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 over which the Company exercises control. All significant intercompany transactions are eliminated from the consolidated financial statements. The Company's noncontrolling interest represents its 51% ownership in MonotaRO Co.

EQUITY METHOD OF ACCOUNTING FOR INVESTMENTS

The Company evaluates the method of accounting for investments in which it holds an equity interest based on the amount of control it exercises over the operations of the investee, exposure to losses in excess of its investment, the ability to significantly influence the investee and whether the Company is the primary beneficiary of the investee. Under the voting interest model, the Company applies the equity method when the Company owns or controls from 20% to 50% of the voting shares, or below 20% of the voting shares when significant influence can be exercised over the operating and financial policies of the investee company. Under the Variable Interest (VIE) Model, the investments are accounted for under the equity method if the Company has determined it does not have a controlling financial interest and therefore is not the VIE's primary beneficiary. The investment accounted for under the equity method was $9 million at December 31, 2015, and is included in Other assets on the Consolidated Balance Sheets.

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 14 to the Consolidated Financial Statements. Foreign currency transaction gains and losses are shown in the consolidated statement of earnings.

RECLASSIFICATIONS

Certain amounts in the 2014 and 2013 financial statements, as previously reported, have been revised to conform to the 2015 presentation. These changes 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 43% of total 2015 revenues, are recognized on the same terms as revenues through other channels. Fee revenues, which accounted for less than 1% of total 2015 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 product purchase price and is reflected in Cost of merchandise sold rather than a reduction of operating (advertising) expenses.

Vendor funds that are determined to be reimbursement of specific, incremental and identifiable costs incurred to promote vendor's products are recorded as an offset to the related expenses in Warehouse, marketing and administrative 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 $180 million, $169 million and $178 million for 2015, 2014 and 2013, respectively. Most vendor-provided allowances are classified as a reduction to product purchase price and is reflected in 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, 2015 and 2014, were $19 million and $27 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 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 61% 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 $162 million, $154 million and $142 million for the years ended December 31, 2015, 2014 and 2013, 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 $4 million, $2 million and $1 million for the years ended December 31, 2015, 2014 and 2013, 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 $5 million, $5 million and $0.4 million in 2015, 2014 and 2013, 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 $45 million, $36 million and $23 million for the years ended December 31, 2015, 2014 and 2013, respectively. Capitalized software was $185 million and $148 million at December 31, 2015 and 2014, respectively, and is included in Other assets 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 ERP 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. 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 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 9 and Note 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. Warranty reserves were $3 million and $4 million at December 31, 2015 and 2014, respectively.

NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 contracts with customers. In July 2015, the FASB announced a one-year delay in the effective date. The standard will now be effective for interim and annual periods beginning after December 15, 2017. The standard also permits adoption as early as the original effective date, which was for interim and annual periods beginning after December 15, 2016. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU, which is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, changes the consolidation analysis required under U.S. GAAP for limited partnerships and other variable interest entities. Early adoption is permitted and the ASU allows for either retrospective or modified retrospective application. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU, which is effective for fiscal years and interim periods beginning after December 15, 2015, changes the presentation of debt issuance costs in financial statements as a direct deduction from the related debt liability rather than as an asset. Early adoption is permitted and retrospective application is required. Effective June 30, 2015, the Company has adopted ASU 2015-03 and the Condensed Consolidated Balance Sheet was retroactively restated under the new presentation. The adoption of ASU 2015-03 did not have a material impact to the Company's consolidated financial statements, as existing debt issuance costs were immaterial.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* This ASU, which is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, provides guidance to customers about whether a cloud computing arrangement includes a software license. Early adoption is permitted and the ASU allows for either retrospective or prospective application. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2015, FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory,* which simplifies the subsequent measurement of inventory by replacing the lower of cost or market test with a lower of cost or net realizable value (NRV) test. NRV is calculated as the estimated selling price less reasonably predictable costs of completion, disposal and transportation. This pronouncement is effective for fiscal years and for interim periods within those fiscal years beginning after December 15, 2016, and prospective adoption is required. The Company is evaluating the impact of this ASU.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years and interim reporting periods within those fiscal years, beginning after December 15, 2015. Prospective adoption is required. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred tax assets. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The effective date for the standard is for fiscal year and interim periods within those years beginning after December 15, 2016. Early adoption is permitted and the ASU allows for either retrospective or prospective application. The Company early adopted the ASU in the fourth quarter of 2015 with a prospective application and prior period amounts were not reclassified. The ASU did not have a material impact on the Company's consolidated financial statements.

NOTE 2 - BUSINESS ACQUISITIONS AND DIVESTITURES

On September 1, 2015, the Company acquired all of the issued share capital of Cromwell Group (Holdings) Limited (Cromwell). With sales of £285 million ($437 million) for fiscal year ending August 31, 2015, prior to the acquisition, Cromwell was the largest independent MRO distributor in the United Kingdom, serving more than 35,000 industrial and manufacturing customers worldwide. This acquisition will bring together Cromwell's product strength and customer relationships with Grainger's expertise in supply chain and eCommerce to accelerate growth in the core and online Cromwell business. Additionally, this acquisition will enable Grainger to profitably scale its single channel online business, Zoro Germany. The Company paid £310 million ($464 million), subject to customary adjustments, for the Cromwell acquisition. The acquisition was partially funded with newly issued debt in the United Kingdom. Goodwill and intangibles recorded totaled approximately $357 million. The goodwill is not deductible for tax purposes. 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. Disclosure of pro forma results was not required.

