



CONSISTENT PERFORMANCE



ANNUAL REPORT 2004

CORPORATE MISSION

Graco's mission is to generate sustained profitable growth to benefit its customers, employees, shareholders and communities. We will be the world's leading supplier of fluid management products and packages in the markets we target.

CORPORATE VISION

We will grow revenues by 10% and net earnings by 12% per year. We will grow our sales more significantly outside North America and in new markets, and with new products and improved business processes. Graco's goal is to have at least 30% of each year's revenues from new products introduced in the last three years and to have at least 5% of each year's revenues from sales in markets entered in the last three years. We will actively pursue focused strategic acquisitions where we can add significant value.

CORPORATE PROFILE

Founded in 1926, Graco is a world leader in fluid handling systems and components. Graco products move, measure, control, dispense and spray a wide range of fluids and viscous materials used in vehicle lubrication, commercial and industrial settings. The Company's success is based on its unwavering commitment to technical excellence, world-class manufacturing and superior customer service. Working closely with specialized distributors, Graco offers products which set the quality standards in a wide range of fluid handling applications, including spray finishing and paint circulation, lubrication, sealants and adhesives and power application equipment for contractors. Graco's ongoing investment in fluid management and controls will continue to provide innovative solutions to a diverse global market. The Company has its corporate headquarters in Minneapolis, Minnesota, and employs approximately 2,100 people worldwide. Graco common stock (ticker symbol: GGG) is listed on the New York Stock Exchange.

Graco Common Stock

Graco common stock is traded on the New York Stock Exchange under the ticker symbol "GGG." On December 31, 2004, there were 68,979,219 shares outstanding and 2,625 common shareholders of record, with another estimated 25,200 shareholders whose stock is held by nominees or broker dealers.

Quarterly Financial Information

Quarter	2004				2003				2002			
	1	2	3	4	1	2	3	4	1	2	3	4
Net sales	\$134,982	\$160,165	\$149,066	\$160,819	\$119,660	\$146,364	\$133,788	\$135,286	\$107,857	\$132,796	\$125,832	\$120,563
Gross profit	73,404	85,142	82,120	87,744	63,003	75,932	71,403	72,464	55,163	67,141	65,414	62,440
Net earnings	22,327	29,979	28,817	27,558	18,194	24,463	22,711	21,345	15,546	21,516	20,494	18,069
Diluted net earnings												
Per common share (1)	0.32	0.43	0.41	0.39	0.25	0.35	0.32	0.30	0.22	0.30	0.28	0.25
Stock price												
High	\$29.11	\$31.05	\$33.66	\$37.70	\$19.87	\$21.33	\$26.73	\$26.99	\$18.73	\$20.33	\$17.99	\$20.11
Low	26.43	27.12	29.96	33.76	17.12	18.85	21.95	24.01	16.33	16.76	15.27	15.57
Close (2)	29.11	31.05	33.50	37.35	18.73	21.33	25.03	26.73	18.15	16.76	16.53	19.10
Volume (# of shares)	12,095	13,801	15,972	16,348	10,686	13,149	18,660	12,206	9,968	12,116	13,337	11,883

1. All share and per share data has been restated for the three-for-two stock split declared on February 20, 2004, and distributed on March 30, 2004.

2. As of the last trading day of the calendar quarter.



David Roberts, President
and Chief Executive Officer

Our reputation as a global leader in fluid handling solutions is a result of committed, passionate people driven to succeed.

FINANCIAL HIGHLIGHTS

Dollars in millions except Earnings Per Share

Net Sales	\$605.0 - up 13%
Net Earnings	\$108.7 - up 25%
Diluted EPS	\$1.55 - up 26%

CONSISTENT LEADERSHIP

TO OUR SHAREHOLDERS

In 2004, Graco achieved record performance in nearly every measurable aspect of its business. Our employees demonstrated tremendous dedication and commitment to meet the demands of our customers in a challenging and robust environment. I am truly fortunate to be associated with this group of people whose drive for excellence is evident on a daily basis.

