

The following guidelines are adopted by the Governance Committee of the Board of Directors to set forth the standards of corporate governance for the Board to follow. These guidelines, in combination with the bylaws of the Company and any applicable state or federal laws, shall govern the Board.

1. Membership

- a. Qualifications - The Board shall nominate for directors individuals who, in the judgment of the Board, possess a high level of ethics, integrity and values, and who are committed to representing the long-term interests of our shareholders. Such candidates must be able to make a significant contribution to the governance of our Company by virtue of their business and financial expertise, and educational and professional background. Such expertise may include current or recent experience as a chief executive officer or other senior leader of a public company or other major organization. The business discipline that may be sought at any given time will vary depending on the needs and strategic direction of the Company, and the disciplines represented by incumbent directors. The selection and nomination process shall be conducted by the Governance Committee, which shall recommend nominees to the Board. In evaluating candidates for nomination as a director of Graco, the Governance Committee will also consider other criteria, including diversity of experience, geographical representation, gender and race, independence, practical wisdom, mature judgment and the ability of the candidate to represent the interests of all shareholders and not those of a special interest group. The Board will endeavor to have at least one director serving on the Audit Committee, who shall be independent, who qualifies as a "financial expert" as defined in applicable Securities and Exchange Commission rules and regulations. Unless specifically waived by the Board, no individual may be nominated or otherwise eligible for election as director if, at the time of his or her nomination, he or she has reached or exceeded age 72.
- b. Number - The number of directors shall be set to facilitate substantive discussions by the entire Board in which each director can meaningfully participate. The Board believes that the number of Board members should not exceed 12. The Board would be willing to go to a larger size to accommodate the availability of one or more outstanding candidates.
- c. Independence - A majority of the members of the Board shall be independent, as required and defined by the listing standards of the New York Stock Exchange.
- d. Mandatory Retirement - A director shall retire from the Board effective as of the Annual Meeting of Shareholders next following his or her 75<sup>th</sup> birthday, unless the director has current, substantial engagement in business activities that require skills relevant to Graco's business and useful to the Board. Such activities shall be reviewed by the Board on an annual basis, and a determination made as to the renewal or termination of this exception to the mandatory retirement age, and in all events the Board retains absolute discretion in all matters relating to the enforcement or waiver of an individual director's mandatory retirement.

- e. Director Change of Employment - A director shall offer his or her written resignation to the Board upon any significant change in his or her employment status. The Governance Committee shall evaluate whether the Board should accept, reject or defer action on the resignation, and make a recommendation to the Board. The Committee shall automatically defer action for one year with respect to any written resignation offered by a director where such resignation is the result of a mid-career change, unless the Committee determines that the particular circumstances require a more prompt decision with respect to the resignation.
- f. Tender of Resignation if Not Elected by Shareholders - If a nominee for director who is an incumbent director is not elected at a meeting of shareholders, the incumbent director shall promptly offer to tender his or her resignation to the Board. The Governance Committee shall make a recommendation to the Board on whether to accept or reject the offer. The Board shall act on whether to accept the director's offer, taking into account the Governance Committee's recommendation, and publicly disclose (by press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision and the rationale behind it within 90 days after the date of the election. The Governance Committee, in making its recommendation, and the Board, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent director who offers to tender his or her resignation shall not participate in the Board's decision with respect to that director. If such incumbent director's offer to tender his or her resignation is not accepted by the Board, such director shall continue to serve the term for which such director was elected and until his or her successor is duly elected, or his or her earlier death, resignation, retirement, disqualification or removal.

## 2. Director Responsibilities

- a. Due Care - Each director shall be expected to exercise due care in discharging the duties of a director, acting in good faith in a manner he or she believes is in the best interests of the Company.
- b. Attendance at Meetings - A director shall make all reasonable efforts to attend in person and participate in all Board meetings and meetings of committees of which the director is a member. Attendance by telephone is strongly discouraged. The director shall review all advance material sent before a meeting. A director shall also make all reasonable efforts to attend the Company's annual meeting of shareholders.
- c. Inquiries - A director shall be expected to make inquiries to gather information when appropriate, but shall have the right to rely on information provided by management, outside experts and committees on which the director does not sit, unless the director has reason to believe that such reliance would be unwarranted. The Board and each committee have the power to hire, at the expense of the Company, any independent legal, financial or other advisors they may deem appropriate, without consulting with or obtaining the approval of the Chief Executive Officer or any other officer of the Company.
- d. Conflicts of Interest - A director shall always act in the best interests of the Company and not in the interests of the director or another person. If there is a real or potential

conflict of interest – for instance, a director has a direct or indirect financial interest in a transaction involving the Company – the director shall fully disclose all the circumstances of such a potential conflict to the Board, and abstain from participating in the discussion or voting on such transaction. A director shall also make any business opportunity related to the Company's business available to the Company before the director, or any business with which the director is affiliated, pursues it. No director shall directly participate in the solicitation of any charitable contributions from the Company or its foundation for any non-profit organization with which the director, or any immediate relative, is affiliated.

