UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-7724

SNAP-ON INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**39-0622040**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10801 Corporate Drive, Pleasant Prairie, Wisconsin	**53158-1603**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (262) 656-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common stock, $1 par value	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2). Yes [X] No [ ]

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 28, 2003) was: $1,692,371,832

Number of shares outstanding of each of the registrant's classes of common stock at February 27, 2004:

Common stock, $1 par value, 58,154,389 shares

Documents incorporated by reference

Portions of Snap-on's Annual Report to Shareholders for the fiscal year ended January 3, 2004, are incorporated by reference into Parts I and II of this report.

Portions of Snap-on's Proxy Statement, which is expected to first be mailed to shareholders on March 25, 2004, prepared for the Annual Meeting of Shareholders scheduled for April 22, 2004, are incorporated by reference into Part III of this report.

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PART I

Item 1: Business

Snap-on Incorporated (“Snap-on” or “the company”) was incorporated under the laws of the state of Wisconsin in 1920 and reincorporated under the laws of the state of Delaware in 1930. Snap-on is a leading global innovator, manufacturer and marketer of high-quality tool, diagnostic and equipment solutions for professional tool and equipment users. Product lines include a broad range of hand and power tools, tool storage, saws and cutting tools, pruning tools, vehicle service diagnostics equipment, vehicle service equipment, including wheel service, safety testing and collision repair equipment, vehicle service information, business management systems, equipment repair services, and other tool and equipment solutions. Snap-on’s customers include automotive technicians, vehicle service centers, manufacturers, industrial tool and equipment users and those involved in commercial applications such as construction, electrical and agriculture.

Snap-on markets its products and brands through multiple distribution sales channels in more than 100 countries. Snap-on’s largest geographic markets include the United States, Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden and the United Kingdom. The originator of the mobile dealer van tool distribution channel in the automotive repair segment, Snap-on also reaches its customers through company direct, distributor and Internet channels.

Snap-on’s business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on’s reportable business segments include: (i) the Snap-on Dealer Group, (ii) the Commercial and Industrial Group, and (iii) the Diagnostics and Information Group. The Snap-on Dealer Group consists of Snap-on’s business operations serving the worldwide franchised dealer van channel. The Commercial and Industrial Group consists of the business operations providing tools and equipment products to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchised distribution channels. The Diagnostics and Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, equipment repair services and other solutions for customers in the worldwide vehicle service and repair marketplace. For additional information about Snap-on’s business segments, customers, domestic and international operations (including, information respecting risks attendant to these international operations) and products and services, see Note 18 entitled “Segments” on pages 59 through 60 of Snap-on’s 2003 Annual Report, incorporated herein by reference.

Information Available on the Company’s Website

More information regarding Snap-on and its products is available on the company’s Website at www.snapon.com. Snap-on is not including the information contained on its Website as a part of, or incorporating it by reference into, this annual report on Form 10-K. Snap-on’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are made available to the public at no charge, other than an

investor's own internet access charges, at www.snapon.com/investor/investor.asp. Snap-on makes such material available on its Website as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. In addition, the (i) charters for the Audit, Corporate Governance and Nominating and Organization and Executive Compensation Committees of the company's Board of Directors and (ii) the Corporate Governance Guidelines are available on Snap-on's Website. The code of conduct required by Section 406 of the Sarbanes-Oxley Act (the "Section 406 Code") is attached as an exhibit to this annual report on Form 10-K. The company's code of business conduct and ethics and the Section 406 Code will be available on the Company's Website prior to the annual meeting of shareholders in April. These documents are also available in print upon written request directed to the Corporate Secretary, 2801 80th Street, Kenosha, Wisconsin, 53141.

Products and Services

Snap-on's business segments offer a broad line of products and complementary services that are grouped into two categories, *tools* and *equipment*, described below. Further product line information is not presented, as it is not practicable to do so. The following table shows the consolidated sales of these product categories in the last three years:

Product Category	*Net Sales*		
(Amounts in millions)	2003	2002	2001
Tools	$ 1,368.9	$ 1,281.7	$ 1,291.1
Equipment	864.3	827.4	804.6
	$ 2,233.2	$ 2,109.1	$ 2,095.7

The *tools* product category is comprised of hand tools, power tools and tool storage products. Hand tools include wrenches, screwdrivers, sockets, pliers, ratchets, saws and cutting tools, pruning tools and other similar products. Power tools include pneumatic (air), cordless (battery) and corded (electric) tools such as impact wrenches, ratchets, chisels, drills, sanders, polishers and similar products. Tool storage units include tool chests, roll cabinets and other similar products. The majority of products are manufactured by Snap-on, and in completing the product line, some items are purchased from external manufacturers.

The *equipment* product category is comprised of solutions for the diagnosis and service of automotive and industrial equipment. Products include engine analyzers, air conditioning service equipment, brake service equipment, fluid exchange equipment, wheel balancing and alignment equipment, transmission troubleshooting equipment, safety testing equipment, battery chargers, lifts and hoists, diagnostics equipment, service and collision repair equipment. Also included are service and repair information products, diagnostic services, business management systems, point-of-sale systems, integrated systems for vehicle service shops, equipment repair services and purchasing facilitation services. Snap-on supports the sale of its diagnostics and vehicle service shop equipment by offering training programs for its customers, primarily focusing on the technologies and the application of specific products developed and marketed by Snap-on.

Tools and equipment are marketed under a number of brand names and trademarks, many of which are well known in the vehicle service and industrial markets served. Some of the major trade names and trademarks and the products and services with which they are associated include the following:

Names	Products and Services
Snap-on	Hand tools, power tools, tool storage units, diagnostics and certain equipment
Acesa	Hand tools
ATI	Tools and equipment
BAHCO	Hand tools
Belzer	Hand tools
Blackhawk	Collision repair equipment
Blue-Point	Hand tools, power tools, tool storage units
Cartec	Safety testing and other equipment
CDI	Torque measuring instruments
Equipment Solutions	Vehicle manufacturer facilitation services

EquiServ	Equipment maintenance and service
Fish and Hook (design)	Hand tools
Hofmann	Wheel balancers, lifts, tire changers and aligners
Irimo	Hand tools
John Bean	Under car and wheel service equipment
Kansas Jack	Collision repair equipment
Lindstrom	Hand tools
Mitchell1	Repair and service information and shop management systems
Nexiq	Diagnostics
Palmera	Hand tools
Pradines	Hand tools
ShopKey	Repair and service information and shop management systems
Sioux	Power tools
Sun	Diagnostics and service equipment
Texo	Hoists and lifts for vehicle service shops
Wheeltronic	Hoists and lifts for vehicle service shops
White	Equipment to recover, recycle and recharge refrigerant in vehicle air-conditioning systems and other fluid handling equipment
Williams	Hand tools

Snap-on also derives income from financing its products through a 50%-owned financial services joint venture and through Snap-on's wholly owned credit subsidiaries. Snap-on utilizes various financing programs to facilitate the sales of its products.

Snap-on established a joint venture in January 1999 with Newcourt Financial USA Inc., now The CIT Group, Inc. ("CIT"). The joint venture, Snap-on Credit LLC ("SOC"), is a 50%-owned joint venture that provides financial services to Snap-on's U.S. dealer and customer network and to Snap-on's industrial and other customers. Additional information about SOC is provided in Note 9 entitled "Snap-on Credit LLC Joint Venture" on pages 47 and 48 of Snap-on's 2003 Annual Report, incorporated herein by reference.

SOC originates loans primarily in three ways. First, extended-term contracts are offered to technicians to enable them to purchase tools and equipment on an extended-term payment plan, generally with an average term of 32 months. Second, lease financing is offered to shop owners and managers, both independent and national chains, who purchase equipment items. The duration of lease contracts is often two to five years. Third, financing options are also available to dealers to meet a number of financing needs, including van and truck leases, working capital loans, and loans to enable new dealers to fund the purchase of the franchise. The duration of these contracts can be up to 10 years. The above contracts are generally secured by the underlying tools or equipment financed and other dealer assets.

Currently, the majority of finance income is derived from the vehicle service industry in North America. Internationally, Snap-on continues to provide financing directly to its dealer and customer networks through its wholly owned credit subsidiaries.

Sales and Distribution

Snap-on markets and distributes its products and related services principally to professional tool and equipment users around the world. The two largest market sectors are the vehicle service and repair sector and the industrial sector.

Vehicle Service and Repair Sector

The vehicle service and repair sector has three main customer groups: professional technicians who purchase tools and equipment for themselves; vehicle service and repair shop owners and managers — including independent shops, national chains and automotive dealerships — who purchase equipment for use by multiple technicians within a service or repair facility; and vehicle manufacturers.

Snap-on provides innovative tool and equipment solutions, as well as technical sales support and training, to meet technicians' evolving needs. Snap-on's franchised dealer van distribution system offers technicians the convenience of purchasing quality tools with minimal disruption of their work routine. Snap-on also provides owners and managers of shops, where technicians work, with tools, diagnostics equipment, repair and service information, and shop management products. Snap-on provides vehicle manufacturers with products and services including tools, consulting services and facilitation services. Snap-on's facilitation services include product procurement, distribution and administrative support to customers for their dealership equipment programs.

Major challenges for Snap-on and the vehicle service and repair sector include the increasing rate of technological change within motor vehicles and the resulting impact on the businesses of both our suppliers and customers that is necessitated by such change. Snap-on believes it is a meaningful participant in the market sector for vehicle service and repair.

Industrial Sector

Snap-on markets its products to a wide variety of industrial customers including industrial maintenance and repair operations; manufacturing and assembly facilities; government facilities; schools; and original equipment manufacturers that require instrumentation or service tools and equipment for their products.

Major challenges in the industrial sector include a highly competitive, cost-conscious environment, and a trend toward customers making all of their tool purchases through one integrated supplier. Snap-on believes it is a meaningful participant in the market sector for industrial tools and equipment.

Distribution Channels

Snap-on serves customers primarily through three channels of distribution: the mobile dealer van channel ("dealers"), including the company's technical representatives ("tech rep") organization, company direct sales and distributors. The following discussion represents Snap-on's general approach in each channel, and is not intended to be all-inclusive.

Dealers and Technical Representatives

In the United States, the majority of sales to the vehicle service and repair sector are conducted through Snap-on's dealers and its tech rep organization. Snap-on's dealers primarily cover vehicle service technicians and vehicle service shop owners, providing weekly contact at the customer's place of business. Dealers' sales are concentrated in hand and power tools, tool storage units and small diagnostic and shop equipment, which can easily be transported in a van and demonstrated during a brief sales call. Dealers purchase Snap-on's products at a discount from suggested retail prices and resell them at prices established by the dealer. Although some dealers have sales areas defined by other methods, most U.S. dealers are provided a list of places of business that serves as the basis of the dealer's sales route.

Since 1991, new U.S. dealers, and a majority of the pre-1991 U.S. dealers, have been enrolled as franchisees of Snap-on. Snap-on also provides certain franchisees the opportunity to add vans to their franchise or to add a limited number of franchises through the company's "More Feet on the Street" dealer expansion and enhancement initiative launched nationally in 2000. Snap-on charges nominal initial and ongoing monthly license fees. Through SOC, financial assistance is available to franchised dealers, which includes van and truck leases, working capital loans, and loans to enable new dealers to fund the purchase of the franchise. At year-end 2003, approximately 95% or 4,032 of U.S. dealers were enrolled as franchisees, or employed by franchisees, versus approximately 94% or 3,945 at year-end 2002.

Snap-on has replicated its U.S. dealer van method of distribution in certain other countries, including Australia, Canada, Germany, Japan, Mexico, the Netherlands, South Africa, and the United Kingdom. In many of these markets, as in the United States, purchase decisions are generally made or influenced by professional vehicle service technicians and shop owners. Snap-on markets products in certain other countries through its subsidiary, Snap-on Tools International, Ltd., which sells to foreign distributors under license or contract with Snap-on.

Snap-on supports its dealers with an extensive field organization of branch offices, sales and field managers, and service and distribution centers. Snap-on also provides sales and business training, customer and dealer financing programs through SOC and through its wholly owned international credit operations, and marketing and product promotion programs designed to strengthen dealer sales. In the United States and Canada, the National Dealer Advisory Council and the Snap-on Tools Canadian Dealer Advisory Council, both of which are composed of dealers that are elected by dealers, assist Snap-on in identifying and implementing enhancements to the franchise program.

In the United States, dealers are supported by the tech rep sales force. Tech reps are specialists who demonstrate and sell higher-price-point diagnostics and shop equipment, as well as vehicle service shop management information systems. Tech reps work independently and with dealers to identify and generate sales leads among vehicle service shop owners and managers. Tech reps are Snap-on employees who are compensated primarily on the basis of commission; a dealer receives a brokerage fee from certain sales made by the tech reps to the dealer's customers. Most products sold through the dealer and tech rep organization are sold under the *Snap-on*, *Blue-Point, Sun* and *ShopKey* brand names.