2004 RESULTS

We are proud of our accomplishments this past year including:

- Record sales, net earnings and earnings per share
- Sales growth in all three divisions
- Sales growth in all three regions
- Consolidation of Sharpe® manufacturing into our Sioux Falls, SD facility
- Paying a special dividend of approximately \$104 million to our shareholders
- Increasing the 2004 regular quarterly dividend by 70 percent
- Announcing a 39 percent increase in the 2005 regular quarterly dividend
- Splitting our stock for the eleventh time since going public in 1969
- Repurchasing approximately \$41 million of our common stock

Net earnings totaled \$108.7 million, or \$1.55 per diluted share, up from \$86.7 million, or \$1.23 per share in 2003. Net sales were \$605.0 million, up 13% from \$535.1 million in 2003. Graco generated \$103.6 million of free cash flow, which we define as cash provided from operating activities (\$122.9 million) less capital expenditures (\$19.3 million). This cash flow, along with our cash on hand at the beginning of the year, was used to pay our shareholders \$129.9 million in dividends and repurchase \$40.8 million of our common stock. At year-end our balance sheet was strong with \$60.6 million of cash on hand and no long-term debt. Heading into 2005, Graco has the financial capacity to pursue all of its strategic initiatives, while continuing to return a substantial amount of its free cash flow to the shareholders.

NEW PRODUCTS

Developing and introducing new innovative products is the lifeblood of sustaining strong internal growth. In 2004 Graco generated 29 percent of its sales from products introduced in the prior three years. Substantial dollars are dedicated to product development each year and in 2004 we spent a record \$21.8 million. Part of this spending was for more engineers who are working on new projects. The dollars spent on product development are paying off, and by increasing our spending we expect an acceleration of our internal growth rate in the years to come. Our engineering teams have a full pipeline of new product ideas to pursue into the next decade.

EXPANDING DISTRIBUTION

The second leg of our internal growth is the continued expansion and specialization of our global distribution channel. Identifying, training and developing distributors is a challenge that takes considerable time and resources. Graco has been selling and marketing products through a network of independent distributors for decades. We have a proven, repeatable approach to executing this business model. Today, our distributors are located in more than 100 countries where they are promoting and selling Graco products. We are constantly looking for new qualified distributors and this year, in our markets outside of the Americas, we added over 100 Industrial/Automotive distributors.

Our organization is particularly focused on adding distribution coverage in developing markets like China, India and the Middle East. In addition to these expansion efforts, we are investing in our existing distribution channel through sales, marketing, technical support and other activities.

NEW MARKETS

While serving customers by introducing new products and expanding and investing in our distribution channel are critical activities to ensure continued growth, Graco is also targeting opportunities to serve new markets with its fluid expertise. Our goal is that at least 5 percent of our sales come from new markets that were entered in the last three years. Markets that are attractive are those where we can add value through our expertise in difficult fluid handling applications.

New markets offer incremental growth in sales and profits for Graco shareholders. We are driving the organization to pursue these opportunities, either through the development of products, acquisitions, licensing or purchasing attractive technologies. I am confident that these efforts will help supplement our profitable growth in 2005 and beyond.

ACQUISITIONS

Strategic, niche acquisitions continue to be an important part of our overall growth. Our focus is on companies that are within Graco's sphere of knowledge so our critical strengths can be leveraged. These strengths include our manufacturing expertise, global distribution channel, product development processes, and sales and marketing skills.

We announced two acquisitions in early 2005 that fit these criteria. Liquid Control Corporation is a manufacturer of plural component resin dispensing equipment that fits well with our current sealant and adhesives business. Gusmer Corporation is a designer and manufacturer of specialized two-component dispense equipment that increases our presence in the protective coatings product category. We expect that both of these businesses will contribute to growth in sales and cash flow in 2005 and beyond.

