NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014, 2013 and 2012

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.

EQUITY METHOD OF ACCOUNTING FOR INVESTMENTS

For investments in which the Company owns or controls from 20% to 50% of the voting shares, the equity method of accounting is used. The Company also accounts for investments below 20% using the equity method when significant influence can be exercised over the operating and financial policies of the investee company. The Company currently does not have any investments accounted for under the equity method of accounting.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 U.S. dollar is the reporting currency for all periods presented. The financial statements of the Company’s foreign operating subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of the Company’s foreign operating subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average rates in effect during the period. Net exchange gains or losses resulting from the translation of financial statements of foreign operations and related long-term debt and derivative instruments are recorded as a separate component of other comprehensive earnings. See Note 13 to the Consolidated Financial Statements. Foreign currency transaction gains and losses are shown in the consolidated statement of earnings.

RECLASSIFICATIONS

Certain amounts in the 2013 and 2012 financial statements, as previously reported, have been reclassified to conform to the 2014 presentation. These reclassifications did not have a material impact on the presentation of the consolidated financial statements.

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. In cases where the product is shipped directly to the customer, the Company recognizes revenue at the time of shipment on a gross basis. 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. eCommerce revenues, which accounted for 36% of total 2014 revenues, are recognized on the same terms as revenues through other channels. Fee revenues, which accounted for less than 1% of total 2014 revenues, are recognized after services are completed. Taxes collected from customers and remitted to governmental authorities are presented on a net basis and are not included in revenue.

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, radio 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 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 $169 million, $178 million and $173 million for 2014, 2013 and 2012, 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, 2014 and 2013, were $27 million and $36 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 11 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 14 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 13 to the Consolidated Financial Statements.

CASH AND CASH EQUIVALENTS

The Company considers investments in highly liquid debt instruments, purchased with an original maturity of 90 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, Asia and Latin America. 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 62% 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 Company's international businesses record depreciation expense primarily on a straight-line basis. 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

Depreciation expense was $154 million, $142 million and $130 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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 $2 million in 2014 and $1 million in years 2013 and 2012.

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 $5 million, $0.4 million and $2 million in 2014, 2013 and 2012, 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 and development of internal-use software. Amortization of capitalized software is on a straight-line basis over three or five years. Amortization begins when the software is available for its intended use. Amortization expense was $36 million, $23 million and $16 million for the years ended December 31, 2014, 2013 and 2012, respectively. Capitalized software was $148 million and $107 million at December 31, 2014 and 2013, respectively, and is included in Other assets and intangibles - net on the Consolidated Balance Sheets. During 2014, the Company wrote off $7 million in capitalized software costs due to a change in the implementation plan for an integrated IT system across North America.

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 primarily over useful lives of three to 22 years. The straight-line method of amortization is used as it has been determined to approximate the use pattern of the assets. 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 Note 2 and Note 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 8 to the Consolidated Financial Statements.

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 Note 8 and Note 13 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. Warranty reserves were $4 million at December 31, 2014 and 2013.

NEW ACCOUNTING STANDARDS

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in ASU 2014-08 raise the threshold for a disposal to qualify as discontinued operations and require new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new standard, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. This ASU will be applied prospectively and is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted provided the disposal was not previously disclosed. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for interim and annual periods beginning after December 15, 2016, and early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2 – BUSINESS ACQUISITIONS AND DIVESTITURES

In November 2014, the Company announced plans to close the business in Brazil. Operations will cease during 2015. In 2014, the Company recorded shutdown costs of $29 million in the Consolidated Statement of Earnings, including $9 million reclassified from Accumulated other comprehensive earnings (losses) related to foreign currency translation losses from the consolidation of the business unit. See Note 13 to the Consolidated Financial Statements.

On September 2, 2014, the Company's Canadian subsidiary acquired WFS Enterprises, Inc. (WFS). With 2013 sales of approximately $87 million, WFS is a distributor of tools and supplies to industrial markets in Southern Ontario and select U.S. locations. The Company paid $33 million for the WFS acquisition, less cash acquired. Goodwill and intangibles recorded totaled approximately $16 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 the acquired assets and liabilities.

During 2013, the Company acquired Safety Solutions, Inc. for $30 million, less cash acquired. Goodwill recorded totaled $8 million. Purchased identified intangible assets totaled $13 million.

During 2013, the Company acquired E&R Industrial Sales, Inc. for $116 million, less cash acquired. Goodwill recorded totaled $49 million. Purchased identified intangible assets totaled $51 million.

During 2013, the Company acquired the remaining noncontrolling interest in Grainger Colombia for $10 million.

During 2012, the Company acquired Techni-Tool, Inc., for $43 million, less cash acquired. Goodwill recorded totaled $10 million. Purchased identified intangible assets totaled $20 million.

Purchased identified intangible assets for the acquired businesses primarily consist of customer relationships, trademarks and trade names. See Note 3 to the Consolidated Financial Statements for estimated useful lives and amortization periods.

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 are as follows (in thousands of dollars):

	United States	Canada	Other Businesses	Total
Balance at January 1, 2013	$170,439	$154,775	$218,456	$543,670
Acquisitions	35,820	—	—	35,820
Purchase price adjustments	(12,900)	—	2,067	(10,833)
Impairment	(12,861)	—	(11,260)	(24,121)
Translation	—	(10,187)	(8,882)	(19,069)
Balance at December 31, 2013	180,498	144,588	200,381	525,467
Acquisitions	—	9,620	—	9,620
Purchase price adjustments	21,522	—	—	21,522
Impairment	—	—	(11,795)	(11,795)
Translation	—	(13,019)	(24,890)	(37,909)
Balance at December 31, 2014	$202,020	$141,189	$163,696	$506,905

Business acquisitions result in the recording of goodwill and identified intangible assets which affect the amount of amortization expense and possible impairment write-downs that may occur in future periods. Grainger annually reviews goodwill and intangible assets with indefinite lives for impairment in the fourth quarter and when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Grainger tests for goodwill impairment at the reporting unit level and performs a qualitative assessment of factors such as a reporting unit's current performance and overall economic factors to determine if it is more likely than not that the goodwill might be impaired and whether it is necessary to perform the two-step quantitative goodwill impairment test. In the two-step test, Grainger compares the carrying value of assets of the reporting unit to its calculated fair value. If the carrying value of assets of the reporting unit exceeds its calculated fair value, the second step is performed, where the implied fair value of goodwill is compared to the carrying value of assets, to determine the amount of impairment.