Company Direct Sales

In the United States, a growing proportion of shop equipment sales under the *Sun, John Bean, Wheeltronic, White and Blackhawk* brands and information products under the *Mitchell1* brand are made by direct sales force that has responsibility for national accounts. As the vehicle service and repair sector

consolidates (with more business conducted by national chains, automotive dealerships and franchised service centers), these larger organizations can be serviced most effectively by sales people who can demonstrate and sell the full line of equipment and diagnostic products and services. Snap-on also sells these products and services directly to vehicle manufacturers.

To enhance its existing direct sales distribution network, in 2003, the company formed the Technical Automotive Group, a factory-direct sales force aimed at distributing equipment to repair service operations. *John Bean, White and Blackhawk* brands are sold directly to end customers primarily through sales leads generated from dealers and Tech reps.

Snap-on brand tools and equipment are marketed to industrial and governmental customers in the United States through both industrial sales representatives, who are employees, and independent industrial distributors. In most markets outside the United States, industrial sales are conducted through independent distributors. The sales representatives focus on industrial customers whose main purchase criteria are quality and service. At the end of 2003, Snap-on had industrial sales representatives in the United States, Australia, Canada, Japan, Mexico, Puerto Rico and some European countries, with the United States representing the majority of Snap-on's total industrial sales.

Distributors

Sales of certain tools and equipment are made through independent vehicle service and industrial distributors who purchase the items from Snap-on and resell them to the end users. Products supplied by Bahco, under the *Bahco, Fish and Hook* (design)*, Belzer, Pradines* and *Lindstrom* brands and trade names, for example, are sold through distributors in Europe, North and South America, Asia and certain other parts of the world. Wheel service and other vehicle service equipment are sold through distributors primarily under brands including *Hofmann,* and *Kansas Jack*. Hand tools under the *Irimo, Palmera* and *Acesa* brands and power tools under the *Sioux* brand, are differentiated from those products sold through the dealer, tech rep and direct sales channels. *Sun*-branded equipment is marketed through distributors in South America and Asia, and through both a direct sales force and distributors in Europe.

E-commerce

Snap-on's e-commerce development initiatives allow Snap-on to combine the capabilities of the Internet with Snap-on's existing brand sales and distribution strengths and to reach new and under-served customer segments. Snap-on began selling *Snap-on* brand products through the Internet in 2000 as part of its "Store Without Walls" vision, which offers both current and prospective customers online, around-the-clock access to purchase *Snap-on* and *Blue-Point* products through its public Website at www.snapon.com. The site features an online catalog containing nearly 14,000 products, including *Snap-on* hand tools, power tools, tool storage units and diagnostic equipment available to consumers and professionals in the United States, the United Kingdom, Canada and Australia. At the end of 2003, Snap-on had more than 165,000 registered users, including approximately 19,000 industrial accounts. In addition to its public Website, Snap-on began to host individual dealer Websites in 2002 to help franchised dealers extend their industry-leading service. These initiatives, as well as other system enhancement initiatives that are currently under development, are designed to further leverage the one-on-one relationships and service Snap-on has with its current and prospective customers. Through the development of its business-to-business and business-to-consumer capabilities, Snap-on and its dealers are enhancing communications with customers on a real-time, 24-hour, 7-days a week basis.

Competition

Snap-on competes on the basis of its product quality and performance, service, brand awareness and technological innovation. While no single company competes with Snap-on across all of its product lines and distribution channels, various companies compete in one or more product categories and/or distribution channels.

Snap-on believes that it is a leading manufacturer and distributor of professional tools and equipment, offering the broadest line of these products to the vehicle service industry. The major competitors selling to professional technicians in the vehicle service and repair sector through the mobile van channel include MAC Tools (The Stanley Works) and Matco (Danaher Corporation). Snap-on also competes with companies that sell through non-mobile van distributors including Facom (Fimalac), Sears, Roebuck and Co. and The Stanley Works. Within the power tools category, Snap-on's major competitors include Atlas Copco, Ingersoll-Rand, Cooper Industries, Inc., Black & Decker Corporation, Bosch, and Makita Corporation. In the industrial sector, major competitors include Armstrong (Danaher Corporation), Cooper Industries, Inc. and Proto (The Stanley Works). The major competitors selling diagnostics and shop equipment to shop owners and managers in the vehicle service and repair sector include Corghi S.p.A., Facom (Fimalac), Hennessy (Danaher Corporation), Hunter Engineering, OTC and Robinair (SPX Corporation), and Rotary and Chief Automotive (Dover Corporation).

Research and Engineering

Research and engineering expenses totaled $59.8 million, $57.1 million and $54.6 million in 2003, 2002 and 2001.

Raw Materials and Purchased Product

Snap-on's supply of raw materials (including various grades and alloys of steel bars and sheets) and purchased components are readily available from numerous suppliers.

Approximately 77% of 2003 consolidated net sales consisted of products manufactured by Snap-on, while the remaining 23% consisted of products purchased from outside suppliers. No single supplier's products accounted for a material portion of 2003 consolidated net sales.

Patents, Trademarks and Other Intellectual Property

Snap-on vigorously pursues and relies on patent protection to protect its intellectual property and its position in its markets. As of January 3, 2004, Snap-on and its subsidiaries held almost 1,000 active and pending patents in the United States and over 2,000 active and pending patents outside of the United States. No sales relating to any single patent represented a material portion of Snap-on's revenues in 2003 or 2002.

Examples of products that have features or designs that benefit from patent protection include wheel alignment systems, wheel balancers, sealed ratchets, electronic torque instruments, ratcheting screwdrivers, emissions-sensing devices, diagnostic equipment, and air conditioning equipment.

Much of the technology used in the manufacture of vehicle service tools and equipment is in the public domain. Snap-on relies primarily on trade secret protection to protect proprietary processes used in manufacturing. Methods and processes are patented when appropriate. Copyright protection is also utilized when appropriate.

Trademarks used by Snap-on are of continuing importance to Snap-on in the marketplace. Trademarks have been registered in the United States and more than 100 other countries, and additional applications for trademark registrations are pending. Snap-on vigorously polices proper use of its trademarks. Snap-on's right to manufacture and sell certain products is dependent upon licenses from others; however, these products under license do not represent a material portion of Snap-on's sales.

Domain names have become a valuable corporate asset for companies around the world, including Snap-on. Domain names often contain a trademark or service mark or even a corporate name and are often considered intellectual property. The recognition and value of the Snap-on name, trademark, and domain name are core strengths of the company. Snap-on has undertaken an initiative to centralize the administration of all domestic and international domain names, including all registrations and renewals. Snap-on also monitors new developments in top-level domains and country-code domains in order to preserve Snap-on's right to relevant domain names.

Working Capital

Because most of Snap-on's business is not seasonal and its inventory needs are relatively constant, no unusual working capital needs arise during the year.

Snap-on's financial condition and use of working capital are discussed in "Management's Discussion and Analysis," on pages 28 through 31 of Snap-on's 2003 Annual Report, incorporated herein by reference.

Snap-on does not depend on any single customer, small group of customers or government for any material part of its sales, and has no significant backlog of orders.

Environment

Snap-on is subject to various environmental laws, ordinances, regulations, and other requirements of government authorities in the United States and other nations. At Snap-on, these environmental liabilities are managed, controlled, and minimized through the Snap-on Environmental, Hygiene, and Safety Management System ("EH & SMS"), which is applied worldwide. The system is based upon continual improvement and world-class performance and is certified to ISO 14001:1996 and OHSAS 18001:1999, verified through Det Norske Veritas (DNV) Certification, Inc.

Snap-on complies with applicable environmental control requirements in its operations. Expenditures on environmental matters through EH & SMS have not had, and Snap-on does not for the foreseeable future expect them to have, a material effect upon Snap-on's capital expenditures, earnings or competitive position.

Employees

At the end of February 2004, Snap-on employed approximately 12,400 people compared to approximately 12,900 people at the end of February 2003. The year-over-year reduction primarily reflects the impact of restructuring-related eliminations.

Approximately 4,400 employees, or 35% of Snap-on's worldwide workforce, are represented by unions and / or covered under collective bargaining agreements. Of these, approximately 2,900 employees are covered under an agreement expiring in 2004 including approximately 400 covered employees affected by the planned closure of two of the company's domestic hand tool plants in 2004. In recent years, Snap-on has not experienced any significant work slow-downs, stoppages or other labor disruptions.

The number of covered union employees whose contracts expire within the next five years is approximately 2,900 in 2004, 800 in 2005, 500 in 2006, 0 in 2007 and 200 in 2008.

There can be no assurance that future contracts with Snap-on's unions will be renegotiated upon terms acceptable to Snap-on.

Item 2: Properties

Snap-on maintains both leased and owned manufacturing, warehouse, distribution and office facilities throughout the world. Snap-on believes that its facilities currently in use are suitable and have adequate capacity to meet its present and foreseeable future demand. Snap-on's facilities in the United States

occupy approximately 3.9 million square feet, of which 76% is owned, including its corporate and general offices located in Pleasant Prairie and Kenosha, Wisconsin. Snap-on’s facilities outside the United States contain approximately 4.1 million square feet, of which 66% is owned. Several of Snap-on’s facilities are leased through operating lease agreements. For information on operating leases, see Note 17 entitled “Commitments and Contingencies” on pages 57 and 58 of Snap-on’s 2003 Annual Report, incorporated herein by reference. Snap-on management continually monitors the company’s capacity needs and makes adjustments as dictated by market and other conditions.

The following table provides information about each of Snap-on’s principal manufacturing locations and distribution centers (exceeding 50,000 square feet) as of January 3, 2004. The company announced the closing of the Mt. Carmel, Illinois and Kenosha, Wisconsin, manufacturing facilities, which it expects to complete in the second quarter of 2004:

Location	Type of property	Owned/Leased	Segment *
U.S. Locations:			
Conway, Arkansas	Manufacturing	Owned	C&I
City of Industry, California	Manufacturing	Leased	C&I
Escondido, California	Manufacturing	Owned	D&I
Poway, California	Distribution and manufacturing	Leased	D&I
San Jose, California	Manufacturing	Leased	D&I
Columbus, Georgia	Distribution	Owned	C&I
Crystal Lake, Illinois	Distribution and customer	Owned	DG and C&I
Mt. Carmel, Illinois	Manufacturing	Owned	DG and C&I
Algona, Iowa	Manufacturing	Owned	DG and C&I
Olive Branch, Mississippi	Distribution and customer	Leased and owned	DG and C&I
Carson City, Nevada	Distribution and customer	Leased and owned	DG and C&I
Murphy, North Carolina	Distribution and manufacturing	Owned	C&I
Robesonia, Pennsylvania	Distribution and customer	Owned	DG and C&I
Elizabethton, Tennessee	Manufacturing	Owned	DG and C&I
Johnson City, Tennessee	Manufacturing	Owned	DG and C&I
Kenosha, Wisconsin	Manufacturing	Owned	DG and C&I
Milwaukee, Wisconsin	Manufacturing	Owned	DG and C&I
Non-U.S. Locations:			
Santo Tome, Argentina	Manufacturing	Owned	C&I
Minsk, Belarus	Manufacturing	Leased	C&I
Santa Barbara D'oeste, Brazil	Manufacturing, distribution and customer service center	Owned	C&I
Mississauga, Canada	Manufacturing	Leased	C&I
Newmarket, Canada	Distribution and manufacturing	Owned	DG and C&I
Kettering, England	Distribution	Owned	DG and C&I

Location	Type of property	Owned/Leased	Segment *
King's Lynn, England	Distribution and manufacturing	Leased and owned	D&I
Rotherham, England	Manufacturing	Leased	C&I
La Chapelle St. Ursin, France	Distribution and manufacturing	Leased	C&I
Pfungstadt, Germany	Manufacturing	Leased	C&I
Unterneukirchen, Germany	Manufacturing	Leased	C&I
Sopron, Hungary	Manufacturing	Owned	C&I
Correggio, Italy	Manufacturing	Owned	C&I
Juarez, Mexico	Manufacturing	Leased	D&I
Helmond, the Netherlands	Distribution	Owned	C&I
Vila do Conde, Portugal	Manufacturing	Owned	C&I
Irun, Spain	Manufacturing	Owned	C&I
Urretxu, Spain	Manufacturing	Owned	C&I
Vitoria, Spain	Distribution and manufacturing	Owned	C&I
Bollnäs, Sweden	Manufacturing	Owned	C&I
Edsbyn, Sweden	Manufacturing	Owned	C&I

Enköping, Sweden	Manufacturing	Owned	C&I
Lidköping, Sweden	Manufacturing	Owned	C&I
Sandviken, Sweden	Distribution	Leased	C&I

*	Segment abbreviations are as follows:
DG	Dealer Group
C&I	Commercial and Industrial Group
D&I	Diagnostics and Information Group

Item 3: Legal Proceedings

Snap-on has government contracts with federal departments and agencies, two of which are presently under audit by the U.S. General Services Administration. The two contracts involve sales from March 1996 through February 2001, and sales since February 2001. The primary focus of these audits concerns the interpretation and application of the price reduction provisions of these contracts.