During 2014, the Company announced plans to close the business in Brazil. Operations ceased 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 14 to the Consolidated Financial Statements.

During 2014, the Company's Canadian subsidiary acquired WFS Enterprises, Inc. for $33 million, less cash acquired. Goodwill recorded totaled $10 million. Purchased identified intangible assets totaled $6 million.

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.

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, 2014	$ 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
Acquisitions	—	—	114,903	114,903
Purchase price adjustments	—	—	—	—
Impairment	—	—	—	—
Translation	—	(22,660)	(16,812)	(39,472)
Balance at December 31, 2015	$ 202,020	$ 118,529	$ 261,787	$ 582,336
Cumulative goodwill impairment charges, December 31, 2015	$ 17,038	$ 32,265	$ 23,055	$ 72,358

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 that goodwill, 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 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 2015, including the quantitative test for Fabory, with $106 million of goodwill. The fair value of the Fabory reporting unit's goodwill exceeded the carrying value by 15%, and the step two calculation was not required for this reporting unit. For the Company's remaining reporting units, the estimated fair values substantially exceeded the carrying values.

Intangible assets - net in the Consolidated Balance Sheets were comprised of the following (in thousands of dollars):

		As of December 31,					
		2015			2014		
	Weighted average life	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer lists and relationships	14.3 years	$452,429	$ 148,424	$ 304,005	$316,994	$ 133,819	$ 183,175
Trademarks, trade names and other	14.3 years	25,764	13,051	12,713	27,235	10,820	16,415
Non-amortized trade names		146,576	—	146,576	64,340	—	64,340
Total intangible assets	14.3 years	$624,769	$ 161,475	$ 463,294	$408,569	$ 144,639	$ 263,930

The increase of $216 million in the gross carrying amount for total intangible assets was primarily driven by the Cromwell acquisition. See Note 2 to the Consolidated Financial Statements.

Amortization expense recognized on intangible assets was $20 million, $18 million and $15 million for the years ended December 31, 2015, 2014 and 2013, 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
2016	$ 25,935
2017	24,868
2018	23,914
2019	23,914
2020	23,479
Thereafter	194,608

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,	
	2015	2014
Balance at beginning of period	$ 22,121	$ 20,096
Provision for uncollectible accounts	10,181	12,945
Write-off of uncollectible accounts, net of recoveries	(10,495)	(9,628)
Business acquisitions, foreign currency and other	481	(1,292)
Balance at end of period	$ 22,288	$ 22,121

NOTE 5 - INVENTORIES

Inventories primarily consist of merchandise purchased for resale. Inventories would have been $388 million and $389 million higher than reported at December 31, 2015 and 2014, respectively, if the FIFO method of inventory accounting had been used for all Company inventories. Net earnings would have decreased by $1 million, and increased by $1 million and $8 million for the years ended December 31, 2015, 2014 and 2013, 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 $144 million and $137 million as of December 31, 2015 and 2014, respectively.

NOTE 6 - RESTRUCTURING RESERVES

The Company recorded one-time termination benefits expected to be paid in 2016 related to the reorganization of the business. Severance costs of approximately $30 million were recorded in 2015 and are included in Warehousing, marketing and administrative expenses. The reserve balance as of December 31, 2015 was approximately $24 million and is included in Accrued compensation and benefits.

NOTE 7 - SHORT-TERM DEBT

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

	As of December 31,	
	2015	2014
Lines of Credit		
Outstanding at December 31	$ 23,072	$ 51,896
Maximum month-end balance during the year	$ 47,802	$ 64,384
Weighted average interest rate during the year	4.37%	4.16%
Weighted average interest rate at December 31	3.16%	3.69%
Commercial Paper		
Outstanding at December 31	$ 330,000	$ 5,000
Maximum month-end balance during the year	$ 330,000	$ 54,997
Weighted average interest rate during the year	0.23%	0.16%
Weighted average interest rate at December 31	0.47%	0.17%

Lines of Credit

Foreign subsidiaries utilize lines of credit to meet business growth and operating needs. The Company had $129 million and $114 million of uncommitted lines of credit denominated in foreign currencies at December 31, 2015 and 2014, respectively.

The Company had a committed line of credit of $900 million in 2015 and $600 million in 2014 for which the Company paid a commitment fee of 0.07% and 0.06% as of December 31, 2015 and 2014, respectively. 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 2015 and 2014 for general working capital needs.

Commercial Paper

The Company issued commercial paper to partially fund the Cromwell acquisition and for general working capital needs.

Letters of Credit

The Company's U.S. business had $29 million of letters of credit at December 31, 2015 and 2014, 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, 2015 and 2014. Letters of credit issued by the Company's international businesses were immaterial.

NOTE 8 - LONG-TERM DEBT

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

	As of December 31,	
	2015	2014
Senior notes	$ 1,000,000	$ —
U.S. dollar term loan	114,614	126,770
British pound denominated term loan	235,808	—
Euro denominated term loan	114,030	133,067
Yen denominated term loans	49,875	—
Canadian dollar revolving credit facility	108,389	146,325
Other	25,991	21,778
Debt issuance costs	(12,947)	(1,203)
Less current maturities	(247,346)	(23,404)
	$ 1,388,414	$ 403,333

Senior Notes

On June 11, 2015, the Company issued $1 billion of unsecured 4.60% Senior Notes (Notes) that mature on June 15, 2045. The Notes require no principal payments until the maturity date and interest is payable semiannually on June 15 and December 15, beginning on December 15, 2015. Prior to December 15, 2044, the Company may redeem the Notes in whole at any time or in part from time to time at a "make-whole" redemption price. This redemption price is calculated by reference to the then current yield on a U.S. treasury security with a maturity comparable to the remaining term of the Notes plus 25 basis points, together with accrued and unpaid interest, if any, to the redemption date. On or after December 15, 2044, the Company may redeem the Notes in whole at any time or in part from time to time at 100% of their principal amount, together with accrued and unpaid interest, if any, to the redemption date. Additionally, if the Company experiences specific kinds of changes in control, it will be required to make an offer to purchase the Notes at 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase. Costs of approximately $10 million associated with the issuance of the Notes, representing underwriting fees and other expenses, have been recorded as a contra-liability within Long-term debt and will be amortized to interest expense over the term of the Notes.