The fair value of reporting units is calculated primarily using the discounted cash flow (DCF) method and incorporating value indicators from a market approach to evaluate the reasonableness of the resulting fair values. The DCF method incorporates various assumptions including the amount and timing of future expected cash flows, including revenues, gross margins, operating expenses, capital expenditures and working capital based on operational budgets, long range strategic plans and other estimates. The terminal value growth rate is used to calculate the value of cash flows beyond the last projected period and reflects management's best estimates for perpetual growth for the reporting units. Estimates of market-participant risk-adjusted weighted average cost of capital (WACC) are used as a basis for determining the discount rates to apply to the reporting units' future expected cash flows and terminal value.

Grainger completed the annual impairment testing during the fourth quarter of 2014, and identified two reporting units for which it could not determine whether or not the fair value would be less than the carrying value. For one of these reporting units, Grainger Colombia, the two-step quantitative test indicated that the carrying value of assets exceeded the calculated fair value and step two impairment calculations were required. During the testing in the fourth quarter, Grainger considered management's revised outlook on the business, which included lower projected sales growth and incremental investment necessary to execute on the strategy. Grainger incorporated this revised outlook into the two-step quantitative test, resulting in lowered projected sales growth, operating earnings and cash flows. Grainger recorded a full goodwill impairment charge of $12 million on the Grainger Colombia reporting unit.

Fabory, with $118 million of goodwill, had a calculated fair value which exceeded the carrying value of assets by 31%, and step two calculations were not required for this reporting unit. The risk of potential failure of step one of the impairment test for Fabory in future reporting periods is highly dependent upon key assumptions including the amount and timing of future expected cash flows, sales growth rates, gross margins, capital expenditures, discount rates and estimates of market-participant risk-adjusted WACC. These assumptions require considerable management judgment and are subject to uncertainty.

For Grainger's remaining reporting units, the estimated fair values substantially exceeded the carrying values.

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,					
	2014			2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized customer lists and relationships	$316,994	$133,819	$183,175	$350,760	$134,889	$215,871
Amortized trademarks, trade names and other	27,235	10,820	16,415	38,670	23,919	14,751
Non-amortized trade names	64,340	—	64,340	72,790	—	72,790
Total intangible assets	$408,569	$144,639	$263,930	$462,220	$158,808	$303,412

The decrease of $54 million in the gross carrying amount for total intangible assets was primarily driven by the write-off of fully amortized intangible assets and foreign currency translation.

The estimated useful lives for acquired intangibles are as follows:

Customer lists and relationships	6 to 22 years
Amortized trademarks, trade names and other	3 to 17 years

Amortization expense recognized on intangible assets was $18 million, $15 million and $13 million for the years ended December 31, 2014, 2013 and 2012, respectively, 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
2015	$ 17,221
2016	16,268
2017	15,314
2018	14,928
2019	14,126
Thereafter	121,733

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,	
	2014	2013
Balance at beginning of period	$20,096	$19,449
Provision for uncollectible accounts	12,945	8,855
Write-off of uncollectible accounts, net of recoveries	(9,628)	(7,942)
Business acquisitions, foreign currency and other	(1,292)	(266)
Balance at end of period	$22,121	$20,096

NOTE 5 – INVENTORIES

Inventories primarily consist of merchandise purchased for resale. Inventories would have been $389 million and $388 million higher than reported at December 31, 2014 and 2013, respectively, if the FIFO method of inventory accounting had been used for all Company inventories. Net earnings would have increased by $1 million, $8 million and $13 million for the years ended December 31, 2014, 2013 and 2012, 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 $137 million and $134 million as of December 31, 2014 and 2013, respectively.

NOTE 6 – SHORT-TERM DEBT

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

	As of December 31,	
	2014	2013
Lines of Credit		
Outstanding at December 31	$51,896	$66,857
Maximum month-end balance during the year	$64,384	$77,401
Weighted average interest rate during the year	4.16%	4.96%
Weighted average interest rate at December 31	3.69%	5.02%
Commercial Paper		
Outstanding at December 31	$ 5,000	$ —
Maximum month-end balance during the year	$54,997	$ —
Weighted average interest rate during the year	0.16%	—%
Weighted average interest rate at December 31	0.17%	—%

Lines of Credit

Foreign subsidiaries utilize lines of credit to meet business growth and operating needs. The Company had $114 million and $109 million of uncommitted lines of credit denominated in foreign currencies at December 31, 2014 and 2013, respectively.

The Company had a committed line of credit of $600 million in 2014 and 2013 for which the Company paid a commitment fee of 0.06% as of December 31, 2014 and 2013. This line of credit supports the issuance of commercial paper. The current line is due to expire in August 2018. The Company issued commercial paper during 2014 for general working capital needs.

Letters of Credit

The Company had $29 million and $26 million of letters of credit at December 31, 2014 and 2013, respectively, primarily related to the Company's insurance program. Letters of credit were also issued to facilitate the purchase of products. These issued amounts were $3 million at December 31, 2014 and 2013. Letters of credit issued by the Company's international businesses were immaterial.

NOTE 7 – LONG-TERM DEBT

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

	As of December 31,	
	2014	2013
Bank term loan	$126,770	$292,500
Revolving line of credit	146,325	—
Euro-denominated bank term loan	133,067	158,067
Other	21,778	25,375
Less current maturities	(23,404)	(30,429)
	$404,536	$445,513

Bank Term Loan

The Company has a $300 million, unsecured bank term loan, which matures in November 2016. Quarterly principal payments began in August 2013. The change in the bank term loan balance between 2014 and 2013 was primarily due to a $150 million partial prepayment on September 30, 2014.