On February 6, 2004, Snap-on received a letter from the Department of Justice indicating that they were seeking to discuss these audit findings with Snap-on before taking any further action. On March 2, 2004, the government provided Snap-on with their claim estimate of approximately $12 million for billing discrepancies relating to the audited contract periods from July 1997 through May 2002. Additional amounts could be claimed by the government for contract periods not covered by these audits. Snap-on intends to continue discussions with the government in an effort to advance its positions with respect to the government's claims. At this time, Snap-on cannot predict the period of time any discussions will take, or the outcome or specific consequences of these matters, which could include settlement, civil litigation by the government to recover treble damages and other penalties under the False Claims Act, as well as suspension or debarment from future government business or other legal or administrative action. Should the government prevail in these matters, the impact on Snap-on's results of operations would be material.

Snap-on held about 3,000 active or pending patents as of year-end 2003, and Snap-on vigorously prosecutes its claims and defends its patents in the ordinary course of business.

Snap-on is also involved in various other legal matters that are being defended and handled in the ordinary course of business. Snap-on maintains accruals for such costs that are expected to be incurred with regards to these matters. Although it is not possible to predict the outcome of these other legal matters, management believes that the results will not have a material impact on Snap-on's financial statements.

Item 4: Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders during the fourth quarter of the fiscal year ended January 3, 2004.

Item 4.1: Executive Officers of the Registrant

The executive officers of Snap-on, their ages, and their titles as of January 3, 2004 and positions held during the last five years are listed below.

Dale F. Elliott (49) – Chairman since April 2002 and President and Chief Executive Officer since April 2001. President – Diagnostics and Industrial from October 1998 to April 2001 and President – Snap-on Industrial from February 1995 to October 1998. Member of Snap-on's Board of Directors since 2001.

Martin M. Ellen (50) – Senior Vice President – Finance and Chief Financial Officer since November 2002. Prior to joining Snap-on, Mr. Ellen was Vice President and Chief Financial Officer for Cabot Microelectronics Corporation, a spin off of Cabot Corporation from March 2001 through October 2002. Mr. Ellen joined Cabot Microelectronics after serving as Senior Vice President and Chief Financial Officer of Whitman Corporation from October 1998 through the closing of its merger with PepsiAmericas, Inc. in 2001.

Michael F. Montemurro (55) – Senior Vice President and President – Worldwide Snap-on Dealer Group since November 2000 and Senior Vice President – Transportation from October 1998 to November 2000.

Nicholas T. Pinchuk (57) – Senior Vice President and President — Worldwide Commercial and Industrial Group since June 2002. Prior to joining Snap-on, Mr. Pinchuk was President of Global Refrigeration Operations for Carrier Corporation, a producer of air conditioning, heating and refrigeration systems, and a subsidiary of United Technologies Corporation, from July 1997 to June 2001. Prior to serving as president at Carrier Corporation, Mr. Pinchuk served in various executive, operational, planning and financial capacities within Carrier and United Technologies, including: President Asia-Pacific Air Conditioning Operations; Vice President, Strategic Planning; and Chief Financial Officer, Carrier International Corporation.

Alan T. Biland (45) – Vice President – Chief Information Officer and President — Diagnostics and Information Group since June 2001. Vice President – Chief Information Officer from April 1998 to June 2001. Prior to joining Snap-on, Mr. Biland was Director, Information Technology at Case Corporation, a manufacturer, marketer and distributor of farm and construction equipment, from December 1985 to December 1998.

Sharon M. Brady (53) – Vice President – Chief Human Resources Officer since January 2004. Vice President – Human Resources from December 1998 to January 2004. Prior to joining Snap-on, Ms. Brady was Vice President – Human Resources of the Home Services division of Sears Roebuck & Company from October 1994 to June 1998.

Jeffrey N. Eggert (43) – Vice President – Snap-on Tools Operations since February 2002. Assistant Treasurer and Controller — Worldwide Snap-on Dealer

Group from 1999 to 2002. Assistant Treasurer — Tax and Treasury from 1997 to 1999.

Constance R. Johnsen (46) – Vice President and Controller since October 2003. Director, Corporate Financial Reporting from July 2000 to October 2003. Prior to joining Snap-on, Ms. Johnsen was Senior Director, Accounting, Consolidations and Reporting for CNH Global N.V., a manufacturer of agricultural and construction equipment, from January 2000 to July 2000. Prior to serving as senior director at CNH Global, Ms. Johnsen held several financial management and reporting positions at Case Corporation, a manufacturer, marketer and distributor of farm and construction equipment, beginning in 1994.

Blaine A. Metzger (47) – Vice President — Finance and Treasurer since February 2004. Vice President – Finance from October 2003 to February 2004. Vice President and Controller from May 2001 to October 2003. Prior to joining Snap-on, Mr. Metzger was Chief Financial Officer for Crenlo, Inc., a manufacturer of cabs for agricultural and construction equipment, and a division of Dover Corporation from August 2000 to April 2001 and Vice President Financial Planning, Reporting and Finance Centers for CNH Global N.V., a manufacturer of agricultural and construction equipment, from November 1999 to March 2000. Prior to serving as vice president at CNH Global, Mr. Metzger held several financial management positions at Case Corporation, a manufacturer, marketer and distributor of farm and construction equipment, beginning in 1990.

Susan F. Marrinan (55) – Vice President, Secretary and Chief Legal Officer since January 2004. Vice President, Secretary and General Counsel from January 1992 to January 2004.

There is no family relationship among the executive officers and there has been no involvement in legal proceedings during the past five years that would be material to the evaluation of the ability or integrity of any of the executive officers. Executive officers may be elected by the Board of Directors or appointed by the Chief Executive Officer at the regular meeting of the Board of Directors that follows the Annual Shareholders' Meeting, which is ordinarily held in April each year, and at such other times as new positions are created or vacancies must be filled.

PART II

Item 5: Market for Registrant's Common Equity and Related Stockholder Matters

Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and dealer stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable. For the fiscal years ended 2003, 2002 and 2001, Snap-on repurchased 450,000 shares, 405,000 shares and 400,000 shares, respectively. Since 1997, Snap-on's Board of Directors has authorized the repurchase of up to $250 million of Snap-on's common stock. As of the end of 2003, Snap-on has remaining availability to repurchase up to an additional $144.0 million in common stock pursuant to the Board of Directors' authorizations. Snap-on expects to accelerate its planned 2004 full-year share repurchases of approximately 750,000 to 1,000,000 common shares. The purchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions. Since 1995, Snap-on has repurchased 10,844,583 shares. In 2003, Snap-on's average common stock repurchase price was $27.73

At January 3, 2004, Snap-on had 63,181,482 shares of common stock outstanding. This consists of 58,173,673 shares considered outstanding for purposes of computing earnings per share and an additional 5,007,809 shares held in a Grantor Stock Trust, which are considered outstanding for voting purposes but

not for purposes of computing earnings per share.

Snap-on's stock is listed on the New York Stock Exchange under the ticker symbol "SNA." As of January 31, 2004, there were 10,280 registered holders of Snap-on common stock.

Snap-on's common stock high and low prices for the last two fiscal years by quarter were as follows:

Common Stock High/Low Prices

Quarter	2003		2002	
	High	Low	High	Low
First	$28.82	$22.90	$34.96	$30.88
Second	$32.12	$24.76	$34.12	$29.00
Third	$29.91	$27.17	$29.90	$22.50
Fourth	$32.34	$27.60	$30.22	$21.50

Snap-on has paid quarterly cash dividends without interruption or decline, since 1939. In the fourth quarter of 2003, Snap-on's Board of Directors declared a $.25 per share quarterly dividend on its common stock. Cash dividends paid in 2003, 2002, and 2001 totaled $58.2 million, $56.5 million and $55.6 million. Snap-on's Board of Directors monitors and evaluates the company's dividend practice quarterly and the Board may elect to increase, decrease or not pay a dividend on Snap-on Common stock based upon the company's financial condition, results of operations, cash requirements and future prospects of Snap-on and other factors deemed relevant by the Board.

Additional information required by Item 5 is contained in the section entitled "Quarterly Financial Information" on page 61 of Snap-on's 2003 Annual Report and is incorporated herein by reference.

Item 6: Selected Financial Data

The information required by Item 6 is contained in the section entitled "Six-year Data" on page 18 of Snap-on's 2003 Annual Report and is incorporated herein by reference.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Item 7 is contained in the section entitled "Management's Discussion and Analysis" on pages 19 through 35 of Snap-on's 2003 Annual Report and is incorporated herein by reference.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

The information required by Item 7A is contained in the section entitled "Market, Credit and Economic Risks" on pages 33 and 34 and in Note 11 entitled "Financial Instruments" on pages 49 and 50 of Snap-on's 2003 Annual Report and is incorporated herein by reference.

Item 8: Financial Statements and Supplementary Data

Financial statements and supplementary data required by Item 8 are contained in Snap-on's 2003 Annual Report appearing in the sections entitled "Consolidated Statements of Earnings" on page 36, "Consolidated Balance Sheets" on page 37, "Consolidated Statements of Shareholders' Equity and Comprehensive Income" on page 38, "Consolidated Statements of Cash Flows" on page 39, "Notes to Consolidated Financial Statements" on pages 40 through 60, "Quarterly Financial Information" appearing on page 61, "Independent Auditors' Report" on pages 62 and 63, and "Report of Independent Public Accountants" on page 63, and is incorporated herein by reference.

Snap-on's quarterly earnings before cumulative effect of a change in accounting principle and related earnings per share for the fiscal years ended January 3, 2004, and December 28, 2002, were as follows:

(Amounts in millions, except per share data)	Quarterly Earnings (loss) before Cumulative Effect	Quarterly Earnings (loss) per Share before Cumulative Effect	
2003:		Basic	Diluted
First	$ 21.4	$ 0.37	$ 0.37
Second	$ 22.3	$ 0.38	$ 0.38
Third	$ 17.7	$ 0.30	$ 0.30
Fourth	$ 17.3	$ 0.30	$ 0.30

2002:

First	$ 21.7	$ 0.37	$ 0.37
Second	$ 29.2	$ 0.50	$ 0.50
Third	$ 19.2	$ 0.33	$ 0.33
Fourth	$ 33.1	$ 0.57	$ 0.56

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

The information required by Item 9 is contained in the section entitled "Item 4. Changes in Registrant's Certifying Accountant" on page 2 of Form 8-K filed on June 21, 2002, and is incorporated herein by reference. Effective June 14, 2002, Snap-on dismissed Arthur Andersen LLP as its independent auditors. For further information see the section entitled "Independent Auditor" in Snap-on's Proxy Statement dated March 25, 2004.

Item 9A: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out under the supervision and with the participation of Snap-on's management, including its Chairman of the Board, President and Chief Executive Officer and its Senior Vice President – Finance and Chief Financial Officer, of the effectiveness of the design and operation of Snap-on's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon their evaluation of these disclosure controls and procedures, the Chairman of the Board, President and Chief Executive Officer and the Senior Vice President – Finance and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the fiscal year ended January 3, 2004 to ensure that material information relating to Snap-on, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Annual Report on Form 10-K was being prepared.

(b) Changes in internal controls. There were no changes in Snap-on's internal control over financial reporting that occurred during the quarter ended January 3, 2004 that have materially affected, or are reasonably likely to materially affect Snap-on's internal control over financial reporting.

PART III

Item 10: Directors and Executive Officers of the Registrant

Incorporated by reference to sections entitled "Proposal to be Voted on: Election of Directors," "Board Committees," "Board Compensation" and "Other Information" in Snap-on's Proxy Statement which is expected to first be mailed to shareholders on March 25, 2004.

With respect to information about Snap-on's executive officers, see Item 4.1, "Executive Officers of the Registrant," at the end of Part I of this Report.

The Section 16(a) filing compliance disclosure pursuant to Item 405 of Regulation S-K is contained in Snap-on's Proxy Statement, which is expected to first be mailed to shareholders on March 25, 2004, in the section entitled "Other Information – Section 16(a) Beneficial Ownership Reporting Compliance", and is incorporated herein by reference.

Code of Ethics and Website Disclosure

Snap-on has adopted a written code of ethics that applies to its Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and Controller and all other financial officers and executives performing similar functions. A copy of this code of ethics is attached as an exhibit to this annual report on Form 10-K. Snap-on will also post a copy of the code of ethics on its corporate Website at www.snapon.com/investor/investor.asp. Shareholders may request a copy of the code of ethics in print by written request directed to the Corporate Secretary, 2801 80th Street, Kenosha, Wisconsin 53141.

Snap-on intends to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendments to, or waivers from, the code of ethics by posting such information on its corporate Website http://www.snapon.com/investor/investor.asp.

Item 11: Executive Compensation

The information required by Item 11 is contained in Snap-on's Proxy Statement, dated March 25, 2004, in the section entitled "Executive Compensation" and "Other Information" and is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is contained in Snap-on's Proxy Statement, which is expected to first be mailed to shareholders on March 25, 2004, in the section entitled "Board of Directors —Security Ownership of Management and Certain Beneficial Owners" and is incorporated herein by reference.