The approximate fair value of the Company's Notes is $1 billion as of December 31, 2015, and approximates the carrying amount. The estimated fair value of the Company's Notes was based on available external pricing data and current market rates for similar debt instruments, among other factors, which are classified as level 2 inputs within the fair value hierarchy.

U.S. Dollar Term Loan

The Company has an unsecured bank term loan with a maturity date of November 2016. Quarterly principal payments began in August 2013. The proceeds were used to refinance existing debt and for general corporate purposes. At the election of the Company, the term loan bears interest at the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin as defined within the term loan agreement. The weighted average interest rate for the year was 1.24%. In January 2016, the Company exercised its option to prepay the loan and paid off the remaining balance of the loan.

British Pound Denominated Term Loan and Revolving Credit Facility
On August 26, 2015, the Company entered into an unsecured credit facilities agreement providing for a five-year term loan of £160 million and revolving credit facility of £20 million. Proceeds of the term loan were used to partially fund the acquisition of Cromwell and to pay certain costs related to the acquisition. Under the agreement, the principal amount of the term loan will be repaid semiannually in installments of £4 million beginning February 2016 through February 2020 with the remaining outstanding amount due August 2020. At the election of the Company, the term loan bears interest at the LIBOR Rate plus the Applicable Margin as defined within the term loan agreement. At December 31, 2015, the Company had elected a one-month LIBOR Interest Period. The weighted average interest rate during period was 1.26%.

The Company has the right to obtain advances under the revolving credit facility, which will be used for general corporate and working capital purposes. Pursuant to the credit agreement, there is a commitment fee of 0.26% as of December 31, 2015. There is no balance outstanding on the revolving credit facility as of December 31, 2015.

Euro Denominated Bank Term Loan
The Company has a €120 million, unsecured bank term loan that matures in August 2016. Semiannual payments of €2.5 million began in February 2013. The weighted average interest rate paid during the year was 1.70%. The weighted average interest rate includes inputs from variable rates and an interest rate swap. See Note 9 to the Consolidated Financial Statements.

Yen Denominated Term Loans
On December 21, 2015, the Company entered into two debt agreements for a total of ¥6 billion (US$50 million) in conjunction with the construction of its new distribution center in Japan. Under the agreements, the repayment of the loans will begin in February 2018 at ¥2 billion, payable annually through 2020. The loans bear average interest at 0.83%. The fair value of the loans approximate the carrying value.

Canadian Dollar Revolving Credit Facility
In September 2014, the Company 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 0.07% as of December 31, 2015, and the facility matures on September 24, 2019. As of December 31, 2015 and 2014, the Company had drawn C$150 million and C$170 million, respectively, under the facility for the purpose of repaying an intercompany loan and to fund general working capital needs. The weighted average interest rate during the year on this outstanding amount was 1.60%. No principal payments are required on the credit facility until the maturity date.

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

Year	Payment Amount
2016	$ 247,346
2017	15,589
2018	30,399
2019	141,983
2020	205,312
Thereafter	1,008,078

The Company's debt instruments include affirmative and negative covenants that are usual and customary for companies with similar credit ratings. The Company's debt instruments do not contain financial covenants. The Company was in compliance with all debt covenants as of the year ended December 31, 2015, with the exception of a negative covenant in its Euro-denominated term loan which matures August 2016 and is classified in Current maturities of long-term debt in the Company's Consolidated Balance Sheets. While the Company does not view this exception as material, it has obtained commitments for an appropriate waiver.

NOTE 9 - 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. As of December 31, 2015 the fair value of the interest-rate swap was $1 million and included on the balance sheet as a liability under Accrued expenses. As of December 31, 2014, the fair value was $2 million and included on the balance sheet as a liability under Employment-related and other noncurrent liabilities.

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.

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 to the Consolidated Financial Statements 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 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 and a minimum return on invested capital, limited to a percentage of the total eligible compensation paid to eligible employees. In 2015, the plan was amended to better align Company contributions to Company performance. The required rate of return on invested capital was increased while maintaining the minimum of 8% and a maximum of 18% of total eligible compensation paid to eligible employees. The profit sharing plan expense was $121 million, $175 million and $173 million for 2015, 2014 and 2013, respectively. Effective January 1, 2016, employees covered by the profit sharing plan will be able to make contributions to a 401(k) plan.

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 $11 million for 2015, $15 million for 2014 and $12 million for 2013.

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 a result of the plan amendment and settlement, the Company reclassified the unrecognized losses from Accumulated Other Comprehensive Earnings (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 were given option to participate in the defined contribution plan sponsored by the Company for which contributions are made by the Company and participating employees.

The Company also sponsors additional defined benefit plans to certain foreign employees. The cost of these programs is not significant 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.