At the election of the Company, the term loan shall bear interest at the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin as defined within the term loan agreement. At December 31, 2013, the Company had elected a one-month LIBOR Interest Period. The weighted average interest rate during the year was 1.16%.

Revolving Line of Credit

In September 2014, the Company's Canadian subsidiary entered into an unsecured revolving credit facility with a maximum availability of C$175 million. Pursuant to the credit agreement, there is a commitment fee of 0.065% and the facility matures on September 24, 2019. As of December 31, 2014, the Canadian subsidiary had drawn C$170 million under the facility for the purpose of repaying an intercompany loan and to fund general working capital needs. The interest rate on this outstanding amount was 1.91%. No principal payments are required on the credit facility until the maturity date.

Euro-Denominated Bank Term Loan

The Company has a €120 million, unsecured bank term loan that matures in August 2016. Semi-annual payments of €2.5 million began in February 2013. The weighted average interest rate paid during the year was 1.75%. The weighted average interest rate includes inputs from variable rates and an interest rate swap. See Note 8 to the Consolidated Financial Statements.

The scheduled aggregate principal payments related to long-term debt are due as follows (in thousands of dollars):

Year	Payment Amount
2015	$ 23,404
2016	247,641
2017	2,853
2018	1,771
2019	148,055
Thereafter	4,216

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, 2014.

NOTE 8 – DERIVATIVE INSTRUMENTS

The fair values of the Company's derivative instruments are determined by using quoted market forward rates (Level 2 inputs) and reflect 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 partially hedge the future interest expense of the euro-denominated term loan entered into to fund a portion of the Fabory acquisition. The swap is accounted for as a cash flow hedge. The effective portion of the changes in fair value of the derivative is reported as a component of other comprehensive earnings (losses) and reclassified to net income when the hedged transaction affects earnings. The value of the interest-rate swap, included on the Company's balance sheet under Employment-related and other noncurrent liabilities, was $2 million and $3 million as of December 31, 2014 and 2013, respectively.

In September 2014, the Company settled all of the outstanding foreign currency forward contracts, which had a total notional value of C$160 million, and were designated as a hedge of an intercompany net investment in the Canadian subsidiary. An after-tax gain of $4 million is included in the foreign currency translation adjustment, a component of other comprehensive earnings. The cash flows from the settlement are reported under cash flows from investing activities in the consolidated statement of cash flows. As of December 31, 2013, the fair value of the foreign currency forward contracts were included on the Company's balance sheet under Prepaid expenses and other assets for $1 million.

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 13 to the Consolidated Financial Statements for additional information.

NOTE 9 – 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 other 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 $175 million, $173 million and $165 million for 2014, 2013 and 2012, respectively.

The Company 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 $15 million for 2014, and $12 million for 2013 and 2012.

Defined Benefit Plans and Other Retirement Plans

During the second quarter of 2014, the Company adopted changes to the retirement plan offered to employees in the Netherlands. The plan was transitioned from a defined benefit plan to a defined contribution plan, and all existing and future obligations under the defined benefit plan have been transferred to a third party. As of December 31, 2013, this pension plan was in an overfunded position with a net pension asset of $5 million and $9 million of unrecognized losses included in Accumulated other comprehensive earnings (AOCE). As a result of the plan amendment and settlement, the Company reclassified the unrecognized losses from AOCE to warehousing, marketing and administrative expenses on the Statement of Earnings in an amount of $9 million, with a corresponding tax benefit to income taxes on the Statement of Earnings in an amount of $2 million. In addition, the Company recognized a $3 million write-off related to the plan's assets and liabilities, net of tax. Effective January 1, 2014, the affected employees have an option to participate in the defined contribution plan sponsored by the Company for which contributions are made by the Company and participating employees.

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 Company also sponsors additional defined benefit plans to certain foreign employees. 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 $0.7 million in 2014, $0.8 million in 2013 and $1 million in 2012. The net gain recognized in AOCE was $1 million as of December 31, 2014 and 2013. The plan benefits are paid as they come due from the general assets of the Company. The plan benefit obligation was $16 million as of December 31, 2014, and $15 million as of December 31, 2013.

Postretirement Benefits

The Company has a postretirement healthcare benefits plan that provides coverage for a majority of its United States employees hired prior to January 1, 2013, 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.

During the fourth quarter of 2012, the Company implemented plan design changes effective January 1, 2013. Employees hired after January 1, 2013, are not eligible to receive retiree health benefits. Active participants in the plan as of December 31, 2012, will remain eligible for retiree health benefits with the employee contribution structure modified for certain employees based on retirement eligibility. The Company also implemented an Employer Group Waiver Plan (EGWP) and a secondary supplemental “wrap-around” plan for its Medicare eligible retiree medical plan participants and no longer applied for the Part D Retiree Drug Subsidy (RDS) effective January 1, 2013. The EGWP program does not alter the benefits expected to be provided to the plan participants and is expected to increase the level of Medicare subsidies that will offset plan costs.