The information with respect to Item 201(d) of Regulation S-K as of January 3, 2004, is as follows:

Equity Compensation Plan Information

Proxy category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	5,718,683[1]	$30.23[2]	3,365,300[3]
Equity compensation plans not approved by security holders	333,608[4]	Not Applicable	[5]
Total	6,052,291	$30.23	3,365,300[5]

(1) Includes (i) options to acquire 3,494,853 shares granted under the 1986 Incentive Stock Program; (ii) options to acquire 2,147,366 shares granted under the 2001 Incentive Stock and Awards Plan; (iii) 76,464 shares represented by deferred share units under the Directors' Fee Plan. Excludes 5,600 shares issuable in connection with the vesting of restricted share units under the 2001 Incentive Stock and Awards Plan. Also excludes shares of common stock that may be issuable under the employee stock purchase plan and the dealer stock purchase plan.

(2) Reflects only the weighted-average exercise price of outstanding stock options granted under the 2001 Incentive Stock and Awards Plan and the 1986 Incentive Stock Program and does not include shares represented by deferred share units under the Directors' Fee Plan and shares issuable in connection with the vesting of restricted share units under the 2001 Incentive Stock and Awards Plan for which there is no exercise prices. Also excludes shares of common stock that may be issuable under the employee stock purchase plan and the dealer stock purchase plan.

(3) Includes (i) 2,578,047 shares reserved for issuance under the 2001 Incentive Stock and Awards Plan (which may be issued upon the exercise of stock options or granted as restricted stock or restricted share units); (ii) 168,347 shares reserved for issuance under the Directors' Fee Plan; (iii) 454,286 shares reserved for issuance under the employee stock purchase plan; and (iv) 164,620 shares reserved for issuance under the dealer stock purchase plan.

(4) Consists of deferred share units under Snap-on's Deferred Compensation Plan. Snap-on's Deferred Compensation Plan allows elected and appointed officers of Snap-on to defer all or a percentage of their respective annual salary and/or incentive compensation. The deferred share units are payable in shares of Snap-on Common Stock on a one-for-one basis and are calculated at fair market value. Shares of Common Stock delivered under the Deferred Compensation Plan are previously issued shares reacquired and held by Snap-on.

(5) The Deferred Compensation Plan provides that Snap-on will make available as and when required a sufficient number of shares of Common Stock to meet the needs of the plan. It further provides that such shares shall be previously issued shares reacquired and held by Snap-on.

Item 13: Certain Relationships and Related Transactions

None.

Item 14: Principal Accounting Fees and Services

Incorporated by reference to the sections entitled "Audit Committee Report" and "Deloitte & Touche LLP Fee Disclosure" in Snap-on's Proxy Statement which is expected to first be mailed to shareholders on March 25, 2004.

PART IV

Item 15: Exhibits, Financial Statement Schedules and Reports on Form 8-K

Item 15(a): Documents filed as part of this report:

1. List of Financial Statements

The following consolidated financial statements of Snap-on and the Independent Auditors' Report and Report of Independent Public Accountants thereon, contained on pages 36 through 60 and on pages 62 and 63 of Snap-on's 2003 Annual Report to its shareholders, are filed as part of this report:

Consolidated Statements of Earnings for the years ended January 3, 2004, December 28, 2002, and December 29, 2001.

Consolidated Balance Sheets as of January 3, 2004, and December 28, 2002.

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended January 3, 2004, December 28, 2002, and December 29, 2001.

Consolidated Statements of Cash Flows for the years ended January 3, 2004, December 28, 2002, and December 29, 2001.

Notes to Consolidated Financial Statements.

Independent Auditors' Report.

Report of Independent Public Accountants.

2. Financial Statement Schedules

The following consolidated financial statement schedules of Snap-on filed as part of this report:

Schedule II Valuation and Qualifying Accounts and Reserves — page 27 herein.

Independent Auditors' Report — page 28 herein.

Report of Independent Public Accountants on Financial Statement Schedule – page 29 herein.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are inapplicable and, therefore, have been omitted, or are included in Snap-on's 2003 Annual Report in the Notes to Consolidated Financial Statements for the years ended January 3, 2004, December 28, 2002, and December 29, 2001, which are incorporated by reference in Item 8 of this report.

3. List of Exhibits

The exhibits filed with or incorporated by reference in this report are as specified in the exhibit index on pages 24 through 26 herein.

Item 15(b): Reports on Form 8-K

During the fourth quarter of 2003, Snap-on reported the following on Form 8-K:

Date Filed	Date of Report	Item
October 22, 2003	October 22, 2003	Snap-on filed a Form 8-K furnishing under Item 12 Snap-on's press release entitled "Snap-on Reports Sales Increase of 4.6% and EPS of $.30 for the Third Quarter, Results include $.15 per Share of Costs to Close Two Facilities, Strong Cash Flow Continues."

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Snap-on has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SNAP-ON INCORPORATED

By: /s/ Dale F. Elliott
Dale F. Elliott, Chairman of the Board of Directors,
President and Chief Executive Officer

Date: March 16, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Snap-on and in the capacities and on the date indicated.

/s/ Dale F. Elliott
Dale F. Elliott, Chairman of the Board of Directors,
President and Chief Executive Officer

Date: March 16, 2004

/s/ Martin M. Ellen
Martin M. Ellen, Principal Financial Officer, Chief
Financial Officer, and Senior Vice President - Finance

Date: March 16, 2004

/s/ Blaine A. Metzger
Blaine A. Metzger, Principal Accounting Officer,
Vice President - Finance and Treasurer

Date: March 16, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Snap-on and in the capacities and on the date indicated.

By: /s/ Bruce S. Chelberg
Bruce S. Chelberg, Director
Date: March 16, 2004

By: /s/ Roxanne J. Decyk
Roxanne J. Decyk, Director
Date: March 16, 2004

By: /s/ Leonard A. Hadley
Leonard A. Hadley, Director
Date: March 16, 2004

By: /s/ Arthur L. Kelly
Arthur L. Kelly, Director
Date: March 16, 2004

By: /s/ W. Dudley Lehman
W. Dudley Lehman, Director
Date: March 16, 2004

By: /s/ Jack D. Michaels
Jack D. Michaels, Director
Date: March 16, 2004

By: /s/ Lars Nyberg
Lars Nyberg, Director
Date: March 16, 2004

By: /s/ Frank S. Ptak
Frank S. Ptak, Director
Date: March 16, 2004

By: /s/ Edward H. Rensi
Edward H. Rensi, Director
Date: March 16, 2004

By: /s/ Richard F. Teerlink
Richard F. Teerlink, Director
Date: March 16, 2004

By: ____________________
John F. Fiedler, Director*

* Mr. Fiedler was not a Director during 2003. He first became a Director in February 2004, and is listed here because he was a Director at the time of the filing. Under the circumstances, as a majority of Directors had signed, he was not required to sign and the Company did not request him to sign this document.

Item 15(c): Exhibits

(3)(a) Restated Certificate of Incorporation of the Corporation as amended through April 25, 1997 (incorporated by reference to Exhibit 3(a) to Snap-on's Annual Report on Form 10-K for the fiscal year ended January 2, 1998 (Commission File No. 1-7724))

(b) Bylaws of the Corporation, effective as of January 26, 1996 (incorporated by reference to Exhibit 3(b) to Snap-on's Annual Report on Form 10-K for the fiscal year ended December 30, 1996 (Commission File No. 1-7724))

(4)(a) Rights Agreement between the Corporation and First Chicago Trust Company of New York, effective as of August 22, 1997 (incorporated by reference to Snap-on's Form 8-A12B dated October 17, 1997 (Commission File No. 1-7724))

(b) Amendment No. 1 to the Rights Agreement dated as of September 24, 2001 between the Corporation and EquiServe Trust Company, N.A. (successor to First Chicago Trust Company of New York) (incorporated by reference to Snap-on's Form 8-A/A dated September 26, 2001 (Commission File No. 1-7724))

Snap-on and its subsidiaries have no unregistered long-term debt agreement for which the related outstanding debt exceeds 10% of consolidated total assets as of December 28, 2002. Copies of debt instruments for which the related debt is less than 10% of consolidated total assets will be furnished to the Commission upon request.

(10) Material Contracts

(a) Amended and Restated Snap-on Incorporated 1986 Incentive Stock Program (incorporated by reference to Exhibit 10(a) of Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(b) Amended and Restated Snap-on Incorporated 2001 Incentive Stock and Awards Plan (incorporated by reference to Exhibit 10(b) of Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(c) Form of Restated Senior Officer Agreement between the Corporation and each of Dale F. Elliott, Alan T. Biland, Sharon M. Brady, Martin M. Ellen, Susan F. Marrinan, Michael F. Montemurro and Nicholas T. Pinchuk (incorporated by reference to Exhibit 10(c) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(d) Form of Restated Executive Agreement between the Corporation and each of Richard V. Caskey, Jeffrey N. Eggert, Gary S. Henning, Nicholas L. Loffredo, Denis J. Loverine, Blaine A. Metzger and William H. Pfund (incorporated by reference to Exhibit 10(d) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(e) Form of Indemnification Agreement between the Corporation and each of Dale F. Elliott, Alan T. Biland, Sharon M. Brady, Jeffrey N. Eggert, Martin M. Ellen, Susan F. Marrinan, Blaine A. Metzger, Michael F. Montemurro and Nicholas T. Pinchuk effective October 24, 1997 (incorporated by reference to Exhibit 3(a) to Snap-on's Annual Report on Form 10-K for the fiscal year ended January 2, 1998 (Commission File No. 1-7724))*

(f) Amended and Restated Snap-on Incorporated Directors' 1993 Fee Plan (incorporated by reference to Exhibit 10(e) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(g) Snap-on Incorporated Deferred Compensation Plan ((as amended through August 21, 2003) incorporated by reference to Exhibit 10.1 to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003)*

(h) Snap-on Incorporated Supplemental Retirement Plan for Officers#*

(i) Amended and Restated Benefit Trust Agreement between the Corporation and The Northern Trust Company, dated as of July 2, 1998 and amended and restated as of March 17, 2000 (incorporated by reference to Snap-on's Form 8-K dated March 17, 2000 (Commission File No. 1-7724))

(j) Five-year Credit Agreement between the Corporation and Salomon Smith Barney Inc., Banc One Capital Markets Inc. and the First National Bank of Chicago (incorporated by reference to Exhibit 10(a) to Snap-on's report on Form 10-Q for the quarterly period ended October 2, 1999 (Commission File No. 1-7724))

(k) 364-Day Credit Agreement between the Corporation and Salomon Smith Barney Inc., Banc One Capital Markets Inc. and the First National Bank of Chicago (incorporated by reference to Exhibit 10(a) to Snap-on's report on Form 10-Q for the quarterly period ended October 2, 1999 (Commission File No. 1-7724))

(l) Amended and Restated 364-Day Credit Agreement between the Corporation and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., Citibank, N.A. and Bank One, N.A. (incorporated by reference to Exhibit 10(a) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended September 28, 2002 (Commission File No. 1-7724))

(m) Amended and Restated 364-Day Credit Agreement between the Corporation and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., Citibank, N.A. and Bank One, N.A. (incorporated by reference to Exhibit 10.1 to Snap-on's report on Form 10-Q for the quarter ended September 29, 2001 (Commission File No. 1-7724))

(n) Amended and Restated 364-Day Credit Agreement between the Corporation and Citigroup Global Markets Inc., Banc One Capital Markets, Inc., Citibank N.A. and Bank One N.A. (incorporated by reference to Exhibit 10.2 of Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003 (Commission File No. 1-7724))

(o) Amended and Restated Five Year Credit Agreement between the Corporation and Salomon Smith Barney Inc., Banc One Capital Markets Inc., Citibank, N.A. and Bank One, N.A. (incorporated by reference to Exhibit 10(o) to Snap-on's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 1-7724))

(p) Form of Severance Agreements between the Corporation and each of Alan T. Biland, Sharon M. Brady, Dale F. Elliott, Nicholas L. Loffredo, Susan F. Marrinan and Michael F. Montemurro dated October 27, 2000 (incorporated by reference to Exhibit 10(t) to Snap-on's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 1-7724))*

(q) Form of Split-Dollar Insurance Plan Agreement between the Corporation and each of Dale F. Elliott, Susan F. Marrinan and Michael F. Montemurro (incorporated by reference to Exhibit 10(v) to Snap-on's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 1-7724))*

(r) Form of Amendment to Split-Dollar Insurance Plan Agreement between the Corporation and each of Dale F. Elliott, Susan F. Marrinan and Michael F. Montemurro (incorporated by reference to Exhibit 10(w) to Snap-on's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 1-7724))*

(s) Form of Split-Dollar Insurance Plan Agreement between the Corporation and each of Dale F. Elliott, Alan T. Biland, Sharon M. Brady and Michael F. Montemurro (incorporated by reference to Exhibit 10(g) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (Commission File No. 1-7724))*

(t) Form of Termination of Split-Dollar Insurance Plan Agreement between the Corporation and each of Dale F. Elliott, Alan T. Biland, Sharon M. Brady, Susan F. Marrinan and Michael F. Montemurro#*

(u) Employment Agreement between the Corporation and Dale F. Elliott, effective as of April 27, 2001 (incorporated by reference to Exhibit 10.2 to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 (Commission File No. 1-7724))*

