

from continuing operations rose 23 percent to \$3.58 per share, compared with \$2.92 per share for 2003. Excluding restructuring and unusual items, 2003 income from continuing operations was \$266.0 million, or \$2.83 per share.

Our focus on capital management produced another year of exceptional cash flow. Free cash flow for 2004 totaled \$382.6 million, well above net income for the year. As a result, our debt-to-total-capitalization ratio net of cash at December 31, 2004, was 26.1 percent, down considerably from 29.3 percent net of cash on December 31, 2003. Our balance sheet now provides us with considerable flexibility as we pursue new ways to produce additional value for our shareholders.

Some might say that Cooper's performance in 2004 simply reflects a strengthened economy. While it is true that economic conditions improved in some of our served markets, it's hard to conclude that the economy was the sole driver behind our outstanding 2004 results. The real key to our success was our relentless focus on adapting our business model to meet both current and anticipated marketplace requirements. This focus was born out of necessity and carefully developed and executed over the past few years, as we saw our business environment becoming more global and more competitive.

How Did We Get Here?

In 2002, we were faced with a fragile economic environment and the realities of competing in an increasingly global marketplace. This required manufacturing companies like Cooper to do more with less, in new and different ways around the globe. As a result, we were required to shift our mindset from being "division centric," concentrating primarily on markets here in North America, to being "Company centric," focusing on growth opportunities around the world. As I mentioned earlier, we dubbed this effort our "Get Connected" program, and ultimately, this initiative became the cornerstone for our overarching strategy going forward. In 2003, we focused the attention of all of our employees on five key initiatives aimed at producing sustained long-term growth for the Company. These initiatives included increasing the global reach of our businesses, putting into place an integrated sales and marketing program for the majority of our products, developing common Strategic Sourcing and productivity improvement programs across the Company and implementing a new Enterprise Business System that will ultimately facilitate seamless communication among all of our businesses.

We entered 2004 with a great deal of enthusiasm, buoyed by the initial success of these five key initiatives. Confident that we were doing the right things the right way, we focused on

- Increasing our market share,
- Growing our businesses globally,
- Improving our operating margins,
- Implementing our Enterprise Business System on schedule and
- Generating excess cash.

We met or exceeded each of these goals in 2004. The strategic actions that we have taken to reshape our financial and operating structure have considerably strengthened our Company's performance and positioned the Company to grow at an accelerated pace going forward.

This effort has been recognized by investors. Cooper's share price on December 31, 2004, was \$67.89, up 17 percent compared to \$57.93 at year-end 2003 – well ahead of the performance of both the S&P 500 and the Dow Jones Industrial Average. Additionally, we paid over \$131 million in dividends to our shareholders during the year. As a sign of their continued confidence in the Company's future, on February 9, 2005, Cooper's Board of Directors voted to raise the annual dividend rate for the Company's common stock 6 percent, to \$1.48 per share.

Setting The Stage For Future Success – A Global Approach

Today's operating climate is fiercely competitive, and globalization has become a primary imperative for the survival of most companies. The environment in which we operate knows no borders with respect to mindset, technology and geography. Clearly, this has impacted the way Cooper does business. Appropriately, we are moving quickly to continue to provide our growing list of worldwide customers with the widest breadth of products and services available in our industry.

To that end, we are aggressively broadening our worldwide business platform by identifying and focusing on geographic areas that hold the most promise for Cooper. For example, our already substantial business in the United Kingdom and on the European continent – 25 nations, 455 million people and a GDP of nearly \$13 trillion – offers both ongoing growth opportunities and a vehicle to penetrate the high-potential emerging markets of Eastern Europe. Likewise, we are advancing our programs to bring additional Cooper products to the Middle East, which will