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,		
	2014	2013	2012
Service cost	$ 9,005	$10,589	$20,058
Interest cost	10,549	8,938	12,810
Expected return on assets	(8,237)	(7,076)	(6,210)
Amortization of prior service credit	(7,254)	(7,412)	(495)
Amortization of transition asset	(143)	(143)	(143)
Amortization of unrecognized losses	779	3,724	4,827
Net periodic benefits costs	$ 4,699	$ 8,620	$30,847

Reconciliations of the beginning and ending balances of the postretirement benefit obligation, 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):

	2014	2013
Benefit obligation at beginning of year	$223,488	$246,087
Service cost	9,005	10,589
Interest cost	10,549	8,938
Plan participants' contributions	2,487	2,289
Actuarial losses (gains)	42,300	(38,476)
Benefits paid	(5,609)	(6,021)
Prescription Drug Rebates	702	—
Medicare Part D Subsidy received	(5)	82
Benefit obligation at end of year	282,917	223,488
Plan assets available for benefits at beginning of year	144,514	117,939
Actual returns on plan assets	13,730	25,278
Employer's contributions	191	5,029
Plan participants' contributions	2,487	2,289
Prescription Drug Rebates	702	—
Benefits paid	(5,609)	(6,021)
Plan assets available for benefits at end of year	156,015	144,514
Noncurrent postretirement benefit obligation	$126,902	$ 78,974

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

	As of December 31, 2014	2013
Prior service credit	$ 67,303	$ 74,556
Transition asset	—	143
Unrecognized losses	(54,034)	(18,006)
Deferred tax (liability)	(5,121)	(21,806)
Net gains	$ 8,148	$ 34,887

The $36 million increase in unrecognized losses was primarily driven by a decrease in the discount rate and a change in the mortality improvement tables used.

The components of AOCE related to the postretirement benefit costs that will be amortized into net periodic postretirement benefit costs in 2015 are estimated as follows (in thousands of dollars):

	2015
Amortization of prior service credit	$ (6,801)
Amortization of unrecognized losses	3,442
Estimated amount to be amortized from AOCE into net periodic postretirement benefit costs	$ (3,359)

The Company has elected to amortize the amount of net unrecognized gains (losses) over a period equal to the average remaining service period for active plan participants expected to retire and receive benefits of approximately 15.7 years for 2014.

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, healthcare cost trend rate and cost-sharing 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,		
	2014	2013	2012
Discount rate	4.90%	4.00%	4.50%
Expected long-term rate of return on plan assets, net of tax	5.70%	6.00%	6.00%
Initial healthcare cost trend rate	7.50%	8.00%	8.50%
Ultimate healthcare cost trend rate	4.50%	5.00%	5.00%
Year ultimate healthcare cost trend rate reached	2026	2019	2019

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

	2014	2013	2012
Discount rate	3.89%	4.90%	4.00%
Expected long-term rate of return on plan assets, net of tax	6.65%	5.70%	6.00%
Initial healthcare cost trend rate	7.25%	7.50%	8.00%
Ultimate healthcare cost trend rate	4.50%	4.50%	5.00%
Year ultimate healthcare cost trend rate reached	2026	2026	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 duration of the projected cash flows of the postretirement healthcare benefit plan. As of December 31, 2014, the Company decreased the discount rate from 4.90% to 3.89% to reflect the decrease in the market interest rates, which contributed to the increase in the unrealized actuarial loss at December 31, 2014. As of December 31, 2014, the Company changed the mortality improvement table used to project mortality rates into the future from Mortality Table RP-2000 with Mortality Improvement Scale BB to Mortality Table RP-2014 with Mortality Improvement Scale MP 2014, which was published by the Society of Actuaries in October 2014, and reflects longer life expectancies than under the previous table and scale. The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates. As of December 31, 2013, Grainger changed the duration and rate of the healthcare trend decline to 25 basis points a year until reaching the ultimate trend rate of 4.50%. Prior to this change, the healthcare trend assumed a 50 basis points decline. As of December 31, 2014, the healthcare cost trend rate was 7.25%, declining 25 basis points a year until reaching the ultimate trend rate. 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 2014 results (in thousands of dollars):

	1 Percentage Point	
	Increase	(Decrease)
Effect on total service and interest cost	$ 1,978	$ (1,613)
Effect on postretirement benefit obligation	36,470	(29,404)

The Company has established a Group Benefit Trust (Trust) to fund the plan obligations and process benefit payments. All assets of the Trust are invested in equity 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. 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 and intends to reach a balanced allocation between U.S. and non-U.S. equities. 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):

	2014	2013
Registered investment companies		
Fidelity Spartan U.S. Equity Index Fund	$ 73,071	$ 67,160
Vanguard 500 Index Fund	77,202	67,931
Vanguard Total International Stock	23,994	25,034
Total Assets	$174,267	$160,125

The Company uses the long-term historical return on the plan assets and the historical performance of the S&P 500 and the Total International Composite Index to develop its expected return on plan assets. In 2013, the Company decreased the after-tax expected long-term rates of return on plan assets from 6.00% to 5.70% based on the historical average of long-term rates of return. In 2014, a change in the estimated tax rate resulted in an increase in the after-tax expected long-term rate of return on plan assets from 5.70% to 6.65%. This change was due to the nature of the taxable income earned on the investments in the Trust and the applicable tax rates. 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. 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) for the next ten years (in thousands of dollars):

Year	Estimated Gross Benefit Payments
2015	$ 5,490
2016	6,393
2017	7,394
2018	8,556
2019	9,791
2020 – 2024	69,854

NOTE 10 – LEASES

The Company leases certain land, buildings and equipment under noncancellable operating leases that expire at various dates through 2036. Capital leases as of December 31, 2014, are not considered material. 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, 2014, the approximate future minimum lease payments for all operating leases were as follows (in thousands of dollars):

Year	Future Minimum Lease Payments
2015	$ 65,901
2016	49,898
2017	30,804
2018	19,500
2019	12,237
Thereafter	7,813
Total minimum payments required	186,153
Less amounts representing sublease income	(4,310)
	$181,843

Rent expense, including items under lease and items rented on a month-to-month basis, was $77 million for 2014 and $68 million for 2013 and 2012. These amounts are net of sublease income of $2 million for 2014 and $1 million for 2013 and 2012.

NOTE 11 – STOCK INCENTIVE PLANS

The Company maintains stock incentive plans under which the Company may grant a variety of incentive awards to employees and directors. Non-qualified stock options, performance shares, restricted stock units and deferred stock units have been granted and are outstanding under these plans. As of December 31, 2014, there were 1.5 million shares available for grant under the plans.