(v) Form of Share and Performance Award Agreement and Form of Deferred Share and Performance Award Agreement between the Corporation and each of Dale F. Elliott, Martin M. Ellen, Michael F. Montemurro, Nicholas T. Pinchuk, Alan T. Biland, Jeffrey N. Eggert, Susan F. Marrinan, and Blaine A. Metzger dated April 1, 2002 (incorporated by reference to Exhibit 10(a) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002 (Commission File No. 1-7724))*

(w) Form of Share and Performance Award Agreement and Form of Deferred Share and Performance Award Agreement between the Corporation and each of Dale F. Elliott, Martin M. Ellen, Michael F. Montemurro, Nicholas T. Pinchuk, Alan T. Biland, Jeffrey N. Eggert, Susan F. Marrinan, and Blaine A. Metzger dated March 14, 2003 (incorporated by reference to Exhibit 10(d) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2003 (Commission File No. 1-7724))*

(x) Snap-on Incorporated 2003 Executive Management Incentive Program (incorporated by reference to Exhibit 10(b) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2003 (Commission File No. 1-7724))*

(y) Snap-on Incorporated 2003 Executive Qualitative Incentive Program (incorporated by reference to Exhibit 10(c) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2003 (Commission File No. 1-7724))*

(z) Letter agreement between the Corporation and Mr. Pinchuk dated June 4, 2002 (incorporated by reference to Exhibit 10(b) to Snap-on's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002)(Commission File No. 1-7724)*

(aa) Snap-on Incorporated Section 406 of the Sarbanes-Oxley Act Code of Ethics#

(12) Computation of Ratio of Earnings to Fixed Charges#

(13) The following portions of Snap-on's Annual Report to Shareholders, which are incorporated by reference in this Form 10-K, are filed as Exhibit 13: Six-year Data, Management's Discussion and Analysis, Consolidated Statements of Earnings, Consolidated Balance Sheets, Consolidated Statements of Shareholders' Equity and Comprehensive Income, Consolidated Statements of Cash Flows, Notes to Consolidated Financial Statements, Quarterly Financial Information, Management's Responsibility for Financial Reporting, Independent Auditor's Report and Report of Independent Public Accountants#

(21) Subsidiaries of the Corporation#

(23) a. Independent Auditors' Consent of Deloitte & Touche LLP#
b. Information Regarding Consent of Arthur Andersen LLP#

(31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#

(31.2) Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#

(32.1) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This certification accompanies the issuer's Annual Report on Form 10-K and is not filed as provided in SEC Release Nos. 33-8212, 34-47551 and IC-25967

(32.2) Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This certification accompanies the issuer's Annual Report on Form 10-K and is not filed as provided in SEC Release Nos. 33-8212, 34-47551 and IC-25967

Filed herewith.
* Denotes management contract or compensatory plan or arrangement.

Item 15(d): Schedules

SCHEDULE II –VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Amounts in millions)

Description	Balance at Beginning of Year	Expenses	Deductions (1)	Other - Net	Balance at End of Year
Allowance for doubtful accounts:					
Year ended January 3, 2004	$41.2	$34.1	$(30.3)	$ -	$45.0
Year ended December 28, 2002	$39.6	$38.7	$(37.2)	$0.1	$41.2
Year ended December 29, 2001	$40.9	$31.4	$(32.7)	$ -	$39.6

(1) This amount represents write-offs of bad debts.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Snap-on Incorporated:

We have audited the consolidated financial statements of Snap-on Incorporated and Subsidiaries (the "Company") as of January 3, 2004 and December 28, 2002, and for each of the years then ended and have issued our report thereon dated February 3, 2004, (except for Paragraph 7 and 8 of Note 17, to which the date is March 12, 2004) (which expresses an unqualified opinion and includes explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," a revision of prior-period financial statements for the transitional disclosures required upon adoption of SFAS No. 142 and the change in presentation of its reportable segments); such financial statements and report are included in your 2003 Annual Report to Shareholders and are incorporated herein by reference. Our audits also include the 2003 and 2002 financial statement schedules of the Company, listed in Item 15(d). The 2003 and 2002 financial statement schedules are the responsibility of Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly in all material respects the information set forth therein. The 2001 schedule was subject to auditing procedures by other auditors who have ceased operations and whose report dated January 29, 2002, stated that such information is fairly stated in all material respects when considered in relation to the basic 2001 financial statements taken as a whole.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
February 3, 2004

The following Report of Independent Public Accountants is a copy of a report that Arthur Andersen LLP previously issued in connection with Snap-on's Annual Report on Form 10-K for the year ended December 29, 2001. Effective June 14, 2002, Snap-on dismissed Arthur Andersen LLP as its independent auditors. Arthur Andersen LLP has not reissued this report in connection with the preparation of Snap-on's Annual Report on Form 10-K for the years ended January 3, 2003, and December 28, 2002, and the report related only to Snap-on's financial statements as of and for the year ended December 29, 2001. See Exhibit 23b for further discussion.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in Snap-on Incorporated's ("Snap-on") Annual Report to Shareholders, incorporated by reference in this Form 10-K, and have issued our report thereon dated January 29, 2002. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed on page 28 is the responsibility of Snap-on's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 29, 2002

EXHIBIT 10(h)

SNAP-ON INCORPORATED SUPPLEMENTAL RETIREMENT PLAN FOR OFFICERS

(As amended and effective October 23, 2003)

SECTION 1 — INTRODUCTION

1.1 SNAP-ON INCORPORATED SUPPLEMENTAL RETIREMENT PLAN FOR OFFICERS (the "Plan") was originally established by Snap-on Incorporated for the benefit of eligible employees of that corporation and its subsidiaries that adopted the Plan with that corporation's consent (1/28/94, effective 4/22/94). The Plan is intended to constitute an unfunded "excess benefit plan" as defined in Section 3(36) of the Employee Retirement Income Security Act of 1974 ("ERISA") and an unfunded Plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees as defined in Section 201(2) of ERISA (6/28/91). Benefits payable from the Plan will be paid solely from the general assets of the Corporation or other employers under the Plan.

1.2 Effective Date. The "effective date" of the Plan as originally set forth is August 26, 1983, and the amended version set forth below is effective January 1, 2001, except that the provisions relating to Elections (as defined below) shall be effective December 31, 2000.

1.3 Employers. The term "Corporation" means Snap-on Tools Corporation until such date that name "Snap-on Tools Corporation" is changed to "Snap-on Incorporated" by shareholder approval, and on such date "Corporation" shall mean Snap-on Incorporated or any successor thereto. The Corporation and any subsidiary of the Corporation which adopts the Plan with the consent of the Corporation is referred to herein individually as an "employer" and collectively as the "employers" (1/28/94, effective 4/22/94).

1.4 Purpose. The Plan has been established to supplement retirement benefits provided by the Snap-on Incorporated Retirement Plan ("SIRP") in the event that benefits provided under the SIRP are limited by the benefit restrictions imposed under ERISA and/or limited due to participation in Snap-on Incorporated Deferred Compensation Plan. Notwithstanding any provisions hereof to the contrary, the Corporation intends that the Supplemental Benefits of each Participant who was an active employee on October 26, 2001 shall be determined in a manner consistent with the materials provided to each such Participant in connection with his Retirement Program Choice Election Form and subject to the understandings, information, representations, and acknowledgements to which each such Participant certified on such Form, and the Corporation is authorized, in its sole discretion, to interpret, to construe, and to recommend to the Board of Directors the amendment of, any of the terms of the Plan, and to supply any omissions, for the purpose of carrying out its intentions and, without limitation, to insure that there are no unintended enhancements of the Supplemental Benefits provided hereunder.

1.5 Additional Definitions. The following are definitions of terms and provisions not found elsewhere in the Plan, and certain other terms and provisions are defined where they first appear:

1.5.1 "Account-Based Participant" shall mean, collectively, each employee who becomes a Participant on or after January 1, 2001 who is a Qualified Account-Based Participant, and each Participant who selected Option 2 or Option 4 on his Retirement Selection Form.

1.5.2 "Actuarial Equivalent" shall mean a form of benefit differing in time period, or manner of payment, from the Normal Form of benefit provided under the Plan, but where the actuarial reserve required to provide such form of benefit is equal to the actuarial reserve required to provide the Normal Form of Supplemental Benefit and will be based on the interest assumptions and the mortality factors set forth in Section 6.12(a) of Article III of the SIRP; provided, however, that, solely in the case of a Final-Average Participant, in converting his Normal Form to a different Available Payment Form, the Plan shall use (i) the mortality table set forth in Section 6.12(b)(ii) of Article III of the SIRP, and (ii) an interest rate equal to the greater of (x) the interest rate which would be used as set forth in Section 6.12(b)(i) of Article III of the SIRP, or (y) the FAS 87 interest rate at the time, reduced by 1.5%; and provided, finally, that, notwithstanding the foregoing, for all purposes of Section 8 of the Plan, it shall have the meaning set forth in Subsection 8.4. Notwithstanding any provision hereof to the contrary, the Corporation shall have the authority, in its sole discretion, to recommend to the Board of Directors of the amendment of, the provisions of this subsection 1.5.2 in any respect effective as of any date occurring after the calendar year during which such amendment is adopted.

1.5.3 "Annuity Payments" shall mean (i) in the case of a Final-Average Participant, payment of his Supplemental Benefits in the manner provided in Subsection 2.3(a), and (ii) in the case of an Account-Based Participant, payment of his Supplemental Benefits monthly for his lifetime with a guarantee of total payments equal to the Lump Sum amount of such Participant's original Supplemental Benefit.

1.5.4 "Available Payment Form" shall mean payment (i) in a Lump Sum, (ii) in 120, 180 or 240 Installment Payments, or (iii) in Annuity Payments, each as further described in the "Supplemental Pension Election Form" furnished to each Participant on or before December 31, 2001.

1.5.5 "Elect", "Election" and similar terms shall mean the timely filing of a complete and timely executed Election Form with the Corporation, in which a Participant Elects to have his Supplemental Benefits paid in an Available Payment Form. Only the last Election Form filed on or before such Participant's Final Election Date shall be such Participant's Election. In the absence of a valid Election (as determined by the Corporation in its sole discretion), a Participant's Supplemental Benefits will be paid in the Normal Form.

1.5.6 "Election Form" shall mean a written form, prepared and distributed by the Corporation, on which the Participant may select the Available Payment Form in which his Supplemental Benefits will be distributed and such other matters as shall be determined by the Corporation.

1.5.7 "Final-Average Participant" shall mean, collectively, each employee who becomes a Participant on or after January 1, 2001, who is a Qualified Final-Average Participant, each Participant who selected Option 1 or Option 3 on his Retirement Selection Form, and each Participant on October 26, 2001 who was not an employee of Snap-on Incorporated or any subsidiary employer on that date.

1.5.8 "Final Election Date" with respect to selection of the Available Payment Form shall mean the last day of the calendar year preceding the calendar year in which a Participant Separates; provided; however, that notwithstanding the foregoing, each Participant, whose Final Election Date would otherwise be December 31, 2000, may Elect, on an Election Form filed on or before December 31, 2000, to postpone his Final Election Date until any date after December 31, 2001.

1.5.9 "Installment Payment" shall mean payment of a Participant's Supplemental Benefits in equal payments made on the first day of each calendar month for a fixed period of calendar months.

1.5.10 "Lump Sum"shall mean payment of a Participant's Supplemental Benefits in a single payment.

1.5.11 "Normal Form" shall mean payment of a Participant's Supplemental Benefits (i) in the case of a Final-Average Participant, in an Annuity Payment, and (ii) in the case of an Account-Based Participant, in a Lump Sum.

1.5.12 "Participant" shall mean a Final-Average Participant, and an Account-Based Participant, collectively, except that where it is necessary or appropriate to identify a particular category of Participant, there will be an appropriate specific reference.

1.5.13 "Retirement Date" shall mean the date on which a Participant retires as determined in Subsection 2.3(c).

1.5.14 "Separates" and "Separation" shall mean a Participant's termination of employment with Snap-on Incorporated and any subsidiary employer for any reason (including death or disability).

1.5.15 "Supplemental Benefits" shall mean the retirement benefit which the Participant has earned under Subsection 2.2.

1.5.16 "Qualified Account-Based Participant" shall mean each Participant who is participating in the Account-Based Component of the SIRP .

1.5.17 "Qualified Final-Average Participant" shall mean each Participant who is participating in the Final Average Pay Component of the SIRP.

1.5.18 "Retirement Selection Form" shall mean the form entitled "Your Snap-on Retirement Program Choice Election Form" provided to each Participant who became and employee of Snap-on Incorporated or any subsidiary employer prior to January 1, 2001 and continued to be such an employee on October 26, 2001.

1.5.19 "Adjusted Benefits" shall mean the benefits payable to a Participant under the SIRP expressed in a form, and subject to the adjustments, which the Corporation determines are required to enable the Corporation to calculate the Supplemental Benefits hereunder.