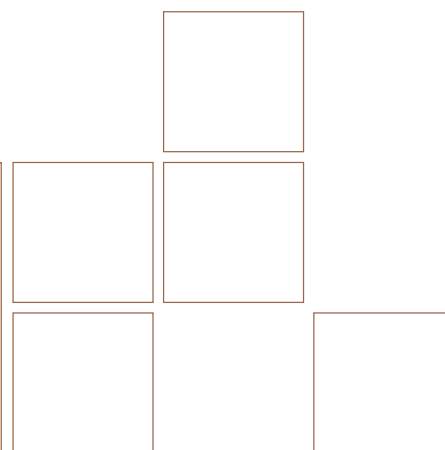
SUMMARY

Graco achieved several milestones this year, including exceeding \$600 million in sales and earning in excess of \$100 million. The Company has come a long way since it was founded in 1926, but there is still much to be achieved. I am confident that we can capitalize on future opportunities by staying the course and continuing to invest in our key strategies. Our management team and our employees are committed to delivering improved financial performance in 2005 and beyond.

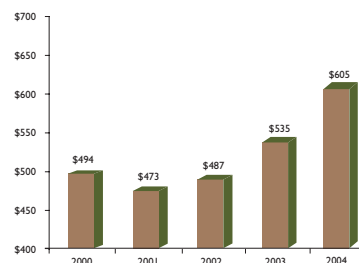
I want to thank Graco's 2,100 plus employees for their tremendous efforts this past year. We have a first class global team whose skills, knowledge and dedication are reflected by our record performance.

David A. Roberts

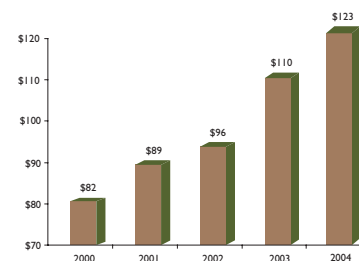
David A. Roberts
President and Chief Executive Officer



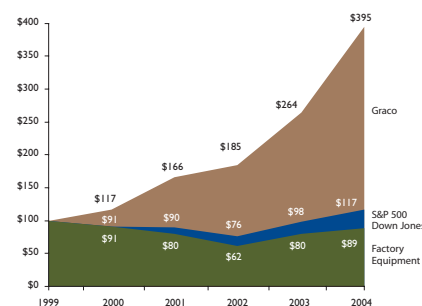
"Graco's financial performance reflects a strong focus on its key strategies."



Net Sales



Cash Flow from Operations



Value of \$100 invested in Graco stock in 1999

CONSISTENT FOCUS

CREATING A WINNING TEAM

It takes more than talented players to build a winning team. Graco employees share a passion to create top-performing products and align their work around our strategic framework for the future.

One of our strengths is the ability to combine this talent with the latest innovations in technology – providing products that satisfy customers and ultimately generate positive results for our shareholders.

The senior leadership team has years of proven experience and has exhibited an ability to meet and exceed customer expectations, attract and retain talented employees, and deliver sustainable improvements in financial performance.

Graco is positioned for future development, and is focused on pursuing these growth opportunities while continuing to deliver cutting-edge technology and operational excellence.



David Lowe and Chris Koch

Strong leadership drives performance throughout Graco's organization.



Chuck Rescorla, Bob Mattison, Karen Gallivan, Jim Graner and Mark Sheahan

GRACO AT-A-GLANCE

INDUSTRIAL/AUTOMOTIVE EQUIPMENT

Graco focuses its product design and marketing efforts in five major application areas: sealants and adhesives, process, finishing, protective coatings and automotive refinish. In 2004, the Industrial/Automotive Equipment segment generated 45 percent of our sales, serving firms that manufacture, assemble and repair automobiles and components, wood products, railcars, ships and other marine equipment, aircraft and other aerospace equipment, farm and construction equipment, truck, bus and recreational vehicles, and approximately thirty other industries.