Pretax stock-based compensation expense was $45 million, $52 million and $53 million in 2014, 2013 and 2012, respectively. Related income tax benefits recognized in earnings were $15 million in 2014, $17 million in 2013 and $18 million in 2012.

Options

In 2014, 2013 and 2012, the Company issued stock option grants to employees as part of their incentive compensation. 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 10 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, 2012	3,960,675	$ 91.53	1,808,667
Granted	404,111	$203.96	
Exercised	(972,015)	$ 74.14	
Canceled or expired	(34,055)	$105.36	
Outstanding at December 31, 2012	3,358,716	$109.95	1,629,468
Granted	348,054	$245.95	
Exercised	(805,235)	$ 85.75	
Canceled or expired	(51,080)	$150.15	
Outstanding at December 31, 2013	2,850,455	$132.67	1,652,417
Granted	257,693	$248.21	
Exercised	(479,452)	$100.33	
Canceled or expired	(45,892)	$199.80	
Outstanding at December 31, 2014	2,582,804	$149.01	1,647,903

At December 31, 2014, there was $11 million of total unrecognized compensation expense related to nonvested option awards, which the Company expects to recognize over a weighted average period of 1.8 years.

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

	For the Years Ended December 31,		
	2014	2013	2012
Fair value of options exercised	$ 11,167	$ 16,407	$ 18,120
Total intrinsic value of options exercised	71,924	124,752	126,138
Fair value of options vested	16,115	20,219	15,551
Settlements of options exercised	47,974	69,049	72,066

Information about stock options outstanding and exercisable as of December 31, 2014, 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)
$52.29 – $ 78.86	308,141	1.55 years	$ 70.19	$ 56,914	308,141	1.55 years	$ 70.19	$ 56,914
$81.49 – $ 85.82	562,045	3.64 years	$ 83.27	96,457	562,045	3.64 years	$ 83.27	96,457
$102.26 – $124.93	392,796	5.29 years	$107.31	57,970	392,796	5.29 years	$107.31	57,970
$149.02 – $204.24	734,000	6.82 years	$176.61	57,458	377,252	6.36 years	$150.73	39,295
$235.15 – $262.14	585,822	8.75 years	$246.93	4,666	7,669	8.49 years	$246.28	66
	2,582,804	5.71 years	$149.01	$273,465	1,647,903	4.29 years	$102.76	$250,702

The Company uses a binomial lattice option pricing model for the valuation of stock options. The weighted average fair value of options granted in 2014, 2013 and 2012 was $53.43, $51.30 and $43.98, respectively. The fair value of each option granted in 2014, 2013 and 2012 used the following assumptions:

	For the Years Ended December 31,		
	2014	2013	2012
Risk-free interest rate	2.0%	0.9%	1.1%
Expected life	6 years	6 years	6 years
Expected volatility	25.0%	25.5%	25.9%
Expected dividend yield	1.7%	1.5%	1.6%

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 Company's closing stock price 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 ratable 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 Company's issuance of 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:

	2014		2013		2012	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested shares outstanding	57,533	$185.02	117,979	$141.86	192,740	$109.16
Issued	32,194	$242.65	31,553	$191.36	28,639	$177.75
Canceled	(6,835)	$190.90	(7,659)	$148.25	(1,666)	$114.41
Vested	(25,656)	$177.75	(84,340)	$130.35	(101,734)	$ 90.47
Ending nonvested shares outstanding	57,236	$220.00	57,533	$185.02	117,979	$141.86

At December 31, 2014, there was $7 million of total unrecognized compensation expense related to performance-based share awards that the Company expects to recognize over a weighted average period of 1.8 years.

Restricted Stock Units (RSUs)

RSUs granted vest over periods from three 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. RSUs are settled by the issuance of the Company's 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 RSU activity:

	2014		2013		2012	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested units	739,717	$154.09	978,888	$118.60	1,119,488	$100.76
Issued	103,427	$248.12	139,529	$248.28	152,995	$204.26
Canceled	(51,410)	$170.98	(54,533)	$141.48	(37,972)	$123.01
Vested	(231,383)	$123.82	(324,167)	$ 89.62	(255,623)	$ 88.36
Ending nonvested units	560,351	$182.40	739,717	$154.09	978,888	$118.60
Fair value of shares vested (in millions)	$29		$29		$23	

At December 31, 2014, there was $48 million of total unrecognized compensation expense related to nonvested RSUs that the Company expects to recognize over a weighted average period of 3.0 years.

Director Stock Awards

The Company's Board of Directors receives both cash and deferred stock units (DSUs) for its services. A DSU is the economic equivalent of a share of common stock. The directors were each awarded $125,000 of DSUs in 2014 and 2013 and $115,000 in 2012. The number of units granted was based on the 200-day average stock price as of January 31 of the grant year. Compensation expense related to the DSUs is based upon the closing market price on the last trading day preceding the date of award. DSUs vest immediately at grant and are entitled to receive dividends and other distributions with respect to common stock, which are deferred as stock units, based on the market value of the stock at relevant times. Directors can also elect to defer their cash fees in the form of DSUs. Settlement of DSUs is required to be deferred until after termination of service as a director. The accumulated value of DSUs is recorded in Additional contributed capital as of December 31, 2014, 2013 and 2012. During 2012, the Board approved a change in the settlement procedure to eliminate the cash settlement option. The following table summarizes DSU activity (dollars in thousands):

	2014		2013		2012	
	Units	Dollars	Units	Dollars	Units	Dollars
Beginning balance	158,868	$ 33,063	151,775	$ 30,952	142,797	$ 26,730
Dividends	2,602	653	2,259	559	2,273	454
Deferred fees	5,866	1,453	7,337	2,059	9,170	1,871
Retirement distribution	(7,666)	(1,695)	(2,503)	(507)	(2,465)	(461)
Unit appreciation	—	—	—	—	—	2,358
Ending balance	159,670	$ 33,474	158,868	$ 33,063	151,775	$ 30,952