SECTION 2 — PARTICIPATION AND SUPPLEMENTAL BENEFITS

2.1 Eligibility. Each employee of Snap-on Incorporated or any subsidiary employer who was a Participant in the Plan will continue to be eligible to participate in the Plan in accordance with the terms of the Plan. Each employee of the Corporation will become a Participant in the Plan and eligible for benefits in accordance with Subsection 2.2, provided that such Participant meets the following requirements:

(a) The employee:

(i) is an elected officer of the Corporation, as determined under the Bylaws of the Corporation (1/28/94, effective 4/22/94); or

(ii) is an elected officer of Snap-On Tools Company LLC; or

(iii) is an appointed officer of the Corporation; or

(iv) is an appointed officer of Snap-On Tools Company LLC; or

(v) is an employee of an employer whose employment grade is Grade 37 or higher; or

(vi) is an employee of an employer who is designated as a Participant by the Organization and Executive Compensation Committee of the Corporation's Board of Directors or by the Corporation's Chief Executive Officer from time to time; and (10/23/03, effective 1/1/04)

(b) Such employee is a member of the SIRP (1/28/94, effective 4/22/94).

2.2 Supplemental Benefits. Supplemental benefits payable to or on behalf of a Participant under the Plan shall be calculated as of his Retirement Date and (i) in the case of a Final-Average Participant shall be equal to the difference (if any) between (w) the retirement income or the pre-retirement spouse's benefit,

computed for the Participant (and, if such Final-Average Participant is a Qualified Account-Based Participant, computed as though he were a Qualified Final-Average Participant) or his surviving spouse in accordance with the provisions of the Final Average Pay Component of the SIRP (disregarding any benefit or compensation limitations contained in ERISA and/or limited due to participation in Snap-on Tools Corporation Deferred Compensation Plan) (6/28/91), and (x) the Adjusted Benefit which is actually payable under the SIRP; and (ii) in the case of an Account-Based Participant, shall be equal to the difference (if any) between (y) the full amount of the Participant's Account Balance computed for the Participant (and, if such Account-Based Participant is a Qualified Final-Average Participant, computed as though he were a Qualified Account-Based Participant) in accordance with the provisions of the Account-Based Component of the SIRP as though such Account-Based Participant had elected to participant in the Account-Based Component on July 1, 2001, except that (A) in computing such Account-Based Participant's Opening Account Balance there shall be substituted, for such Account-Based Participant's "final average accrued benefit" in Section 4.4 of Article II of the SIRP, the amount which would be determined under (i) (w) of this Subsection 2.2 if such Account-Based Participant were a Final-Average Participant and his Retirement Date was June 30 2001; and (B) his Earnings under Section 4.5 of Article II of the SIRP were determined without regard to the last sentence thereof, and (z) the Adjusted Benefit which is actually payable under the SIRP; in each case subject to the following limitations:

(a) Should employment of any person other than Robert A. Cornog continue after service as an officer terminates, retirement benefits under this Plan will not accrue after the calendar year in which service as an officer terminates. Effective October 27, 2000, Robert A. Cornog's retirement benefits under this Plan will accrue through March 31, 2002 as if he were an officer through March 31, 2002, regardless of his actual status as an officer after October 27, 2000 (April 26, 1985) (October 27, 2000).

(b) The maximum Supplemental Benefits payable annually under this Plan for any Participant who retired under the Plan prior to January 28, 1994 are limited to $150,000 (1/28/94).

(c) Supplemental Benefits will be payable in accordance with Subsection 2.3.

(d) Deferred compensation will be considered as eligible earnings only for the year payment is deferred for purposes of determining retirement benefits (8/22/86).

(e) For purposes of calculating the Supplemental Benefits (i) for Robert A. Cornog, two (2) years of credited service, and (ii) for Dale Elliot, one and one-half years of credited service, shall be credited for each year of his credited service under the SIRP for both accrual and vesting purposes, and notwithstanding anything in the Plan to the contrary except this Subsection 2.2(e), effective October 27, 2000, Robert A. Cornog shall be deemed to have remained employed by the Corporation through March 31, 2002 at the rate of compensation in effect with respect to Robert A. Cornog through March 31, 2002 (or on such earlier date, if any, that Robert A. Cornog terminates his employment with the Corporation); provided, however, that Robert A. Cornog's Transition Payment (as defined in Paragraph 2 of the Retention and Recognition Agreement dated October 27, 2000 between Robert A. Cornog and the Corporation (the "Retention Agreement") will not be considered as compensation for purposes of this Plan. Supplemental Benefits for Robert A. Cornog under this Plan shall be calculated in a manner that is consistent with the Retention Agreement. (June 25, 1992) (October 27, 2000).

(f) Notwithstanding any provision hereof to the contrary, retirement benefits payable under this Plan to a Participant described in Subsections 2.1(a)(ii) through (vi) who becomes a Participant after December 31, 2003 (the "Post-2003 Participant") will be calculated based on the assumption that the Post-2003 Participant completed no hours of service (however defined in the SIRP) for any purpose under the SIRP (other than vesting) for any period prior to the date he became a Participant. It is intended that the Corporation will be required to calculate a hypothetical unreduced, and hypothetical actual, SIRP benefit to apply this Subsection 2.2(f) to a Post-2003 Participant, and the Corporation shall, in its sole discretion, but treating persons similarly situated in a similar manner, determine the adjustments required to apply this Subsection 2.2(f) and calculate the retirement benefits hereunder (10/23/03, effective 1/1/04).

Notwithstanding the forgoing, the amendment of this Plan as provided under Subsection 1.2 shall not reduce a Participant's Supplemental Benefits accrued prior to December 31, 2000 in violation of Section 6.

Notwithstanding anything in this Section to the contrary, Robert A. Cornog shall be a Participant in this Plan through March 31, 2002 without regard to whether he is an officer after October 27, 2000.

Notwithstanding any provision hereof to the contrary, in making the calculations relating to the comparison of benefits under the SIRP to benefits computed by disregarding any benefit or compensation limitations contained in ERISA and/or limited due to participation in Snap-on Tools Corporation's Deferred Compensation Plan, the Corporation, in its sole discretion, shall adopt such procedures and assumptions as it shall deem appropriate to carry out the intent of this Plan, but shall treat persons similarly situated in a similar manner.

2.3 Payment of Benefits. Subject to the provisions of this Plan, Supplemental Benefits shall be payable to or on behalf of a Participant, commencing on his or her Retirement Date. Supplemental Benefits will be paid in the Normal Form unless the Participant has Elected a different Available Payment Form on or before such Participant's Final Election Date, in which case they will be paid in accordance with such Election.

(a) Normal Form For Final-Average Participant. The Normal Form of Supplemental Benefits payments to a Final-Average Participant who retires on a normal, deferred or early Retirement Date will be made monthly, will commence on his Retirement Date and (i) will continue thereafter for life; (ii) if the Final-Average Participant dies within a period of five years after his Retirement Date, a continuing payment of the same amount will be

made to his eligible spouse (as defined in Subsection 5.2) if then surviving, or if such eligible spouse is not living or dies prior to the expiration of such five-year period, to his beneficiary, for the balance of said period; and (iii) if, at the later to occur of the death of a retired Final-Average Participant or the completion of the applicable five-year period specified in (ii) of this Subsection 2.3(a), such Final-Average Participant's eligible spouse (as defined in Subsection 5.2) is living, such spouse shall be entitled to receive a monthly supplemental benefit on the first day of the next month, equal to 50 percent of the monthly supplemental benefit which the Final-Average Participant or such eligible spouse was receiving on such date and continuing on the first day of each month thereafter with the last payment being the payment due on the first day of the month in which such spouse's death occurs. If such spouse is more than ten years younger than the Final-Average Participant, the amount of monthly benefit payable to such spouse shall be reduced by an appropriate percentage (determined actuarially) for each full month by which such spouse's age is more than ten years less than the Final-Average Participant's age.

(b) Normal Form For Account-Based Participant. The Normal Form of Supplemental Benefit payments to an Account-Based Participant on his Retirement Date will be payment in a Lump Sum.

(c) Retirement Date. For all purposes of this Plan, the "Retirement Date" of each Participant shall be (i) in the case of a Final-Average Participant, the first day of the month coincident with or next following the date as of which such Final-Average Participant actually retires or is retired from the employ of all of the employers (x) on or after attaining age 65 years, (y) on or after attaining age 50 years if he has completed ten or more years of continuous employment under the SIRP, or (z) on the date he is retired because of total and permanent disability if he has completed ten or more years of continuous employment under the SIRP; and (ii) in the case of an Account-Based Participant, the first day of the month coincident with or next following the date of his Separation; provided, further, that if such Participant has filed a proper and timely deferral Election Form, it shall mean the January 1st as therein selected.

(d) Pre-retirement Spouse's Benefit and Other Death Benefit. In the event a Participant who has elected to receive his Supplemental Benefits in the Normal Form at the time of his death, and who has a spouse to whom he is legally married at the time he satisfied the requirements of Subsection 2.3(c)(i)(y) above dies leaving an eligible spouse, there shall be payable to such Final-Average Participant's eligible spouse the supplemental amount that would have been payable to his spouse under Subsection 2.3(a)(iii) above had the Participant retired on the first day of the month coincident with or next following the month in which his death occurred, had received payment commencing on such date in the form described in Subsections 2.3(a) for a period of five years and then died. Such monthly spouse's benefit will be paid to such spouse on the first day of the month coincident with or next following the date of the Final-Average Participant's death and will be payable on the first day of each month thereafter, with the final payment being the payment due on the first day of the month in which such spouse's death occurs. In the event a Participant is a Final-Average Participant who has elected to receive his Supplemental Benefit in a Lump Sum or in Installment Payments on the date of his death, or is an Account-Based Participant, and in either case, has a spouse to whom he is legally married at the date of his death, there shall be payable to such eligible spouse or, in the absence of an eligible spouse, to his beneficiary, the full amount of his or her Supplemental Benefits in the form the Participant has Elected or, in the absence of an Election by an Account-Based Participant, in the Normal Form. Without limiting the generality of the forgoing, subsequent to the commencement of payments in any Available Payment Form, the provisions of this Section 2.3(d) shall have no applicability or effect, and all death benefit payments, if any, will be determined in accordance with the terms of such Available Payment Form.

The computation and payment of such benefits by the Corporation shall be conclusive on the Participant, his eligible spouse and his beneficiary (6/23/89).

Notwithstanding the provisions of Subsections 2.3(a)(iii) and 2.3(d), if Robert Cornog is a Final-Average Participant and has not Elected to receive his Supplemental Benefits in other than the Normal Form, and if the amount payable to the surviving spouse of Robert Cornog in the form of payment specified therein is less than $50,000 per year, the minimum amount payable to such spouse, pursuant to whichever of such Subsections, if any, apply, on an annual basis shall be $50,000 (6/25/92).

Notwithstanding anything in this Section to the contrary, a Participant will be allowed to elect on or before December 31, 2000 to defer to 2002 the payment of all Supplemental Benefits that might otherwise be payable in 2001.

2.4 Benefits Provided by Employers. Benefits under this Plan paid to a Participant, his surviving spouse or his beneficiary may be paid directly by the Participant's employer. No employer shall be required to segregate any assets or establish any trust or fund to provide for the payment of benefits under this Plan(6/23/89).

SECTION 3 — OTHER EMPLOYMENT

3.1 A Participant or other person receiving Supplemental Benefits under the Plan will continue to be entitled to receive such payments regardless of other employment or self-employment.

SECTION 4 — FORFEITURE FOR CAUSE

4.1 Notwithstanding any provisions of the Plan to the contrary, a retired officer will be disqualified for benefits under this Plan if he, during his term of employment with the Corporation, or within two years of the date his employment terminates:

(a) Uses or discloses trade secrets for the benefit of someone other than the Corporation or its subsidiaries;

(b) Embezzles or steals cash or other property of the Corporation or its subsidiaries or performs other similar dishonest acts against the Corporation or its subsidiaries; or

(c) Enters into a business in direct competition with the Corporation or its subsidiaries as either an employee, director, proprietor, consultant, partner or joint venturer of such business (1/6/84).

SECTION 5 — GENERAL

5.1 Administration. The Plan will be administered by the Corporation. The Board of Directors of the Corporation will designate the person or persons authorized to act on behalf of the Corporation in the administration of the Plan.

5.2 Spouse or Beneficiary. Any benefits payable to an eligible spouse or beneficiary under the Plan shall be paid to such spouse or beneficiary eligible to receive the Participant's benefits under the SIRP as provided in Subsection 2.3 or, if no such beneficiary as been designated, to the Participant's estate. For purposes of this Plan, an "eligible spouse" of a Participant is a spouse of the Participant as of the Participant's Retirement Date (or, if applicable, the Participant's date of death) resulting from a legally recognized marriage (6/23/89).

5.3 Interests Not Transferable. Except as to any withholding of tax under the laws of the United States or any state, the interest of any Participant or other person under the Plan shall not be subject to the claims of creditors and may not be voluntarily or involuntarily sold, transferred, assigned, alienated or unencumbered.

5.4 Facility of Payment. Any amounts payable hereunder to any person under legal disability or who, in the judgment of the Corporation, is unable to properly manage his financial affairs may be paid to the legal representative of such person (6/23/89).

5.5 Gender and Number. Words in the masculine gender shall include the feminine gender and, where the context admits, the plural shall include the singular and the singular shall include the plural.

5.6 Controlling Law. Except to the extent superseded by the laws of the United States, the laws of Wisconsin shall be controlling in all matters relating to the Plan.