CONTRACTOR EQUIPMENT

Graco designs and markets sprayers for the application of paint and other architectural coatings, and for the high-pressure cleaning of equipment and structures. Generating 46 percent of our sales in 2004, the Contractor Equipment segment supplies products to distributors who sell to contractors and tradesmen in the painting, roofing, texture, corrosion control and line striping markets. This equipment delivers high quality finishes at rapid production rates, and is known in the market for durability and ease of use.

LUBRICATION EQUIPMENT

Graco has been a leading manufacturer of lubrication equipment in North America for over 77 years. We design and market products for the lubrication and maintenance of vehicles and other equipment. Generating 9 percent of our sales in 2004, the Lubrication Equipment segment supplies markets including fast oil change facilities, service garages, fleet service centers, automobile dealerships and industrial lubrication. Graco's lubrication products are the industry standard for the most demanding applications.

PRODUCTS

Pumps and Sprayers

- Air, electric, gas and hydraulic
- Transfer fluids to dispense & spray

Controls

- Electronic and mechanical fluid control
- Manage flow, pressure & mixing

Applicators

- Automatic and manual dispense valves and spray guns
- Spray or dispense fluids

Accessories

- Fittings, regulators, hoses, etc.
- Auxiliary components for complete product solutions

KEY MARKETS SERVED

Industrial /Automotive Equipment Division

- Aerospace
- Automotive/Truck Assembly
- Automobile Repair Shops
- Chemical Process Industry
- Farm and Construction Equipment
- General Industrial Assembly
- Marine
- Mining
- Rail
- Wood

Contractor Equipment Division

- Painting and Specialty Contractors
- Ceiling and Wall Texture
- Remodeling
- Line Striping

Lubrication Equipment Division

- Automobile Dealerships
- Fast Oil Change Facilities
- Fleet Service Centers
- Industrial Lubrication

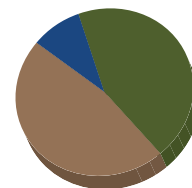


Pat McHale, Dale Johnson and Fred Sutter

"We manage for results by staying focused on improving operational efficiency, adding value to customers, employees and shareholders and fostering a performance-based culture."

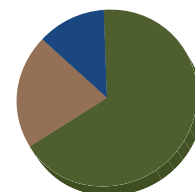
DIVISION SALES

Lubrication	9% - \$52M
Industrial/Automotive	45% - \$274M
Contractor	46% - \$279M



GLOBAL SALES

Asia Pacific	13% - \$79M
Europe	21% - \$125M
Americas	66% - \$401M



CONSISTENT GROWTH

EXPANDING DISTRIBUTION

One of Graco's key growth strategies is to expand distribution. Our distributors, located throughout the world, give us a strong global footprint to serve the marketplace as customers from developed markets expand into emerging regions.

TARGETING DEVELOPING MARKETS

While Graco is constantly optimizing its distribution channel in developed markets like North America, Western Europe and Japan, an exciting opportunity is unfolding in developing markets like China, Eastern Europe, Southeast Asia and Vietnam. We are committed to building lasting relationships with our customers by serving them as their needs change. Many of our customers in developing markets demand Graco's equipment because they have used it in other regions of the world. These customers typically choose to locate production in developing regions to expand their business prospects and gain efficiencies. Graco provides the appropriate equipment and local support to help its customers accomplish their objectives.

Each year, Graco spends considerable resources building and refining its global distribution channel. Our distribution channel is a valuable resource that provides a competitive advantage throughout the world. Distributors provide a vital link with end users by promoting, selling and servicing our products. Whether it's a paint and specialty store serving the needs of the painting contractor or an industrial distributor providing expertise in application and integration of equipment at a factory, distributors are a critical component of our success.

We are building our distribution network in developing markets to expand our presence and enhance the prospects for sustained profitable growth. New distributors choose to work with Graco because of our reputation for trouble-free, high-quality products that meet their customers' production demands. Graco's products are considered the benchmark in many industries, and each distributor is committed to representing our products as such in their local market. As we build our global channel, we are committed to providing our distributors new products, technology and the highest customer service in the industry.