- e. Service on Other Boards - Directors shall advise the Chairman (or in the case of the Chairman, the Chair of the Management Organization and Compensation Committee) in advance of accepting an invitation to serve on the board of another public company, and shall not, in the case of non-employee directors, serve on more than three other public company boards and, in the case of employee directors, serve on more than two other public company boards, without the prior approval of the Governance Committee.
- f. Conduct of Business Guidelines - Each director shall read and abide by the Company's Code of Ethics and Business Conduct.

### 3. Duties of the Board

The Board shall have such duties as are appropriate to provide effective governance of the Company's affairs and/ or are specified by the bylaws or required by applicable laws or regulations. In addition, the Board shall:

- a. Review and approve the key business strategies of the Company;
- b. Review and approve the annual financial plan of the Company;
- c. Select the Chief Executive Officer, and approve in advance the hiring and dismissal of the other elected executive officers;
- d. Review and approve management's succession plan for key executive positions, and establish an emergency succession plan for the Chief Executive Officer;
- e. Select the Chairman of the Board, who may or may not be the Chief Executive Officer;
- f. Approve in advance acquisitions of businesses, acquisitions or divestitures of a substantial amount of assets outside the ordinary course of business, and any material joint ventures;
- g. Adopt policies of corporate conduct, including policies for compliance with applicable laws and regulations;
- h. Perform such other duties as the Board from time to time deems appropriate, including those duties reflected in the charters of the committees of the Board.

### 4. Meetings

- a. The Board currently meets not less than five times per year, with additional meetings as necessary to fulfill its duties. Additional special meetings may be called in accordance with the bylaws.

- b. The Chairman of the Board shall be responsible for the agenda for each meeting, and any director is welcome to propose items for the agenda to the Chairman.
- c. Each Board meeting shall include an executive session with non-employee directors only. The Chairman of the Board, if a non-employee director, shall preside at such sessions; otherwise, the Chair of the Governance Committee shall preside.
- d. In advance of meetings management shall endeavor to distribute appropriate presentation materials to the Board regarding the topics to be discussed.

## 5. Committees

- a. The Board shall have three standing committees: the Audit Committee, the Governance Committee and the Management Organization and Compensation Committee. The members of each of these committees shall consist solely of independent directors, as required and defined by the New York Stock Exchange. The members of the Audit and Compensation Committees shall also meet the respective New York Stock Exchange independence requirements for Audit and Compensation Committee members. The Board may also form other committees to perform other functions as it deems appropriate.
- b. Each committee shall have a charter setting forth its purpose, goals and responsibilities. Committee charters shall be recommended by each committee to the Governance Committee, which shall approve or modify them and recommend them to the Board for adoption. Each committee charter shall require the committee to report its activities to the Board periodically and review its own performance on an annual basis.
- c. Committee members, and the chair of each committee, shall be appointed by the Board upon recommendation of the Governance Committee. Committee chairs shall be responsible for the agendas for each committee meeting.

## 6. Access to Management

Directors shall have complete and free access to management and employees of the Company. Directors will use their judgment to ensure that such contact is consultative in nature and not disruptive to the business operations of the Company. Directors shall not independently provide work direction to members of management. Management is encouraged to make presentations to the Board, and the Board will frequently invite members of management to attend board meetings for discussion of matters where they can add knowledge and expertise to the discussion.

## 7. Director Compensation

The Governance Committee shall periodically review the compensation of the directors, based on information from management or third party consultants regarding compensation of directors of other publicly-held manufacturing companies similar to the Company, and recommend any appropriate changes to the Board. The compensation of the directors shall be generally comparable to the median of the compensation of directors of companies similar to the Company. The Board believes that the interests of the Board should be aligned with the interests of the shareholders, and therefore the compensation package shall have a significant equity component. The Governance Committee may also recommend, and the Board may adopt, supplemental compensation

for the Chairman of the Board and the chairs of committees, which shall be generally comparable to the supplemental compensation of such directors in other publicly-held manufacturing companies similar to the Company. There shall be no director compensation for employees of the Company who are also serving on the Board.

8. Non-Employee Director Share Ownership Guidelines

To align the interests of our directors with those of our shareholders, the Board has adopted share ownership guidelines for the Company's non-employee directors.

9. Director Orientation and Continuing Education

Management will provide each new director with appropriate background materials and shall conduct one or more orientation sessions to familiarize the director with the Company's business, facilities, key strategies, financial characteristics and risk management issues. Directors are also encouraged to participate in meetings or seminars for directors, and the Company will reimburse directors for the cost of attending one such seminar each year.

10. Board Evaluation

The Board shall conduct an annual self-evaluation to determine whether it and the committees are functioning effectively. The Governance Committee shall solicit and receive comments from the directors and report its assessment of the Board's performance, which the full Board will discuss at its first meeting each year.

11. Review of Guidelines

The Governance Committee shall review these Guidelines annually, and make any changes it deems appropriate.