5.7 Successors. This Plan is binding on each employer and will inure to the benefit of any successor of an employer, whether by way of purchase, merger, consolidation or otherwise.

5.8 Not a Contract. This Plan does not constitute a contract of employment, and shall not be construed to give any Participant the right to be retained in any employer's employ. No Participant shall have any rights under this Plan except those specifically provided herein. Such Participant shall not have any right or security interest in any specific asset of the employers or any trust, it being understood that any assets set aside shall be available for the claims of an employer's creditors (6/23/89).

5.9 Litigation by Participant. If a legal action relating to the Plan is begun against the Corporation or an employer by or on behalf of any person, or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the cost to the Corporation or the employer of defending the action shall be charged to the extent permitted by law to the sum, if any, which were involved in the action or were payable to the Participant or other person concerned, or to the Supplemental Benefits payable to the Participant under the Plan.

SECTION 6 — AMENDMENT AND TERMINATION

6.1 While the Corporation expects to continue the Plan indefinitely, the right to amend or terminate the Plan by action of the Board of Directors of the Corporation (or by action of those to whom the Board of Directors of the Corporation has delegated in writing the power to amend the Plan) is hereby reserved, provided that in no event shall any Participant's Supplemental Benefits accrued to the date of such amendment or termination be reduced or modified by such action except where an amendment is made at the recommendation of the Corporation made pursuant to an express authority hereunder to make such recommendations. Any Supplemental Benefits accrued to the date of such amendment or termination shall be payable under Subsection 2.3 (8/28/87)(6/23/89).

SECTION 7 — ADDITIONAL SPECIAL RESTRICTIONS (1/1/96)

7.1 Effective Date and Overriding Provisions. The following provisions of this Section 7 shall become effective on a "restricted date" (as defined in Subsection 7.6 below) and, upon becoming effective, shall remain effective until the following related unrestricted date and, during that period, shall supersede any other provisions of the Plan to the extent necessary to eliminate any inconsistencies between the provisions of this Section 7 and any other provisions of the Plan, including any exhibits and supplements thereto.

7.2 Prohibitions Against Mergers and Termination, Restrictions on Amendment. During the period beginning on a restricted date and ending on the following related unrestricted date, (i) the Plan may not be merged into any other plan or terminated, (ii) no amendment of the Plan which would reduce the accrual of benefits or change participation or vesting requirements to the detriment of existing Participants in the Plan immediately prior to the restricted date shall be permitted, and (iii) the provisions of Subsection 2.2(a) shall not apply with respect to any employee whose service as an officer ceases during such period.

7.3 Subsidiaries and Affiliates. For purposes of this Section 7, a “subsidiary” of the Corporation means any corporation more than 50 percent of the voting stock of which is owned, directly or indirectly, by the Corporation. An “affiliate” of the Corporation means any individual, corporation, partnership, trust or other entity which controls, is controlled by, or is under common control with the Corporation.

7.4 Prohibition Against Amendment. Except as otherwise required by law, the provisions of this Section 7 may not be amended, deleted or superseded by any other provision of the Plan, during the period beginning on a restricted date and ending on the related unrestricted date.

7.5 Timing and Method of Distribution. During the period beginning on a restricted date and ending on the following related unrestricted date, the timing and methods of distributions of benefits payable to or on behalf of a Participant under the Plan and the determination of Actuarially Equivalent values shall be governed by the applicable provisions of the Plan as in effect on the date immediately preceding the restricted date.

7.6 Restricted and Unrestricted Dates. For purposes of this Section 7, the term “restricted date” means the date on which either a Change of Control (as defined in Subsection 7.7) or a Potential Change of Control (as defined in Subsection 7.8) occurs. An “unrestricted date”means (1) in the case of a restricted date which occurs by reason of a Change of Control, the last day of the five year period following such Change of Control or (2) in the case of a restricted date occurring by reason of a Potential Change of Control, the last day of the six-month period following such Potential Change of Control.”

7.7 Change of Control. A "Change of Control" of the Corporation shall be deemed to have occurred if:

(1) any “Person” (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as modified and used in Sections 13(d) and 14(d) of the Exchange Act, except that for purposes of this Subsection 7.7 and Subsection 7.8, the term “Person” shall not include (i) the Corporation or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Corporation in substantially the same proportions as their ownership of stock in the Corporation) is or becomes the “Beneficial Owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation (not including in the securities beneficially owned by such Person any securities acquired directly from the Corporation or its affiliates) representing 25 % or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation’s then outstanding voting securities; or

(2) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on January 1, 1996, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment or election by the Board or nomination for election by the Corporation’s stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on January 1, 1996 or whose appointment, election or nomination for election was previously so approved; or

(3) the stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation or approve the issuance of voting securities of the Corporation in connection with a merger or consolidation of the Corporation (or any direct or indirect subsidiary of the Corporation) pursuant to applicable stock exchange requirements, other than (i) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the voting securities of the Corporation or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Corporation (not including in the securities beneficially owned by such Person any securities acquired directly from the Corporation or its affiliates) representing 25 % or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation’s then outstanding voting securities; or

(4) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation’s assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Corporation of all or substantially all of the Corporation’s assets to an entity, at least 75 % of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Corporation immediately prior to such sale.

Notwithstanding the foregoing, no “Change of Control” shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Corporation immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Corporation immediately following such transaction or series of transactions.

7.8 Potential Change of Control. A "Potential Change of Control" shall be deemed to have occurred if:

(a) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change of Control;

(b) the Corporation or any person publicly announces an intention to take or to consider taking actions which, if consummated, would

constitute a Change of Control;

(c) any person becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 15% or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding voting securities; or

(d) the Board adopts a resolution to the effect that, for purposes of this plan, a Potential Change of Control has occurred.

SECTION 8 — PAYMENT OF BENEFITS DURING CREDIT RATING LIMITATION PERIOD(10/22/99)

8.1 Effective Date and Overriding Provisions. The following provisions of this Section 8 shall become effective upon the occurrence of a "Credit Rating Limitation Date" (as defined in Subsection 8.2 below) and, upon becoming effective, shall remain effective until a subsequent "Credit Rating Delimitation Date" (as defined in Subsection 8.2 below) and, during the "Credit Rating Limitation Period" (as defined in Subsection 8.2 below) shall supersede any other provisions of the Plan, other than Section 7, to the extent necessary to eliminate any inconsistencies between the provisions of this Section 8 and any other provisions of the Plan, other than Section 7, including any exhibits and supplements thereto.

8.2 Credit Rating Limitation and Delimitation Dates. For purposes of this Section 8, the term "Credit Rating Limitation Date" means the date on which the Corporation's debt rating drops below an Investment Grade Rating. "Investment Grade Rating" means a rating at or above Baa3 by Moody's Investors Services, Inc. (or its successors) or a rating at or above BBB by Standard & Poor's Corporation (or its successors). Only one such rating at the required level is necessary for the Corporation to have an Investment Grade Rating for purposes of this Section 8. If either or both of these ratings cease to be available then an equivalent rating from a nationally prominent rating agency shall be substituted by the Corporation. For purposes of this Section 8, the term "Credit Rating Delimitation Date" means the date on which the Company's debt rating achieves an Investment Grade Rating after having previously lost such rating. The period of time commencing on a Credit Rating Limitation Date and ending on a Credit Rating Delimitation Date shall be the "Credit Rating Limitation Period."

8.3 Benefit Payment Provisions. Upon the occurrence of a Credit Rating Limitation Date and on each December 31 after such date occurring during the Credit Rating Limitation Period, and prior to the occurrence of a Credit Rating Delimitation Date, a single sum payment shall be made immediately to each Participant under the Plan of the amount by which the "Actuarial Equivalent" (as defined in Subsection 8.4 below) of (a) exceeds the sum of (b) plus (c):

(a) The amount determined in Subsection 2.2(i) (as limited by all of Subsection 2.2) based upon the assumptions that (1) the Participant has a nonforfeitable right to the Participant's benefit from the SIRP, (2) the Participant incurs a Separation as of the date of determination, and (3) benefits payable from the SIRP would commence upon the earliest payment date allowed under the SIRP immediately following such termination of employment.

(b) The Actuarial Equivalent of the amount, if any, determined in Subsection 2.2(ii) (as limited by all of Subsection 2.2) based upon the same assumptions as in Subsection 8.3(a) above.

(c) The Actuarial Equivalent of the amount paid to such Participant based on any prior determination date pursuant to this Subsection 8.3.

8.4 Actuarial Equivalent. Actuarial Equivalent means an amount equal in value to the benefit replaced as determined with respect to a single sum distribution under Section 8 by using the average thirty (30) year Treasury rate for the second full calendar month preceding the first day of the calendar quarter in such year that contains the determination date as of which the single sum distribution is being determined, as specified by the Commissioner of the Internal Revenue Service in the Internal Revenue Bulletin, and the mortality table prescribed by the Secretary of the Treasury in revenue rulings, notices, or other guidance pursuant to Section 807(d)(5)(A) of the Internal Revenue Code that has been published in the Internal Revenue Bulletin as of the date such single sum distribution is being determined.

8.5 Supplemental Benefits In Payment Status During Credit Rating Limitation Period. During a Credit Rating Limitation Period the Actuarial Equivalent payment of any unpaid Supplemental Benefits in payment status under this Plan shall be made immediately to the Participant or other appropriate recipient in a single sum amount.

8.6 No Duplication of Benefits. Under no circumstances shall a Participant receive duplicate payment of Supplemental Benefits under the Plan. Entitlement to periodic or other payment of Supplemental Benefits is canceled when such benefits are paid out in accordance with this Section 8.

EXHIBIT 10(t)

FORM OF TERMINATION OF
SPLIT-DOLLAR INSURANCE PLAN AGREEMENT

This Agreement is entered into this __th day of December, 2003, by and between SNAP-ON INCORPORATED, a Delaware corporation ("Company"), ________________ ("Executive") and ___________________ ("Owner").

WHEREAS, the Company and the Owner entered into a Split-Dollar Insurance Plan Agreement dated ______________, ("Split-Dollar Insurance Agreement"); and

WHEREAS, the Split-Dollar Insurance Agreement provides for the splitting of the premium and death benefit of one or more insurance policies ("Policy") insuring the life of Executive.

WHEREAS, the Corporation has paid _____________________ in premiums which constitutes its Policy Interest as defined in the Split-Dollar Insurance Agreement.

WHEREAS, as a result of legal developments which may affect the Company's ability to comply with its obligations under the Split-Dollar Insurance Agreement or which may cause adverse income and gift tax consequences to the Executive, the parties have determined that it is in their best interests to terminate the Split-Dollar Insurance Agreement.

WHEREAS, in consideration for the termination of its obligations under the Split-Dollar Agreement the Company has agreed to release its Policy Interest and make the payment provided for below to the Executive, which the parties agree is full and adequate consideration.

NOW, THEREFORE, in consideration of the respective terms and conditions set forth herein, the Company, the Executive and the Owner hereby agree as follows:

1. The Split-Dollar Insurance Agreement is terminated effective immediately.

2. The Company hereby releases its Policy Interest and will execute any documents and take any actions necessary to release its Collateral Assignment against the Policy. The Executive acknowledges that he will have taxable compensation income equal to the Policy Interest and will be treated as making a gift to the Owner equal to the Policy Interest. [This paragraph inserted for Elliott, Marrinan and Montemurro only.]

The Company and the Executive hereby agree to execute any documents and take any actions necessary to surrender the Policy. All proceeds shall be payable to the Company. The Executive acknowledges that he will have taxable compensation income equal to the excess of the Policy Interest over the proceeds received by the Company. [This paragraph inserted for Biland and Brady only.]

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3. The Company will make a payment to the Executive of __________________ ("Cash Payment") less applicable withholding, if any, on January 2, 2004. The Executive irrevocably elects to defer _______________ Dollars ($________________) of the Cash Payment pursuant to the Company's Deferred Compensation Plan.

4. The Owner will be the sole owner of the Policy after the termination of the Split-Dollar Insurance Agreement and the Company shall have no further interest in the Policy nor any obligation to make future premium payments. [This paragraph inserted for Elliott, Marrinan and Montemurro only.]

5. The Company will provide Executive with insurance coverage through its group term insurance plan in an amount equal to two times base compensation during the term of the Executive's employment by the Company; subject to any maximums or insurability requirements on such coverage imposed by the insurance company providing the group term insurance plan. [For Ms. Marrinan and Mr. Montemurro, the following clause was added in place of the clause that follows the semicolon. "provided that the Executive will not be required to provide evidence of insurability for any such insurance coverage."]

6. The Executive and the Owner release the Company from any and all claims which either of them may have against the Company related to the Split-Dollar Insurance Agreement and the Executive indemnifies the Company from any and all claims which either of them may have against the Company related to the Split-Dollar Insurance Agreement.

IN WITNESS WHEREOF the parties have signed and sealed this Agreement on the date first above written.

