646	6,221,991
Segment operating earnings (losses)	735,586	43,742	(11,634)	767,694
Segment assets	1,163,831	245,464	106,693	1,515,988
Depreciation and amortization	111,922	10,718	5,991	128,631
Additions to long-lived assets	$ 111,816	$ 14,828	$ 10,690	$ 137,334

Following are reconciliations of the segment information with the consolidated totals per the financial statements (in thousands of dollars):

	2011	2010	2009
Operating earnings:			
Total operating earnings for reportable segments	$ 1,204,890	$ 978,719	$ 767,694
Unallocated expenses	(152,461)	(118,244)	(102,470)
Total consolidated operating earnings	$1,052,429	$ 860,475	$ 665,224
Assets:			
Assets for reportable segments	$2,159,884	$1,757,009	$1,515,988
Other current and non-current assets	2,102,644	1,659,762	1,645,564
Unallocated assets	453,534	487,606	564,780
Total consolidated assets	$4,716,062	$3,904,377	$3,726,332

	2011		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 123,892	$ 13,319	$ 137,211
Additions to long-lived assets	$ 191,949	$ 5,665	$ 197,614

	Revenues	Long-Lived Assets
Geographic information:		
United States	$6,388,506	$ 872,947
Canada	998,014	102,085
Other foreign countries	691,665	129,014
	$8,078,185	$1,104,046

	2010		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 125,694	$ 12,099	$ 137,793
Additions to long-lived assets	$ 126,599	$ 4,941	$ 131,540

	Revenues	Long-Lived Assets
Geographic information:		
United States	$5,922,668	$ 845,008
Canada	823,220	87,325
Other foreign countries	436,270	64,900
	$7,182,158	$ 997,233

	2009		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 128,631	$ 12,343	$ 140,974
Additions to long-lived assets	$ 137,334	$ 2,618	$ 139,952

	Revenues	Long-Lived Assets
Geographic information:		
United States	$5,362,729	$ 864,586
Canada	653,984	74,515
Other foreign countries	205,278	53,543
	$6,221,991	$ 992,644

Assets for reportable segments include accounts receivable and inventory which are provided to the Company's Chief Operating Decision Maker. Long-lived assets consist of property, buildings, equipment and capitalized software. Unallocated assets include non-operating cash and cash equivalents, certain prepaid expenses and property, buildings and equipment – net.

Revenues are attributed to countries based on the ship-to location of the customer.

Unallocated expenses and unallocated assets primarily relate to the Company headquarters' support services, which are not part of any business segment, as well as intercompany eliminations. Unallocated expenses include payroll and benefits, depreciation and other costs associated with headquarters-related support services. Unallocated expenses increased due to higher payroll and benefits, and expenses related to mergers and acquisitions activity.

NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly information for 2011 and 2010 is as follows (in thousands of dollars, except for per share amounts):

	2011 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$1,883,612	$2,003,022	$2,114,647	$2,076,904	$8,078,185
Cost of merchandise sold	1,053,998	1,140,628	1,201,648	1,171,119	4,567,393
Gross profit	829,614	862,394	912,999	905,785	3,510,792
Warehousing, marketing and administrative expenses	567,000	597,112	609,959	684,292	2,458,363
Operating earnings	262,614	265,282	303,040	221,493	1,052,429
Net earnings attributable to W.W. Grainger, Inc.	157,933	169,885	182,121	148,484	658,423
Earnings per share – basic	2.23	2.39	2.56	2.08	9.26
Earnings per share – diluted	$ 2.18	$ 2.34	$ 2.51	$ 2.04	$ 9.07