NOTE 12 – CAPITAL STOCK

The Company had no shares of preferred stock outstanding as of December 31, 2014 and 2013. The activity related to outstanding common stock and common stock held in treasury was as follows:

	2014		2013	
	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock
Balance at beginning of period	68,853,938	40,805,281	69,478,495	40,180,724
Exercise of stock options, net of 1,905, and 5,134 shares swapped in stock-for-stock exchange, respectively	477,547	(477,547)	800,101	(800,101)
Settlement of restricted stock units, net of 104,552 and 135,341 shares retained, respectively	175,549	(175,549)	232,483	(232,483)
Settlement of performance share units, net of 33,003 and 39,874 shares retained, respectively	51,337	(51,337)	61,860	(61,860)
Purchase of treasury shares	(2,126,330)	2,126,330	(1,719,001)	1,719,001
Balance at end of period	67,432,041	42,227,178	68,853,938	40,805,281

NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE EARNINGS

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

	W.W. Grainger, Inc. Accumulated Other Comprehensive Earnings						
	Foreign Currency Translation	Interest Rate Swap	Postretirement Benefit Plan	Other Employment-related Benefit Plans	Total	Foreign Currency Translation Attributable to Noncontrolling Interests	AOCE Attributable to W.W. Grainger, Inc.
Balance at January 1, 2012, net of tax	$ 60,104	$(1,616)	$(73,396)	$(2,448)	$ (17,356)	$ 11,382	$ (28,738)
Other comprehensive earnings (loss), net of tax	5,414	(2,545)	75,625	(5,044)	73,450	(8,866)	82,316
Balance at December 31, 2012, net of tax	$ 65,518	$(4,161)	$2,229	$(7,492)	$ 56,094	$ 2,516	$ 53,578
Other comprehensive earnings (loss) before reclassifications, net of tax	(72,815)	1,190	35,045	(1,319)	(37,899)	(15,622)	(22,277)
Amounts reclassified to Warehousing, marketing and administrative expenses	—	—	(3,831)	—	(3,831)	—	(3,831)
Amounts reclassified to Income Taxes	—	—	1,444	—	1,444	—	1,444
Net current period activity	$ (72,815)	$ 1,190	$32,658	$(1,319)	$ (40,286)	$(15,622)	$ (24,664)
Balance at December 31, 2013, net of tax	$ (7,297)	$(2,971)	$34,887	$(8,811)	$ (15,808)	$(13,106)	$ 28,914
Other comprehensive earnings (loss) before reclassifications, net of tax	(124,065)	786	(22,667)	(1,462)	(147,408)	(9,880)	(137,528)
Amounts reclassified to Warehousing, marketing and administrative expenses	9,042	—	(6,617)	9,295	11,720	—	11,720
Amounts reclassified to Income Taxes	—	—	2,545	(2,324)	221	—	221
Net current period activity	$(115,023)	$ 786	$(26,739)	$ 5,509	$(135,467)	$ (9,880)	$(125,587)
Balance at December 31, 2014, net of tax	$(122,320)	$(2,185)	$ 8,148	$(3,302)	$(119,659)	$(22,986)	$ (96,673)

NOTE 14 – 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 (benefit) consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2014	2013	2012
Current provision:			
Federal	$437,648	$398,593	$324,848
State	47,199	42,526	40,508
Foreign	43,088	52,277	53,564
Total current	527,935	493,396	418,920
Deferred tax (benefit) provision	(5,845)	(13,546)	20
Total provision	$522,090	$479,850	$418,940

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

	For the Years Ended December 31,		
	2014	2013	2012
United States	$1,299,523	$1,167,558	$ 982,220
Foreign	34,863	120,041	135,569
	$1,334,386	$1,287,599	$1,117,789

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,	
	2014	2013
Deferred tax assets:		
Inventory	$ 30,471	$ 35,381
Accrued expenses	44,362	38,368
Accrued employment-related benefits	139,392	123,555
Foreign operating loss carryforwards	61,219	70,204
Other	12,748	30,862
Deferred tax assets	288,192	298,370
Less valuation allowance	(56,876)	(62,825)
Deferred tax assets, net of valuation allowance	$ 231,316	$ 235,545
Deferred tax liabilities:		
Property, buildings and equipment	(48,044)	(38,210)
Intangibles	(101,958)	(119,923)
Software	(21,975)	(17,492)
Prepaids	(16,673)	(18,945)
Other	(12,196)	(17,378)
Deferred tax liabilities	(200,846)	(211,948)
Net deferred tax asset	$ 30,470	$ 23,597
The net deferred tax asset is classified as follows:		
Current assets	$ 61,387	$ 75,819
Noncurrent assets	16,718	16,209
Noncurrent liabilities (foreign)	(47,635)	(68,431)
Net deferred tax asset	$ 30,470	$ 23,597

At December 31, 2014, the Company had $236 million of operating loss carryforwards related primarily to foreign operations. Some of the operating loss carryforwards may expire at various dates through 2024. The Company has recorded a valuation allowance, which 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. During 2014, the Company's valuation allowance decreased by $5.9 million primarily due to the write-off of the operating loss carryforwards and corresponding valuation allowance in Brazil and foreign currency translation, offset by an increase in foreign net operating losses.

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,		
	2014	2013	2012
Federal income tax at the 35% statutory rate	$467,035	$450,660	$391,226
State income taxes, net of federal income tax benefit	31,263	27,430	26,099
Other – net	23,792	1,760	1,615
Income tax expense	$522,090	$479,850	$418,940
Effective tax rate	39.1%	37.3%	37.5%

In 2014, Other-net increased primarily due to the impact of closure costs for Brazil, foreign tax rates differential and foreign losses for which valuation allowances were provided.