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 $0.5 million in 2015, $0.7 million in 2014 and $0.8 million in 2013. The net gain recognized in AOCE was $2 million and $1 million as of December 31, 2015 and 2014, respectively. The plan benefits are paid as they come due from the general assets of the Company. The plan benefit obligation was $15 million as of December 31, 2015, and $16 million as of December 31, 2014.

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.

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,		
	2015	2014	2013
Service cost	$ 10,128	$ 9,005	$ 10,589
Interest cost	9,649	10,549	8,938
Expected return on assets	(10,375)	(8,237)	(7,076)
Amortization of prior service credit	(6,801)	(7,254)	(7,412)
Amortization of transition asset	—	(143)	(143)
Amortization of unrecognized losses	1,512	779	3,724
Net periodic benefits costs	$ 4,113	$ 4,699	$ 8,620

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):

	2015	2014
Benefit obligation at beginning of year	$ 282,917	$ 223,488
Service cost	10,128	9,005
Interest cost	9,649	10,549
Plan participants' contributions	2,754	2,487
Actuarial (gains) losses	(58,251)	42,300
Benefits paid	(8,739)	(5,609)
Prescription Drug Rebates	890	702
Medicare Part D Subsidy received	—	(5)
Benefit obligation at end of year	239,348	282,917
Plan assets available for benefits at beginning of year	156,015	144,514
Actual returns on plan assets	1,635	13,730
Employer's contributions	2,747	191
Plan participants' contributions	2,754	2,487
Prescription Drug Rebates	890	702
Benefits paid	(8,430)	(5,609)
Plan assets available for benefits at end of year	155,611	156,015
Noncurrent postretirement benefit obligation	$ 83,737	$ 126,902

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

	As of December 31,	
	2015	2014
Prior service credit	$ 60,502	$ 67,303
Unrecognized losses	(3,015)	(54,034)
Deferred tax (liability)	(22,134)	(5,121)
Net gains	$ 35,353	$ 8,148

The $51 million decrease in unrecognized losses was primarily driven by an increase in the discount rate, a change in the mortality improvement tables used and a change in per capita costs and coverage election.

The components of AOCE related to the postretirement benefit costs that will be amortized into net periodic postretirement benefit costs in 2016 are estimated as follows (in thousands of dollars):

	2016
Amortization of prior service credit	$ (6,688)
Amortization of unrecognized losses	207
Estimated amount to be amortized from AOCE into net periodic postretirement benefit costs	$ (6,481)

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 14.6 years for 2015.

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,		
	2015	2014	2013
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 following assumptions were used to determine benefit obligations at December 31:

	2015	2014	2013
Discount rate	4.20%	3.89%	4.90%
Expected long-term rate of return on plan assets, net of tax	6.65%	6.65%	5.70%
Initial healthcare cost trend rate	7.00%	7.25%	7.50%
Ultimate healthcare cost trend rate	4.50%	4.50%	4.50%
Year ultimate healthcare cost trend rate reached	2026	2026	2026

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, 2015, the Company increased the discount rate from 3.89% to 4.20% to reflect the increase in the market interest rates, which contributed to the unrealized actuarial gain at December 31, 2015. As of December 31, 2015, the Company changed the mortality improvement table used to project mortality rates into the future from Mortality Table RP-2014 with Mortality Improvement Scale MB 2014 to Mortality Table RPH-2014 with Mortality Improvement Scale MP 2015, which was published by the Society of Actuaries and reflects the most recent updates to life expectancies. RPH-2014 Table is a headcount weighted table, which is also more appropriate for a postretirement healthcare benefit plan. 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 point decline. As of December 31, 2015, the healthcare cost trend rate was 7.00%, 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 2015 results (in thousands of dollars):

	1 Percentage Point	
	Increase	(Decrease)
Effect on total service and interest cost	$ 2,071	$ (1,667)
Effect on postretirement benefit obligation	28,450	(23,280)

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):

	2015	2014
Registered investment companies		
Fidelity Spartan U.S. Equity Index Fund	70,973	73,071
Vanguard 500 Index Fund	78,254	77,202
Vanguard Total International Stock	22,976	23,994
Total Assets	$ 172,203	$ 174,267

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 2014, the Company increased the after-tax expected long-term rates of return on plan assets from 5.70% to 6.65% based on the historical average of long-term rates of return due to a change in the estimated tax rate. This change was due to the nature of the taxable income earned on the investments in the Trust and the applicable tax rates. In 2015, the after-tax expected long-term rate of return on plan assets was maintained. 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 zero 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
2016	$ 6,405
2017	7,269
2018	8,259
2019	9,330
2020	10,502
2021-2025	69,724

NOTE 11 - 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, 2015, 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, 2015, the approximate future minimum lease payments for all operating leases were as follows (in thousands of dollars):

Year	Future Minimum Lease Payments
2016	$ 66,864
2017	42,255
2018	27,801
2019	18,327
2020	6,143
Thereafter	13,328
Total minimum payments required	174,718
Less amounts representing sublease income	(3,021)
	$ 171,697

Rent expense, including items under lease and items rented on a month-to-month basis, was $77 million for 2015 and 2014, and $68 million for 2013. These amounts are net of sublease income of $2 million for 2015 and 2014, and $1 million for 2013.

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. Non-qualified stock options, performance shares, restricted stock units and deferred stock units have been granted and are outstanding under these plans. In 2015, the Company approved the 2015 Incentive Plan (Plan), which replaced all prior active plans. The Plan authorizes the granting of options to purchase shares at a price equal to the closing market price on the date of the grant. As of December 31, 2015, there were 3.1 million shares available for grant under the plans. When options are exercised, shares of the Company's treasury stock are issued.

