NOTE 16: FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES, CONCENTRATIONS OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On January 1, 2001, Cooper adopted Statement of Financial Accounting Standards No 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No 133"), as amended SFAS No 133 requires that all derivatives be recognized as assets and liabilities and measured at fair value For derivative instruments that are not designated as hedges, the gain or loss on the derivative is recognized in earnings currently If the derivative is designated as a fair value hedge, the gain or loss on the derivative and the offsetting loss or gain on the hedged asset, liability or firm commitment is recognized in earnings For derivative instruments designated as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated nonowner changes in equity and reclassified into earnings in the same period that the hedged transaction affects earnings The ineffective portion of the gain or loss is immediately recognized in earnings The cumulative effect of adopting the new standard was not material to Cooper's 2001 consolidated results of operations, financial position or cash flows

Cooper enters into foreign currency forward exchange contracts and commodity futures contracts to reduce the risks of adverse changes in foreign exchange rates and commodity prices. Cooper does not enter into speculative derivative transactions

As a result of having sales, purchases and certain intercompany transactions denominated in currencies other than the functional currencies used by Cooper's businesses, Cooper is exposed to the effect of foreign exchange rate changes on its cash flows and earnings Cooper enters into foreign currency forward exchange contracts to hedge significant foreign currency denominated transactions for periods consistent with the terms of the underlying transactions Contracts generally have maturities that do not exceed one year

Foreign currency forward exchange contracts executed to hedge a recognized asset, liability or firm commitment are accounted for as fair value hedges The net gain on contracts designated as fair value hedges was not material during 2001 Foreign currency forward exchange contracts executed to hedge forecasted transactions are accounted for as cash flow hedges. The net gain on contracts designated as cash flow hedges was not material in 2001 Cooper also enters into certain foreign currency forward exchange contracts that are not designated as hedges These contracts are intended to reduce cash flow volatility related to intercompany financing transactions

Cooper enters into commodity futures contracts to reduce the volatility of price fluctuations on a portion of its forecasted annual raw material purchases These instruments are designated as cash flow hedges The net loss on commodity futures contracts was not material in 2001

Gains or losses on derivative instruments are reported in the same line item as the underlying hedged transaction in the consolidated statements of income At December 31, 2001, Cooper expects to