Our manufacturing and engineering personnel are dedicated to building quality into our products for the global marketplace.



Paint room at furniture factory in Gongguan, South China

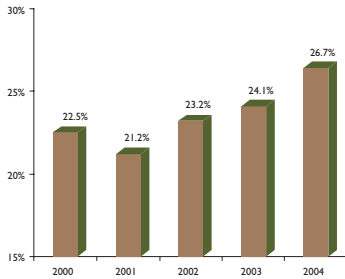
Duane Pilarski, Assembly, Contractor Equipment Division



Graco's Reactor™ plural component proportioner is used to spray polyurea sealant to high-speed rail system in Taiwan



CONSISTENT VISION



Operating Margins



GH 230 Gas-Hydraulic Spray

Our engineering teams have a healthy pipeline of new product ideas and have identified projects to pursue into the next decade.

IMPROVING PROCESSES

We continuously improve our operations and respond to the changing needs of our customers. Our drive for excellence is evident on a daily basis.

FOCUSING ON EFFICIENCY

Over the past decade, Graco has dramatically enhanced the efficiency of its operations. While doing this, we have improved the quality of our products and business processes. In the past decade, we have invested over \$130 million in manufacturing-related capital to stay on the forefront of the latest manufacturing technology and position ourselves for future growth. By utilizing the latest technology we can control tolerances better, improve quality, increase speed through the factory and reduce product failures.

But we don't just use technology in our own operations; we also focus on developing technology solutions for our customers. For example, our electronic proportioning equipment (PrecisionMix®, ProMix™, and ProMix Easy) replaces manual mixing of multiple component coatings prior to application. These units electronically meter, mix and dispense the correct proportion and quantity of material, which eliminates waste and substantially reduces the likelihood of operator error. Similarly, innovations such as the AutoClean₂™ feature on our Ultra® paint sprayers get the contractor off the job site quicker by reducing cleanup time. The AutoClean₂ cleans paint and debris out of the sprayer by reverse flushing that is timed automatically. This eliminates the need for manual flushing, saving time and improving efficiency.

Graco's Extranet Distribution Information ("GEDI®") area on our website is another productivity tool that we offer to handle orders from our U.S., Canadian and Export distributors. On the GEDI network, distributors can place orders, verify prices, determine product availability, submit warranty information, track orders and request literature. Distributors access information by using an account number and confidential password. Orders placed on GEDI by noon for in-stock products are shipped the same business day. By using this tool both Graco and its distributors save time and money. In 2004, over 37,000 orders were placed on GEDI.



Jimmy Tam, Principal Engineer, Contractor Equipment Division

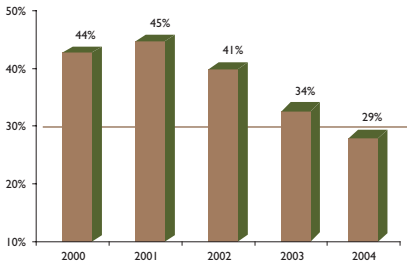


On-site contractor team using Graco's GMax™ sprayers



Graco's high quality airless sprayers allow customers to complete jobs quicker and more efficiently

CONSISTENT INNOVATION



New Product Goal
Target = 30% New Products



ProMix Easy Proportioner

DEVELOPING NEW PRODUCTS

New products are a significant component of Graco's internal growth strategy. We work hard to identify opportunities to bring new and innovative products to our customers. In 2004, we spent a record \$22 million in product development.

TECHNOLOGY

For Graco, new product development can take several forms. In some instances we are upgrading existing products to add features and benefits that our customers use to be more productive. In other cases we identify new market areas for development where we can apply our expertise in pumping, metering, mixing or dispensing. Finally, we are spending engineering time and resources to take complexity out of some of our high-end products so we can offer them to a broader customer base. These three levels of innovation are visible in our engineering organizations and in the products we produce.