Pretax stock-based compensation expense was $43 million, $46 million and $54 million in 2015, 2014 and 2013, respectively, and is included in Warehousing, marketing and administrative expenses. Related income tax benefits recognized in earnings were $13 million in 2015, $15 million in 2014 and $17 million in 2013.

Options

In 2015, 2014 and 2013, 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, 2013	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
Granted	294,522	$ 232.20	
Exercised	(587,441)	$ 105.08	
Canceled or expired	(63,599)	$ 216.76	
Outstanding at December 31, 2015	2,226,286	$ 169.96	1,411,460

At December 31, 2015, there was $9.6 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,		
	2015	2014	2013
Fair value of options exercised	$ 14,423	$ 11,167	$ 16,407
Total intrinsic value of options exercised	73,671	71,924	124,752
Fair value of options vested	16,047	16,115	20,219
Settlements of options exercised	61,863	47,974	69,049

Information about stock options outstanding and exercisable as of December 31, 2015, 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	172,843	1.11 years	$ 75.99	$ 21,883	172,843	1.11 years	$ 75.99	$ 21,883
$81.49 - $85.82	291,301	2.83 years	$ 82.68	34,930	291,301	2.83 years	$ 82.68	34,930
$102.26 - $124.93	353,384	4.29 years	$ 107.19	33,713	353,384	4.29 years	$ 107.19	33,713
$149.02 - $204.24	576,025	5.83 years	$ 176.89	14,804	576,025	5.83 years	$ 176.89	14,804
$224.85 - $262.14	832,733	8.28 years	$ 241.85	(32,692)	17,907	7.41 years	$ 246.08	(779)
	2,226,286	5.74 years	$ 169.96	$ 72,638	1,411,460	4.27 years	$ 128.52	$ 104,551

The Company uses a binomial lattice option pricing model for the valuation of stock options. The weighted average fair value of options granted in 2015, 2014 and 2013 was $46.67, $53.43 and $51.30, respectively. The fair value of each option granted in 2015, 2014 and 2013 used the following assumptions:

	For the years ended December 31,		
	2015	2014	2013
Risk-free interest rate	1.5%	2.0%	0.9%
Expected life	6 years	6 years	6 years
Expected volatility	24.9%	25.0%	25.5%
Expected dividend yield	1.9%	1.7%	1.5%

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/or return on invested capital (ROIC) goals. Each participant is granted a target number of shares; however the number of shares actually awarded at the end of the performance period can fluctuate from the target award based upon achievement of the sales or ROIC goals.

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:

	2015		2014		2013	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested shares outstanding	57,236	$ 220.00	57,533	$ 185.02	117,979	$ 141.86
Issued	47,264	$ 227.26	32,194	$ 242.65	31,553	$ 191.36
Canceled	(13,108)	$ 215.01	(6,835)	$ 190.90	(7,659)	$ 148.25
Vested	(18,232)	$ 191.36	(25,656)	$ 177.75	(84,340)	$ 130.35
Ending nonvested shares outstanding	73,160	$ 232.72	57,236	$ 220.00	57,533	$ 185.02

At December 31, 2015, there was $11 million of total unrecognized compensation expense related to performance-based share awards that the Company expects to recognize over a weighted average period of 3.2 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:

	2015		2014		2013	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested units	560,351	$ 182.40	739,717	$ 154.09	978,888	$ 118.60
Issued	104,220	$ 234.21	103,427	$ 248.12	139,529	$ 248.28
Canceled	(38,124)	$ 219.74	(51,410)	$ 170.98	(54,533)	$ 141.48
Vested	(193,664)	$ 133.56	(231,383)	$ 123.82	(324,167)	$ 89.62
Ending nonvested units	432,783	$ 213.45	560,351	$ 182.40	739,717	$ 154.09
Fair value of shares vested (in millions)	$26		$29		$29	

At December 31, 2015, there was $41 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 $145,000 of DSUs in 2015 and $125,000 in 2014 and 2013. 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, 2015, 2014 and 2013. The following table summarizes DSU activity (dollars in thousands):

	2015		2014		2013	
	Units	Dollars	Units	Dollars	Units	Dollars
Beginning balance	159,670	$ 33,474	158,868	$ 33,063	151,775	$ 30,952
Dividends	2,952	661	2,602	653	2,259	559
Deferred fees	6,996	1,743	5,866	1,453	7,337	2,059
Retirement distribution	(22,170)	(4,700)	(7,666)	(1,695)	(2,503)	(507)
Ending balance	147,448	$ 31,178	159,670	$ 33,474	158,868	$ 33,063

NOTE 13 - CAPITAL STOCK

The Company had no shares of preferred stock outstanding as of December 31, 2015 and 2014. The activity related to outstanding common stock and common stock held in treasury was as follows:

	2015		2014	
	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock
Balance at beginning of period	67,432,041	42,227,178	68,853,938	40,805,281
Exercise of stock options, net of 2,101 and 1,905 shares swapped in stock-for-stock exchange, respectively	580,947	(580,947)	477,547	(477,547)
Settlement of restricted stock units, net of 73,496 and 104,552 shares retained, respectively	145,757	(145,757)	175,549	(175,549)
Settlement of performance share units, net of 9,971 and 33,003 shares retained, respectively	15,956	(15,956)	51,337	(51,337)
Purchase of treasury shares	(6,145,993)	6,145,993	(2,126,330)	2,126,330
Balance at end of period	62,028,708	47,630,511	67,432,041	42,227,178