	2010 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$1,672,354	$1,783,696	$1,899,412	$1,826,696	$7,182,158
Cost of merchandise sold	966,612	1,036,610	1,109,688	1,063,564	4,176,474
Gross profit	705,742	747,086	789,724	763,132	3,005,684
Warehousing, marketing and administrative expenses	522,857	532,171	538,451	551,730	2,145,209
Operating earnings	182,885	214,915	251,273	211,402	860,475
Net earnings attributable to W.W. Grainger, Inc.	99,173	129,077	150,405	132,210	510,865
Earnings per share – basic	1.34	1.76	2.10	1.87	7.05
Earnings per share – diluted	$ 1.31	$ 1.73	$ 2.06	$ 1.83	$ 6.93

NOTE 19 – CONTINGENCIES AND LEGAL MATTERS

Grainger has been named, along with numerous other nonaffiliated companies, as a defendant in litigation in various states involving asbestos and/or silica. These lawsuits typically assert claims of personal injury arising from alleged exposure to asbestos and/or silica as a consequence of products purportedly distributed by Grainger. In 2011, Grainger was named in lawsuits relating to asbestos and/or silica involving approximately 60 new plaintiffs, and lawsuits relating to asbestos and/or silica involving approximately 110 plaintiffs were dismissed with respect to Grainger, typically based on the lack of product identification.

As of January 11, 2012, Grainger is named in cases filed on behalf of approximately 1,800 plaintiffs in which there is an allegation of exposure to asbestos and/or silica. Grainger has denied, or intends to deny, the allegations in all of the above-described lawsuits. If a specific product distributed by Grainger is identified in any of these lawsuits, Grainger would attempt to exercise indemnification remedies against the product manufacturer. In addition, Grainger believes that a substantial number of these claims are covered by insurance. Grainger has entered into agreements with its major insurance carriers relating to the scope, coverage and costs of defense of lawsuits involving claims of exposure to asbestos. While Grainger is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on Grainger's consolidated financial position or results of operations.

Grainger is a party to a contract with the United States General Services Administration (the GSA) first entered into in 1999 and subsequently extended in 2004. The GSA contract had been the subject of an audit performed by the GSA's Office of the Inspector General. In December 2007, the Company received a letter from the Commercial Litigation Branch of the Civil Division of the Department of Justice (the DOJ) regarding the GSA contract. The letter suggested that the Company had not complied with its disclosure obligations and the contract's pricing provisions, and had potentially overcharged government customers under the contract.

Discussions relating to the Company's compliance with its disclosure obligations and the contract's pricing provisions are ongoing. The timing and outcome of these discussions are uncertain and could include settlement or civil litigation by the DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to the uncertainties surrounding this matter, an estimate of possible loss cannot be determined. While this matter is not expected to have a material adverse effect on the Company's financial position, an unfavorable resolution could result in significant payments by the Company. The Company continues to believe that it has complied with the GSA contract in all material respects.

Grainger is a party to a contract with the United States Postal Service (the USPS) entered into in 2003 covering the sale of certain Maintenance Repair and Operating Supplies (the MRO Contract). The Company received a subpoena dated August 29, 2008, from the USPS Office of Inspector General seeking information about the Company's pricing compliance under the MRO Contract. The Company has provided responsive information to the USPS and to the DOJ.

Grainger is also a party to a contract with the USPS entered into in 2001 covering the sale of certain janitorial and custodial items (the Custodial Contract). The Company received a subpoena dated June 30, 2009, from the USPS Office of Inspector General seeking information about the Company's pricing practices and compliance under the Custodial Contract. The Company has provided responsive information to the USPS and to the DOJ.

Discussions with the USPS and DOJ relating to the Company's pricing practices and compliance with the pricing provisions of the MRO Contract and the Custodial Contract are ongoing. The timing and outcome of the USPS and DOJ investigations of the MRO Contract and the Custodial Contract are uncertain and could include settlement or civil litigation by the USPS and DOJ to recover, among other amounts, treble damages and penalties under the False Claims Act. Due to the uncertainties surrounding these matters, an estimate of possible loss cannot be determined. While these matters are not expected to have a material adverse effect on the Company's financial position, an unfavorable resolution could result in significant payments by the Company. The Company continues to believe that it has complied with each of the MRO Contract and the Custodial Contract in all material respects.