Features and benefits that our customers desire are evident in the latest generation of Ultra paint sprayers launched in 2004. These sprayers are significantly improved from the previous generation by adding features such as a new piston pump that delivers a longer life and a new DC motor that is twice as powerful while drawing fewer amps. These features are especially important when applying today's difficult materials such as latex paints, block fillers, enamels, mastics and elastomers.

Our Reactor™ plural component proportioning system and Fusion™ spray guns, serving contractors who use polyureas and polyurethane materials, are examples of utilizing Graco technology and know-how in a new and growing market. We combined our Contractor Equipment pump and drive technology with our precision mixing, dispense and spray gun expertise to come up with the best product in the market for applying these difficult materials. This product delivers materials in an accurate manner to optimize the application process for the end user.

Our new ProMix II and ProMix Easy automatic color change proportioning systems are lower duty alternatives to our higher-end PrecisionMix products. Manufacturers in industries like general metal, wood, furniture, farm, construction, truck, bus and automotive components use these products to precisely proportion epoxies and urethanes in the production of durable goods. By providing the customer with fewer color change and ratio features than our higher-end PrecisionMix units, we are able to reach a broader target market and bring innovative technology to new customers.

Companies that are successful make good quality products that create loyal customers...we have both!



Laura Bernstein, Riverside Warehouse



Graco's Reactor E-XP2 gets a final inspection check



Quick-set plural-component spraying equipment with remote manifold is used to apply the latest hybrid coatings

Board of Directors**Lee R. Mitau**

Executive Vice President and General Counsel
U.S. Bancorp
Chairman of the Board
Graco Inc.

Robert G. Bohn

Chairman, President and Chief Executive Officer
Oshkosh Truck Corporation

William J. Carroll

Director
Economic & Community Development
City of Toledo

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Non-Executive Chairman,
ShopKo Stores, Inc.

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Chief Executive Officer
United Subcontractors, Inc.

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R. William Van Sant

Operating Partner
Northwest Equity Partners

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President and Chief Executive Officer

Karen Park Gallivan

Vice President, Human Resources

James A. Graner

Vice President and Controller

Dale D. Johnson

Vice President, Contractor
Equipment Division

D. Christian Koch

Vice President, Asia Pacific

David M. Lowe

Vice President and General
Manager, European Operations

Robert M. Mattison

Vice President, General
Counsel and Secretary

Patrick J. McHale

Vice President, Lubrication
Equipment Division

Charles L. Rescorla

Vice President, Manufacturing/
Distribution Operations and
Information Systems

Mark W. Sheahan

Vice President and Treasurer

Fred A. Sutter

Vice President, Industrial/Automotive
Equipment Division

Corporate Directory**AMERICAS****Corporate Headquarters**

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KOREA

General Information**Annual Meeting**

Shareholders are cordially invited to attend the Annual Meeting, which will be held at 1:00 p.m., April 22, 2005, at Graco's:

George Aristides Riverside Center
1150 Sibley Street Northeast
Minneapolis, Minnesota 55413

Corporate Inquiries

Investors may obtain the Graco Inc. annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports by visiting the Graco website at www.graco.com. Requests for financial publications can also be addressed to:

Graco Inc.
Attn: Treasurer
P.O. Box 1441
Minneapolis, Minnesota 55440-1441

Or by calling (612) 623-6659

Shareholder Inquiries

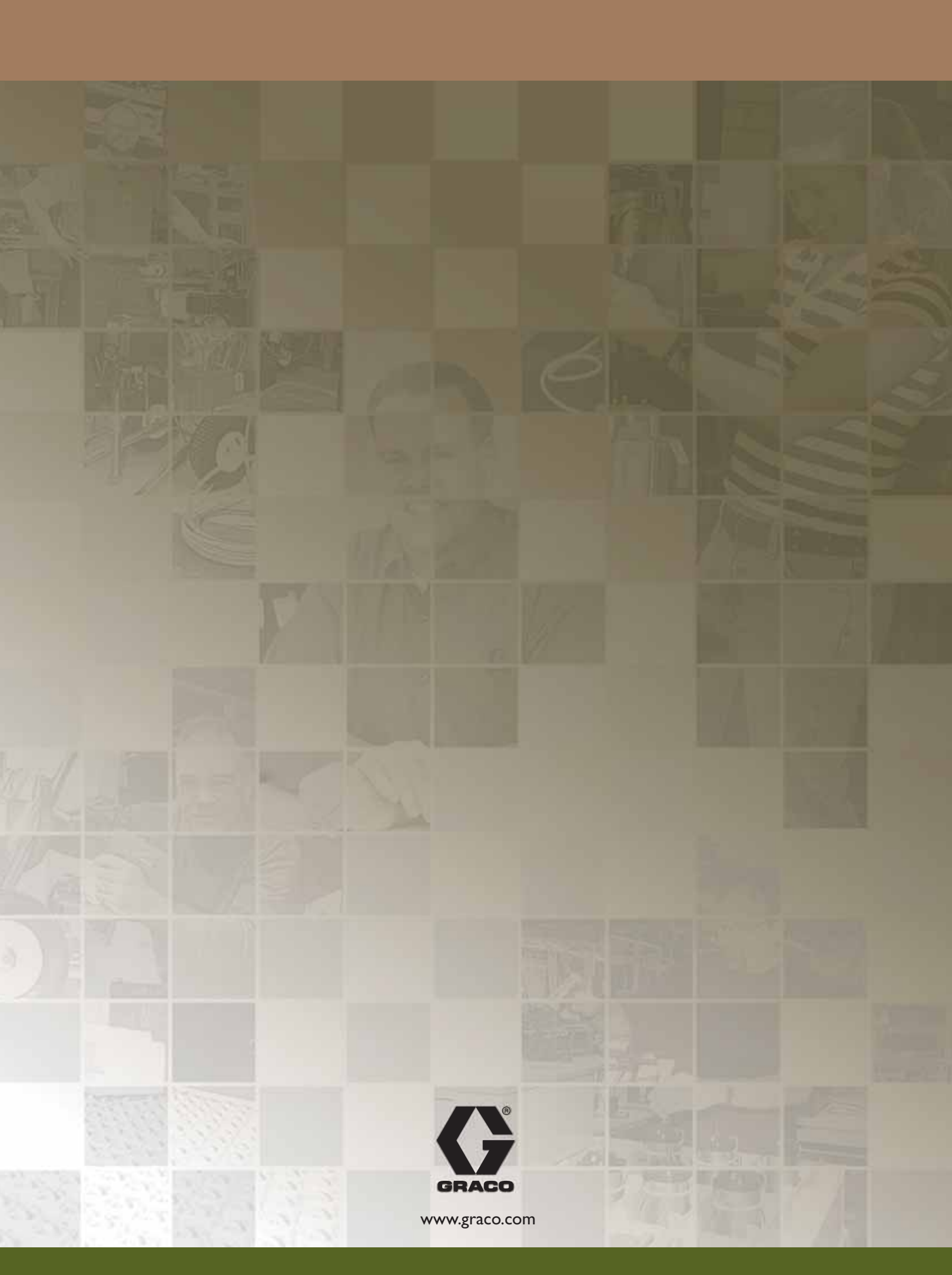
Questions regarding dividend checks, dividend reinvestment, lost stock certificates, change of address or consolidation of accounts, should be directed to the Company's Transfer Agent and Registrar:

Wells Fargo Bank, N.A.
Shareowner Services
161 North Concord Exchange Street
South St. Paul, Minnesota 55075-1139

Or call: (800) 468-9716.
In Minnesota: (651) 450-4064.
Monday-Friday, 7 a.m.-7 p.m. CT.

Graco is an equal opportunity employer. Graco's EEO policy is on the Company's website at www.graco.com

for financial information, please refer to Graco Inc.'s 2004 Form 10-K.



www.graco.com