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE EARNINGS

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

	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, 2013, 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)
Other comprehensive earnings (loss) before reclassifications, net of tax	(154,096)	1,300	30,451	641	(121,704)	(532)	(121,172)
Amounts reclassified to Warehousing, marketing and administrative expenses	—	—	(5,289)	—	(5,289)	—	(5,289)
Amounts reclassified to Income Taxes	—	—	2,043	—	2,043	—	2,043
Net current period activity	(154,096)	1,300	27,205	641	(124,950)	(532)	(124,418)
Balance at December 31, 2015, net of tax	$ (276,416)	$ (885)	$ 35,353	$ (2,661)	$ (244,609)	$ (23,518)	$ (221,091)

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 (benefit) consisted of the following (in thousands of dollars):

	For the Years Ended December 31,		
	2015	2014	2013
Current provision:			
Federal	$ 412,545	$ 437,648	$ 398,593
State	49,894	47,199	42,526
Foreign	24,087	43,088	52,277
Total current	486,526	527,935	493,396
Deferred tax (benefit) provision	(20,995)	(5,845)	(13,546)
Total provision	$ 465,531	$ 522,090	$ 479,850

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

	For the Years Ended December 31,		
	2015	2014	2013
United States	$ 1,203,880	$ 1,299,523	$ 1,167,558
Foreign	46,825	34,863	120,041
	$ 1,250,705	$ 1,334,386	$ 1,287,599

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,	
	2015	2014
Deferred tax assets:		
Inventory	$ 32,390	$ 30,471
Accrued expenses	56,127	44,362
Accrued employment-related benefits	116,423	139,392
Foreign operating loss carryforwards	70,881	61,219
Other	12,962	12,748
Deferred tax assets	288,783	288,192
Less valuation allowance	(62,333)	(56,876)
Deferred tax assets, net of valuation allowance	$ 226,450	$ 231,316
Deferred tax liabilities:		
Property, buildings and equipment	(42,249)	(48,044)
Intangibles	(134,784)	(101,958)
Software	(20,744)	(21,975)
Prepaids	(17,901)	(16,673)
Other	(17,277)	(12,196)
Deferred tax liabilities	(232,955)	(200,846)
Net deferred tax (liability) asset	$ (6,505)	$ 30,470
The net deferred tax (liability) asset is classified as follows:		
Current assets	$ —	$ 61,387
Noncurrent assets	83,996	16,718
Noncurrent liabilities (foreign)	(90,501)	(47,635)
Net deferred tax (liability) asset	$ (6,505)	$ 30,470

In 2015 the Company adopted ASU 2015-17, which simplifies the balance sheet presentation of deferred taxes that requires that deferred tax assets and liabilities be classified as noncurrent. The pronouncement is being applied prospectively. See Note 1 to the Consolidated Financial Statements.

At December 31, 2015, the Company had $268 million of operating loss carryforwards related primarily to foreign operations. Some of the operating loss carryforwards may expire at various dates through 2025. 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 2015, the Company's valuation allowance increased by $5.5 million primarily due to the 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,		
	2015	2014	2013
Federal income tax at the 35% statutory rate	$ 437,746	$ 467,035	$ 450,660
State income taxes, net of federal income tax benefit	29,507	31,263	27,430
Clean energy credit	(13,358)	—	—
Other - net	11,636	23,792	1,760
Income tax expense	$ 465,531	$ 522,090	$ 479,850
Effective tax rate	37.2%	39.1%	37.3%

In the second quarter of 2015, the Company acquired a non-controlling interest in a limited liability company established to produce refined coal. The production and sale of refined coal that results in required emission reductions is eligible for renewable energy tax credits under Section 45 of the Internal Revenue Code. The Company receives tax credits in proportion to its equity interest. The income tax credits from the investment resulted in a 100 basis point reduction to the overall effective tax rate for 2015.

In 2014, Other-net rate reconciling items increased primarily due to Brazil closing costs with no tax benefit, foreign tax rates differential and foreign losses for which valuation allowances were provided.

Undistributed earnings of foreign subsidiaries at December 31, 2015, amounted to $468 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):

	2015	2014	2013
Balance at beginning of year	$ 45,126	$ 40,317	$ 40,937
Additions for tax positions related to the current year	14,916	11,545	8,396
Additions for tax positions of prior years	2,653	5,318	2,308
Reductions for tax positions of prior years	(1,616)	(4,109)	(7,242)
Reductions due to statute lapse	(402)	(1,271)	(18)
Settlements, audit payments, refunds - net	(101)	(6,674)	(4,064)
Balance at end of year	$ 60,576	$ 45,126	$ 40,317

The Company includes the liability for tax uncertainties in Deferred income taxes and tax uncertainties in the Consolidated Financial Statements. Included in this amount are $17 million and $9 million at December 31, 2015 and 2014, 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 2015 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 - 2012 are currently under audit by the IRS, and the tax years 2013 through 2015 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 - 2015 remain subject to foreign audits. The 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 2015, 2014 and 2013, the Company recognized an expense of $1 million, $2 million and $2 million, respectively. As of December 31, 2015, 2014 and 2013, the Company accrued approximately $5 million, $4 million and $4 million for interest, respectively.