Undistributed earnings of foreign subsidiaries at December 31, 2014, amounted to $464 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. If at some future date these earnings cease to be permanently invested, the Company may be subject to U.S. income taxes, foreign withholding, and other taxes on such amounts, which cannot be reasonably estimated at this time.

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

	2014	2013	2012
Balance at beginning of year	$40,317	$40,937	$22,760
Additions for tax positions related to the current year	11,545	8,396	11,369
Additions for tax positions of prior years	5,318	2,308	8,977
Reductions for tax positions of prior years	(4,109)	(7,242)	(1,447)
Reductions due to statute lapse	(1,271)	(18)	(737)
Settlements, audit payments, refunds – net	(6,674)	(4,064)	15
Balance at end of year	$45,126	$40,317	$40,937

The Company classifies the liability for tax uncertainties in Deferred income taxes and tax uncertainties. Included in this amount are $9 million and $8 million at December 31, 2014 and 2013, 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 reduction for tax positions of prior years in 2014 related primarily to law changes, conclusion of audits and audit settlements.

The Company regularly undergoes examination of its federal income tax returns by the Internal Revenue Service (IRS). The Company's federal tax returns for 2009, 2010, 2011 and 2012 are currently under audit by the IRS, and the tax years 2013 through 2014 are open. The Company is also subject to audit by state, local and foreign taxing authorities. Tax years 2002 - 2013 remain subject to state and local audits and 2007–2014 remain subject to foreign audits. The estimated amount of liability associated with the Company's uncertain tax positions may change within the next 12 months due to the pending audit activity, expiring statutes or tax payments. A reasonable estimate of such change cannot be made.

The Company recognizes interest expense in the provision for income taxes. During 2014, 2013 and 2012, the Company recognized an expense of $2 million, $2 million and $1 million, respectively. As of December 31, 2014, 2013 and 2012, the Company accrued approximately $4 million, $4 million and $2 million for interest, respectively.

NOTE 15 – EARNINGS PER SHARE

The Company's unvested Restricted Stock Units and Directors' Deferred Stock Units that contain nonforfeitable rights to dividends meet the criteria of a participating security. Under the two-class method, earnings are allocated between common stock and participating securities. The presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. As such, the Company presents basic and diluted earnings per share for its one class of common stock.

The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. The Company's reported net earnings is reduced by the amount allocated to participating securities to arrive at the earnings allocated to common stock shareholders for purposes of calculating earnings per share.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. The Company has determined the two-class method to be the more dilutive. As such, the earnings allocated to common stock shareholders in the basic earnings per share calculation is adjusted for the reallocation of undistributed earnings to participating securities to arrive at the earnings allocated to common stock shareholders for calculating the diluted 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,		
	2014	2013	2012
Net earnings attributable to W.W. Grainger, Inc. as reported	$801,729	$797,036	$689,881
Distributed earnings available to participating securities	(3,154)	(3,304)	(3,641)
Undistributed earnings available to participating securities	(6,370)	(8,348)	(8,704)
Numerator for basic earnings per share – Undistributed and distributed earnings available to common shareholders	792,205	785,384	677,536
Undistributed earnings allocated to participating securities	6,370	8,348	8,704
Undistributed earnings reallocated to participating securities	(6,290)	(8,218)	(8,540)
Numerator for diluted earnings per share – Undistributed and distributed earnings available to common shareholders	$792,285	$785,514	$677,700
Denominator for basic earnings per share – weighted average shares	68,334,322	69,455,507	69,811,881
Effect of dilutive securities	871,422	1,120,925	1,369,852
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities	69,205,744	70,576,432	71,181,733
Earnings per share two-class method			
Basic	$ 11.59	$ 11.31	$ 9.71
Diluted	$ 11.45	$ 11.13	$ 9.52

NOTE 16 – SEGMENT INFORMATION

The Company has two reportable segments: the United States and Canada. The United States operating segment reflects the results of the Company's U.S. business. The Canada operating segment reflects the results for Acklands–Grainger, the Company's Canadian business. Other businesses include Zoro, the single channel online business in the United States, and operations in Europe, Asia and Latin America. These businesses individually do not meet the criteria of a reportable segment. Operating segments generate revenue almost exclusively through the distribution of maintenance, repair and operating supplies, as service revenues account for approximately 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):

2014	United States	Canada	Other Businesses	Total
Total net sales	$7,926,075	$1,075,754	$1,182,186	$10,184,015
Intersegment net sales	(211,399)	(304)	(7,359)	(219,062)
Net sales to external customers	7,714,676	1,075,450	1,174,827	9,964,953
Segment operating earnings	1,444,288	87,583	(37,806)	1,494,065
Segment assets	2,181,521	394,342	345,987	2,921,850
Depreciation and amortization	136,081	15,305	20,444	171,830
Additions to long-lived assets	$ 243,251	$ 106,918	$ 31,137	$ 381,306

2013	United States	Canada	Other Businesses	Total
Total net sales	$7,413,712	$1,114,285	$1,040,473	$9,568,470
Intersegment net sales	(128,660)	(300)	(1,752)	(130,712)
Net sales to external customers	7,285,052	1,113,985	1,038,721	9,437,758
Segment operating earnings	1,304,175	128,768	7,599	1,440,542
Segment assets	2,045,564	392,147	359,007	2,796,718
Depreciation and amortization	116,392	14,309	19,754	150,455
Additions to long-lived assets	$ 177,046	$ 63,821	$ 23,951	$ 264,818

2012	United States	Canada	Other Businesses	Total
Total net sales	$6,925,842	$1,105,782	$1,006,762	$9,038,386
Intersegment net sales	(87,249)	(363)	(729)	(88,341)
Net sales to external customers	6,838,593	1,105,419	1,006,033	8,950,045
Segment operating earnings	1,132,722	127,412	20,289	1,280,423
Segment assets	1,884,102	387,915	347,905	2,619,922
Depreciation and amortization	99,229	14,058	19,202	132,489
Additions to long-lived assets	$ 182,985	$ 46,330	$ 21,611	$ 250,926