The Company is conducting an inquiry into alleged falsification of expense accounts submitted by employees in certain sales offices of Grainger China LLC, a subsidiary of the Company. In the course of the investigation the Company learned that sales employees may have provided prepaid gift cards to certain customers. The extent and value of the gift cards are subject to further inquiry. The Company's investigation includes determining whether there were any violations of laws, including the U.S. Foreign Corrupt Practices Act. Consequently, on January 24, 2012, the Company contacted the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) to voluntarily disclose that the Company was conducting an internal investigation, and agreed to fully cooperate and update the DOJ and SEC periodically on further developments.

The Company has retained outside counsel to assist in its investigation of this matter. Because the investigation is on-going, the Company cannot predict at this time whether any regulatory action may be taken or any other potential consequences may result from this matter.

In addition to the foregoing, from time to time the Company is involved in various other legal and administrative proceedings that are incidental to its business, including claims relating to product liability, premises liability, general negligence, environmental issues, employment, intellectual property and other matters. As a government contractor selling to federal, state and local governmental entities, the Company is also subject to governmental or regulatory inquiries or audits or other proceedings, including those related to pricing compliance. It is not expected that the ultimate resolution of any of these matters will have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial position or results of operations.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Grainger has duly issued this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: February 27, 2012

W.W. GRAINGER, INC.

By: James T. Ryan

James T. Ryan
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Grainger on February 27, 2012, in the capacities indicated.

James T. Ryan

James T. Ryan
Chairman, President and
Chief Executive Officer
(Principal Executive Officer and Director)

Ronald L. Jadin

Ronald L. Jadin
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

Gregory S. Irving

Gregory S. Irving
Vice President and Controller
(Principal Accounting Officer)

Brian P. Anderson

Brian P. Anderson
Director

Wilbur H. Gantz

Wilbur H. Gantz
Director

V. Ann Hailey

V. Ann Hailey
Director

William K. Hall

William K. Hall
Director

Stuart L. Levenick

Stuart L. Levenick
Director

John W. McCarter, Jr.

John W. McCarter, Jr.
Director

Neil S. Novich

Neil S. Novich
Director

Michael J. Roberts

Michael J. Roberts
Director

Gary L. Rogers

Gary L. Rogers
Director

E. Scott Santi

E. Scott Santi
Director

James D. Slavik

James D. Slavik
Director

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 No.'s 33-43902, 333-24215, 333-61980, 333-105185, 333-124356, 333-166345 and Form S-4 No. 33-32091) of W.W. Grainger, Inc. and in the related prospectuses of our reports dated February 27, 2012, with respect to the consolidated financial statements of W.W. Grainger, Inc. and the effectiveness of internal control over financial reporting of W.W. Grainger, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

ERNST & YOUNG LLP

Chicago, Illinois

February 27, 2012

CERTIFICATION EXHIBIT 31(a)

I, J. T. Ryan, certify that:

1. I have reviewed this Annual Report on Form 10-K of W.W. Grainger, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

By: J. T. Ryan

Name: J. T. Ryan

Title: Chairman, President and Chief Executive Officer

CERTIFICATION

I, R. L. Jadin, certify that:

1. I have reviewed this Annual Report on Form 10-K of W.W. Grainger, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2012

By: R. L. Jadin

Name: R. L. Jadin

Title: Senior Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of W.W. Grainger, Inc. (“Grainger”) for the annual period ended December 31, 2011, (the “Report”), J. T. Ryan, as Chairman, President and Chief Executive Officer of Grainger, and R. L. Jadin, as Senior Vice President and Chief Financial Officer of Grainger, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Grainger.

J. T. Ryan

J. T. Ryan
Chairman, President and
Chief Executive Officer

February 27, 2012

R. L. Jadin

R. L. Jadin
Senior Vice President
and Chief Financial Officer

February 27, 2012