NOTE 16 - 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,		
	2015	2014	2013
Net earnings attributable to W.W. Grainger, Inc. as reported	$ 768,996	$ 801,729	$ 797,036
Distributed earnings available to participating securities	(2,823)	(3,154)	(3,304)
Undistributed earnings available to participating securities	(4,735)	(6,370)	(8,348)
Numerator for basic earnings per share - Undistributed and distributed earnings available to common shareholders	761,438	792,205	785,384
Undistributed earnings allocated to participating securities	4,735	6,370	8,348
Undistributed earnings reallocated to participating securities	(4,692)	(6,290)	(8,218)
Numerator for diluted earnings per share - Undistributed and distributed earnings available to common shareholders	$ 761,481	$ 792,285	$ 785,514
Denominator for basic earnings per share – weighted average shares	65,156,864	68,334,322	69,455,507
Effect of dilutive securities	608,257	871,422	1,120,925
Denominator for diluted earnings per share – weighted average shares adjusted for dilutive securities	65,765,121	69,205,744	70,576,432
Earnings per share two-class method			
Basic	$ 11.69	$ 11.59	$ 11.31
Diluted	$ 11.58	$ 11.45	$ 11.13

NOTE 17 - 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):

	2015			
	United States	Canada	Other Businesses	Total
Total net sales	$ 7,963,416	$ 890,530	$ 1,405,750	$ 10,259,696
Intersegment net sales	(282,305)	(105)	(3,902)	(286,312)
Net sales to external customers	7,681,111	890,425	1,401,848	9,973,384
Segment operating earnings	1,371,626	27,368	48,051	1,447,045
Segment assets	2,191,045	317,504	507,116	3,015,665
Depreciation and amortization	150,654	17,334	19,999	187,987
Additions to long-lived assets	$ 302,316	$ 20,464	$ 21,135	$ 343,915

	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

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

	2015	2014	2013
Operating earnings:			
Total operating earnings for reportable segments	$ 1,447,045	$ 1,494,065	$ 1,440,542
Unallocated expenses	(146,725)	(146,948)	(143,688)
Total consolidated operating earnings	$ 1,300,320	$ 1,347,117	$ 1,296,854
Assets:			
Assets for reportable segments	$ 3,015,665	$ 2,921,850	$ 2,796,718
Other current and noncurrent assets	2,624,966	2,113,900	2,118,298
Unallocated assets	217,124	247,299	351,312
Total consolidated assets	$ 5,857,755	$ 5,283,049	$ 5,266,328

	2015		
	Segment Totals	Unallocated	Consolidated Total
Other significant items:			
Depreciation and amortization	$ 187,987	$ 18,854	$ 206,841
Additions to long-lived assets	$ 343,915	$ 16,912	$ 360,827

	Revenues	Long-Lived Assets
Geographic information:		
United States	$ 7,866,300	$ 1,231,083
Canada	897,431	215,202
Other foreign countries	1,209,653	153,508
	$ 9,973,384	$ 1,599,793

	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

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 18 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly information for 2015 and 2014 is as follows (in thousands of dollars, except for per share amounts):

	2015 Quarter Ended				
	March 31	June 30	September 30	December 31	Total
Net sales	$ 2,439,661	$ 2,522,565	$ 2,532,900	$ 2,478,258	$ 9,973,384
Cost of merchandise sold	1,345,918	1,449,133	1,471,021	1,475,884	5,741,956
Gross profit	1,093,743	1,073,432	1,061,879	1,002,374	4,231,428
Warehousing, marketing and administrative expenses	742,496	716,715	721,150	750,747	2,931,108
Operating earnings	351,247	356,717	340,729	251,627	1,300,320
Net earnings attributable to W.W. Grainger, Inc.	211,015	220,548	192,201	145,232	768,996
Earnings per share - basic	3.11	3.28	2.94	2.32	11.69
Earnings per share - diluted	$ 3.07	$ 3.25	$ 2.92	$ 2.30	$ 11.58

	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

NOTE 19 - 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 2015, the Company was named in new lawsuits relating to asbestos involving approximately 63 new plaintiffs, while lawsuits relating to asbestos and/or silica involving approximately 1,459 plaintiffs were dismissed with respect to the Company, typically based on the lack of product identification.

At December 31, 2015, the Company is named in cases filed on behalf of approximately 603 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 26, 2016

W.W. GRAINGER, INC.

By: **/s/ 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 26, 2016, in the capacities indicated.

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

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

/s/ William Lomax
William Lomax
Vice President and Controller
(Principal Accounting Officer)

/s/ Brian P. Anderson
Brian P. Anderson
Director

/s/ V. Ann Hailey
V. Ann Hailey
Director

/s/ William K. Hall
William K. Hall
Director

/s/ Neil S. Novich
Neil S. Novich
Director

/s/ E. Scott Santi
E. Scott Santi
Director

EXHIBIT INDEX (1)