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

	2014	2013	2012
Operating earnings:			
Total operating earnings for reportable segments	$1,494,065	$1,440,542	$1,280,423
Unallocated expenses	(146,948)	(143,688)	(149,298)
Total consolidated operating earnings	$1,347,117	$1,296,854	$1,131,125
Assets:			
Assets for reportable segments	$2,921,850	$2,796,718	$2,619,922
Other current and noncurrent assets	2,113,900	2,118,298	1,967,480
Unallocated assets	248,502	351,312	427,196
Total consolidated assets	$5,284,252	$5,266,328	$5,014,598

	2014		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 171,830	$ 18,341	$ 190,171
Additions to long-lived assets	$ 381,306	$ 22,498	$ 403,804

	Revenues	Long-Lived Assets
Geographic information:		
United States	$7,780,382	$1,109,175
Canada	1,074,660	253,466
Other foreign countries	1,109,911	110,083
	$9,964,953	$1,472,724

	2013		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 150,455	$ 14,447	$ 164,902
Additions to long-lived assets	$ 264,818	$ 12,782	$ 277,600

	Revenues	Long-Lived Assets
Geographic information:		
United States	$7,290,746	$1,004,806
Canada	1,126,559	176,491
Other foreign countries	1,020,453	134,535
	$9,437,758	$1,315,832

	2012		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 132,489	$ 13,123	$ 145,612
Additions to long-lived assets	$ 250,926	$ 6,998	$ 257,924

	Revenues	Long-Lived Assets
Geographic information:		
United States	$6,786,361	$ 944,400
Canada	1,120,470	136,644
Other foreign countries	1,043,214	135,438
	$8,950,045	$1,216,482

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 assets include non-operating cash and cash equivalents, certain prepaid expenses and property, buildings and equipment-net.

Assets for reportable segments include net accounts receivable and first-in, first-out inventory which are reported to the Company's Chief Operating Decision Maker. Long-lived assets consist of property, buildings, equipment and capitalized software.

Depreciation and amortization presented above includes depreciation of long-lived assets and amortization of capitalized software.

NOTE 17 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly information for 2014 and 2013 is as follows (in thousands of dollars, except for per share amounts):

	2014 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$2,385,627	$2,506,104	$2,562,263	$2,510,959	$9,964,953
Cost of merchandise sold	1,309,656	1,425,418	1,459,479	1,456,158	5,650,711
Gross profit	1,075,971	1,080,686	1,102,784	1,054,801	4,314,242
Warehousing, marketing and administrative expenses	721,632	739,935	717,271	788,287	2,967,125
Operating earnings	354,339	340,751	385,513	266,514	1,347,117
Net earnings attributable to W.W. Grainger, Inc.	216,653	205,915	230,322	148,839	801,729
Earnings per share – basic	3.11	2.97	3.33	2.17	11.59
Earnings per share – diluted	$ 3.07	$ 2.94	$ 3.30	$ 2.14	$ 11.45

	2013 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$2,280,435	$2,381,561	$2,398,530	$2,377,232	$9,437,758
Cost of merchandise sold	1,248,699	1,334,577	1,347,164	1,370,835	5,301,275
Gross profit	1,031,736	1,046,984	1,051,366	1,006,397	4,136,483
Warehousing, marketing and administrative expenses	688,431	696,912	704,651	749,635	2,839,629
Operating earnings	343,305	350,072	346,715	256,762	1,296,854
Net earnings attributable to W.W. Grainger, Inc.	211,838	217,660	210,789	156,749	797,036
Earnings per share – basic	2.99	3.08	2.99	2.24	11.31
Earnings per share – diluted	$ 2.94	$ 3.03	$ 2.95	$ 2.20	$ 11.13

NOTE 18 – CONTINGENCIES AND LEGAL MATTERS

The Company 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 the Company. In 2014, the Company was named in new lawsuits relating to asbestos involving approximately 68 new plaintiffs, while lawsuits relating to asbestos and/or silica involving approximately 1,293 plaintiffs were dismissed with respect to the Company, typically based on the lack of product identification.

As of January 16, 2015, the Company is named in cases filed on behalf of approximately 1,376 plaintiffs in which there is an allegation of exposure to asbestos and/or silica. The Company has denied, or intends to deny, the allegations in all of the above-described lawsuits. If a specific product distributed by the Company is identified in any of these lawsuits, the Company would attempt to exercise indemnification remedies against the product manufacturer. In addition, the Company believes that a substantial number of these claims are covered by insurance. The Company 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 the Company 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 the Company's consolidated financial position or results of operations.

From time to time the Company is involved in various other legal and administrative proceedings that are incidental to its business, including claims related to product liability, general negligence, contract disputes, environmental issues, wage and hour laws, intellectual property, employment practices, regulatory compliance or other matters and actions brought by employees, consumers, competitors, suppliers or governmental entities. 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, 2015

W.W. GRAINGER, INC.

By: James T. Ryan

James T. Ryan
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Grainger on February 27, 2015, 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)

William Lomax

William Lomax
Vice President and Controller
(Principal Accounting Officer)

Rodney C. Adkins

Rodney C. Adkins
Director

Brian P. Anderson

Brian P. Anderson
Director

V. Ann Hailey

V. Ann Hailey
Director

William K. Hall

William K. Hall
Director

Stuart L. Levenick

Stuart L. Levenick
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 Statement (Form S-8 No.'s 33-43902, 333-24215, 333-61980, 333-105185, 333-124356, 333-166345 and Form S-4 No. 33-32091) for W.W. Grainger, Inc. and in the related prospectuses of our reports dated February 27, 2015, 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, 2014.

Ernst & Young LLP

Chicago, Illinois
February 27, 2015

CERTIFICATION

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, 2015

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, 2015

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, 2014, (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, 2015

R. L. Jadin

R. L. Jadin

Senior Vice President
and Chief Financial Officer

February 27, 2015