EXHIBIT NO.	DESCRIPTION
2.1	Share Purchase Agreement, dated as of July 30, 2015, by and among Grainger, GWW UK Holdings Limited, Gregory Family Office Limited and Michael Gregory, incorporated by reference to Exhibit 2.1 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated July 31, 2015.
3.1	Restated Articles of Incorporation, incorporated by reference to Exhibit 3(i) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
3.2	Bylaws, as amended June 25, 2015, incorporated by reference to Exhibit 3.1 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
4.1	No instruments which define the rights of holders of W.W. Grainger, Inc.'s Industrial Development Revenue Bonds are filed herewith, pursuant to the exemption contained in Regulation S-K, Item 601(b)(4)(iii). W.W. Grainger, Inc. hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any such instrument.
4.2	Indenture, dated as of June 11, 2015, between W.W. Grainger, Inc. and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.1 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated June 11, 2015.
4.3	First Supplemental Indenture, dated as of June 11, 2015, between W.W. Grainger, Inc. and U.S. Bank National Association, as trustee, and Form of 4.60% Senior Notes due 2045, incorporated by reference to Exhibit 4.2 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated June 11, 2015.
10.1	Credit Agreement dated as of May 8, 2012, by and among W.W. Grainger, Inc., the lenders parties thereto, and U.S. Bank National Association, as Administrative Agent, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated May 8, 2012.
10.2	Director Stock Plan, as amended, incorporated by reference to Exhibit 10(c) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006. *
10.3	1990 Long-Term Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10(a) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006. *
10.4	2001 Long-Term Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10(b) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006. *
10.5	Form of Indemnification Agreement between W.W. Grainger, Inc. and each of its directors and certain of its executive officers, incorporated by reference to Exhibit 10(b)(i) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. *
10.6	Frozen Executive Death Benefit Plan, as amended, incorporated by reference to Exhibit 10(b)(v) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007. *
10.7	First amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(v)(1) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008. *
10.8	Second amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(iv)(2) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009. *
10.9	Supplemental Profit Sharing Plan, as amended, incorporated by reference to Exhibit 10(viii) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003. *
10.10	Supplemental Profit Sharing Plan II, as amended, incorporated by reference to Exhibit 10(b)(ix) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007. *
10.11	Voluntary Salary and Incentive Deferral Plan, as amended, incorporated by reference to Exhibit 10(b)(xi) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007. *
10.12	Summary Description of the 2015 Directors Compensation Program. *
10.13	2005 Incentive Plan, as amended, incorporated by reference to Exhibit 10(d) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006. *
10.14	2010 Incentive Plan, incorporated by reference to Exhibit B of W.W. Grainger, Inc.'s Proxy Statement dated March 12, 2010. *

10.15	Form of Stock Option Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(xiv) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005. *
10.16	Form of Stock Option Award and Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(xv) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005. *
10.17	Form of Stock Option Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvi) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009. *
10.18	Form of Stock Option and Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvii) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009. *
10.19	Form of Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xviii) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010. *
10.20	Form of 2012 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xix) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. *
10.21	Letter of Agreement - Long-Term International Assignment to Mr. Court D. Carruthers dated December 22, 2011, incorporated by reference to Exhibit 10(b)(xxi) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011. *
10.22	Summary Description of the 2016 Management Incentive Program. *
10.23	Incentive Program Recoupment Agreement, incorporated by reference to Exhibit 10(b)(xxv) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009. *
10.24	Form of Change in Control Employment Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xxvii) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010. *
10.25	Form of 2013 Performance Share Award Agreement between Grainger and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xxiii) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2013. *
10.26	Separation Agreement and General Release by and between W.W. Grainger, Inc. and Michael A. Pulick dated October 4, 2013, incorporated by reference to Exhibit 10(b)(xxiv) to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013. *
10.27	Form of 2014 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xxiv) to Grainger's Annual Report on Form 10-K for the year ended December 31, 2014. *
10.28	Form of 2015 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers. *
10.29	W.W. Grainger, Inc. 2015 Incentive Plan, incorporated by reference to Exhibit B of W.W. Grainger, Inc.'s Proxy Statement dated March 13, 2015. *
10.30	Separation Agreement and General Release by and between W.W. Grainger, Inc. and Court Carruthers dated July 22, 2015, incorporated by reference to Exhibit 10(b)(i) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015. *
10.31	£180,000,000 Facilities Agreement, dated as of August 26, 2015, by and among GWW UK Holdings Ltd, W.W. Grainger, Inc., the lender parties thereto, Lloyds Bank PLC and Lloyds Securities Inc., as Arrangers, and Lloyds Bank PLC, as Agent, incorporated by reference to W.W. Grainger, Inc.'s Current Report on Form 8-K dated September 1, 2015.
10.32	Credit Agreement, dated as of August 22, 2013, by and among W.W. Grainger, Inc., the borrowing subsidiaries parties thereto, the lenders parties thereto, and U.S. Bank National Association, as Administrative Agent, incorporated by reference to Exhibit 10(a)(i) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.

10.33	Amendment No. 1, dated as of April 7, 2015, to Credit Agreement, dated as of August 22, 2013, by and among W.W. Grainger, Inc., the borrowing subsidiaries parties thereto, the lenders parties thereto, and U.S. Bank National Association, as Administrative Agent, incorporated by reference to Exhibit 10(a)(i) to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
21	Subsidiaries of Grainger.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adoptied pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adoptied pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(*) Management contract or compensatory plan or arrangement

(1) Certain instruments defining the rights of holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

Exhibit 23

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, 333-203715, Form S-4 No. 33-32091 and Form S-3 No. 333-203444) for W.W. Grainger, Inc. and in the related prospectuses of our reports dated February 29, 2016, 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, 2015.

/s/ Ernst & Young LLP

Chicago, Illinois
February 29, 2016

CERTIFICATION

Exhibit 31.1

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 26, 2016

By:	/s/ J. T. Ryan
Name:	J. T. Ryan
Title:	Chairman, President and Chief Executive Officer

CERTIFICATION

Exhibit 31.2

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 26, 2016

By:	/s/ 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, 2015, (the "Report"), J. T. Ryan, as Chief Executive Officer of Grainger, and R. L. Jadin, as 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.

/s/ J. T. Ryan

J. T. Ryan

Chairman, President and
Chief Executive Officer

February 26, 2016

/s/ R. L. Jadin

R. L. Jadin

Senior Vice President and
Chief Financial Officer

February 26, 2016