In the presence of	SNAP-ON INCORPORATED
____	By __________________________________
	Its __________________________________
	EXECUTIVE
____	____
	OWNER

EXHIBIT 10(aa)

Snap-on Incorporated
Section 406 of the Sarbanes-Oxley Act
Code of Ethics

INTRODUCTION

Snap-on Incorporated expects that its Section 406 Officers (as defined below) will maintain appropriate standards of honesty and ethical conduct in connection with the performance of their duties on behalf of the Company. In recognition of this expectation, the Company has adopted standards of conduct for its Section 406 Officers as provided in this Code of Ethics (this " *Code*").

APPLICATION

This Code will apply to the Company's Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and corporate Controller (each individually, a "*Section 406 Officer*," and collectively, the "*Section 406 Officers*") with respect to actions and decisions in their capacities as officers and employees of the Company. This Code will become effective as of March 15, 2004 and will be applicable to all actions and decisions of the Section 406 Officers in the foregoing capacities after that date.

PURPOSE

The purpose of this Code is to codify standards the Company believes are reasonably necessary to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- avoidance of conflicts of interest, including disclosure to the persons identified in this Code of any material transaction or relationship that reasonably could be expected to give rise to such a conflict;
- full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "*SEC*") and in other public communications made by the Company;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting to the persons identified in this Code of violations of this Code; and
- accountability for adherence to this Code.

STANDARDS OF CONDUCT

Each Section 406 Officer will be expected to adhere to the following standards in connection with the performance of his or her duties as an officer and employee of the Company.

Honest and Ethical Conduct

The Company expects each Section 406 Officer to act honestly and ethically at all times and to comply fully with the policies comprising this Code.

Avoidance of Conflicts of Interest

Each Section 406 Officer is required to avoid conflicts between his or her personal interests and the interests of the Company and to disclose any activities, financial interests or relationships that may present an actual or potential conflict of interest. Section 406 Officers should therefore avoid any investment, interest or association that interferes or might interfere with the objective or independent exercise of their best judgment or with the performance of their responsibilities in the best interests of the Company.

Each Section 406 Officer should promptly inform the Audit Committee of the Company's Board of Directors (the " *Committee*") of any actual or potential conflicts of interest, and the Committee will resolve any questions regarding conflicts of interest involving any of the Section 406 Officers.

Accuracy of Public Communications

Each Section 406 Officer has a responsibility to supervise the establishment and maintenance of adequate and effective disclosure controls and procedures. These controls are designed to provide assurances to the Company and its shareholders that disclosures of material information related to the

Company and its consolidated subsidiaries in its periodic reports filed with, or submitted to, the Securities and Exchange Commission and other public communications are full, fair, accurate, timely and understandable.

Compliance with Laws, Rules and Regulations

It is the Company's policy to promote compliance with all applicable laws, rules and regulations in connection with the Company's business. Section 406 Officers should familiarize themselves with the legal standards and restrictions applicable to their assigned duties and responsibilities. The Company requires and encourages compliance with the spirit — as well as the letter — of the law. Even the appearance of illegal, dishonest or inappropriate behavior could have a negative impact on the Company and its employees.

REPORTING OF VIOLATIONS

Each Section 406 Officer will be responsible for promptly reporting any violation of this Code of which he or she becomes aware to the Chairman of the Committee. Directors, officers and employees of the Company may also report violations of this Code by the Section 406 Officers to the Chairman of the Committee.

ACCOUNTABILITY FOR ADHERENCE TO THIS CODE

Each Section 406 Officer will be individually responsible for adhering to the standards set forth in this Code. Upon receiving a report of a violation of this Code, the Committee, including its legal and other advisors, will have the full power and authority to investigate the report and to determine what steps, if any, should be taken to resolve the problem and avoid the likelihood of its recurrence. These steps may where appropriate include the termination of a Section 406 Officer's employment by the Company and the commencement of appropriate legal proceedings. Each Section 406 Officer will be obligated to cooperate fully with any investigation by the Committee.

Except as provided in the preceding sentence and under "Reporting of Violations" above, no Section 406 Officer will have any obligation or responsibility for adherence to this Code by any other Section 406 Officer.

AMENDMENTS AND WAIVERS

This Code may not be amended or modified without the prior approval of the Committee. Any waiver of this Code may be made only by the Committee. Any waiver of this Code will be promptly disclosed on the Company's Internet website, whose address and the Company's commitment to disclose these events is disclosed in the Company's annual report on Form 10-K.

MISCELLANEOUS

This Code is intended to be interpreted and administered so as to comply with the requirements applicable to a "code of ethics" as defined in the Section 406 of the Sarbanes-Oxley Act of 2002 and the related rules of the SEC. No other ethics, legal compliance or other policies or practices of the Company or its subsidiaries that may be applicable to any of the Section 406 Officers, whether currently in effect or established in the future and whether or not relating to the same subject matter as this Code, will be deemed to be a part of this Code.

This Code is not a contract and is not intended to create any contractual obligations on the part of the Company. This Code also does not alter the at-will or other employment relationship between the Company and any Section 406 Officer.

Exhibit (12)

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	2003	2002	2001
Net earnings	$ 78.7	$ 106.0	$ 19.0
Add (deduct):			
Income taxes	38.0	58.0	26.1
Minority interest in earnings of consolidated subsidiaries	3.1	3.4	2.7
Cumulative effect of a change in accounting princple, net of tax	-	(2.8)	2.5
Net earnings as defined	119.8	164.6	50.3
Fixed charges:			
Interest on debt	24.4	28.7	35.5
Interest element of rentals	6.9	5.2	5.4
Total fixed charges	31.3	33.9	40.9
Total adjusted earnings available for payment of fixed charges	$ 151.1	$ 198.5	$ 91.2
Ratio of earnings to fixed charges	4.8	5.9	2.2

For purpose of computing this ratio, “Net earnings” consist of (a) income from continuing operations before income taxes and adjusted for minority interest, and (b) “Fixed Charges,” consists of interest on debt and the estimated interest portion of rents.

Six-year Data

(Amounts in millions, except per share data)	2003	2002	2001	2000	1999	1998
Net sales	$ 2,233.2	$ 2,109.1	$ 2,095.7	$ 2,175.7	$ 1,945.6	$ 1,772.6
Gross profit	964.7	964.9	949.0	996.8	896.2	763.2
Operating expenses	858.4	804.3	898.1	804.9	744.3	795.1
Net finance income	43.8	37.7	35.7	38.1	60.5	65.9
Operating earnings	150.1	198.3	86.6	230.0	212.4	34.0
Interest expense	24.4	28.7	35.5	40.7	27.4	21.2
Earnings from continuing operations	116.7	161.2	47.6	192.6	197.9	10.8
Income taxes	38.0	58.0	26.1	69.5	70.7	15.6
Cumulative effect, net of taxes	-	2.8	(2.5)	25.4	-	-
Net earnings (loss)	78.7	106.0	19.0	148.5	127.2	(4.8)
Financial position						
Accounts receivable current - net	$ 546.8	$ 556.2	$ 572.8	$ 603.2	$ 573.8	$ 538.2
Inventories	351.1	369.9	375.2	418.9	454.8	375.4
Current assets	1,131.7	1,051.0	1,097.0	1,145.1	1,162.4	1,063.3
Accounts payable	189.7	170.9	141.2	161.0	146.4	89.4
Current liabilities	567.2	552.4	549.4	538.0	452.7	458.0
Property and equipment - net	328.6	330.2	327.7	345.1	362.6	272.0
Total assets	2,138.5	1,994.1	1,974.3	2,069.1	2,160.9	1,674.9
Long-term debt	303.0	304.3	445.5	473.0	607.5	246.6
Total shareholders' equity	1,010.9	830.4	775.8	844.0	825.3	762.4
Working capital	564.5	498.6	547.6	607.1	709.7	605.3
Working investment	708.2	755.2	806.8	861.1	882.2	824.2
Total net debt	237.1	342.3	467.9	537.2	612.2	324.7
Total invested capital	1,248.0	1,172.7	1,243.7	1,381.2	1,437.5	1,087.1
Common share summary						
Net earnings (loss) per share - basic	$ 1.35	$ 1.82	$ 0.33	$ 2.54	$ 2.18	$ (0.08)
Net earnings (loss) per share - diluted	1.35	1.81	0.33	2.53	2.16	(0.08)
Cash dividends paid per share	1.00	0.97	0.96	0.94	0.90	0.86
Shareholders' equity per share	17.37	14.27	13.40	14.60	14.10	12.98
Fiscal year-end share price	31.80	27.72	33.93	27.88	26.56	34.81
Average shares outstanding - diluted	58.4	58.5	58.1	58.6	58.9	59.2
Other financial statistics						
Cash dividends paid	$ 58.2	$ 56.5	$ 55.6	$ 55.0	$ 52.6	$ 51.0
Net cash provided by operating activities	177.0	224.1	163.7	190.2	235.6	75.0
Capital expenditures	29.4	45.8	53.6	57.6	35.4	46.8
Depreciation and amortization	60.3	51.7	68.0	66.2	55.4	45.0
Total net debt to total invested capital	19.0%	29.2%	37.6%	38.9%	42.6%	29.9%
Return on average shareholders' equity	8.5%	13.2%	2.3%	17.8%	16.0%	(0.6)%

2003 results included $30.1 million of pretax restructuring and other continuous improvement charges ($19.6 million after tax or $0.34 per diluted share) of which $25.8 million was recorded in cost of goods sold and $4.3 million in operating expenses.

2002 results included $5.1 million, recorded in operating expenses, of pretax restructuring and other non-recurring charges ($3.3 million after tax or $0.05 per diluted share) and a $2.8 million pretax gain ($2.8 million after tax or $0.05 per diluted share) for the cumulative effect of a change in accounting principle for goodwill. Snap-on ceased amortizing goodwill and certain other intangible assets in 2002 in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

2001 results included $62.0 million of pretax restructuring and other non-recurring charges ($46.1 million after tax or $0.80 per diluted share), of which $49.4 million was included in operating expenses and $12.6 million was included in cost of goods sold, and a $4.1 million pretax loss ($2.5 million after tax or $0.04 per diluted share) for the cumulative effect of a change in accounting principle for derivatives. Goodwill amortization in 2001 totaled $13.9 million pretax.

2000 results included $21.8 million of pretax restructuring and other non-recurring charges ($14.2 million after tax or $0.24 per diluted share), of which $9.5 million was recorded in cost of goods sold and $12.3 million in operating expenses, and a $41.3 million pretax gain ($25.4 million after tax or $0.43 per diluted share) for the cumulative effect of a change in accounting principle for pensions. Goodwill amortization in 2000 totaled $14.5 million pretax.

1999 results included $37.2 million of pretax restructuring and other non-recurring charges ($23.3 million after tax or $0.40 per diluted share), of which $16.6 million was recorded in cost of goods sold and $20.6 million in operating expenses. Goodwill amortization in 1999 totaled $11.8 million pretax.

1998 results included $149.9 million of pretax restructuring and other non-recurring charges ($107.6 million after tax or $1.82 per diluted share), of which $60.6 million was recorded in cost of goods sold and $89.3 million in operating expenses. Goodwill amortization in 1998 totaled $8.5 million pretax.

Management's Discussion and Analysis

Snap-on Incorporated ("Snap-on" or "the company") was incorporated under the laws of the state of Wisconsin in 1920 and reincorporated under the laws of the state of Delaware in 1930. Snap-on is a leading global innovator, manufacturer and marketer of high-quality tool, diagnostic and equipment solutions for professional tool and equipment users. Product lines include a broad range of hand and power tools, tool storage, saws and cutting tools, pruning tools, vehicle service diagnostics equipment, vehicle service equipment, including wheel service, safety-testing and collision repair equipment, vehicle service information, business management systems, equipment repair services, and other tool and equipment solutions. Snap-on's customers include automotive technicians, vehicle service centers, manufacturers, industrial tool and equipment users and those involved in commercial applications such as construction, electrical and agriculture. Products are sold through Snap-on's franchised dealer van, company-direct, distribution and Internet sales channels.

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments include: (i) the Snap-on Dealer Group, (ii) the Commercial and Industrial Group, and (iii) the

Diagnostics and Information Group. The Snap-on Dealer Group consists of Snap-on’s business operations serving the worldwide franchised dealer van channel. The Commercial and Industrial Group consists of the business operations providing tools and equipment products to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchised distribution channels. The Diagnostics and Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, equipment repair services and other solutions for customers in the worldwide vehicle service and repair marketplace.

Major challenges for Snap-on and the vehicle service and repair sector include the increasing rate of technological change within motor vehicles and the resulting impact on the businesses of both the company’s suppliers and customers that is necessitated by such change. Snap-on believes that it is a meaningful participant in the market sector for vehicle service and repair.

Snap-on also markets its products to a wide variety of industrial customers including industrial maintenance and repair operations; manufacturing and assembly facilities; government facilities; schools; and original equipment manufacturers that require instrumentation or service tools and equipment for their products. Major challenges in the industrial sector include a highly competitive, cost-conscious environment, and a trend toward customers making all of their tool and equipment purchases through one integrated supplier. Snap-on believes that it is a meaningful participant in the market sector for industrial tools and equipment.

Snap-on’s products are known for their quality workmanship, superior product performance and exceptional service, and customers readily recognize and prefer the Snap-on family of brand names. Innovation, marketplace knowledge and customer relationships are Snap-on competencies that support its position as a leading provider of professional tool and equipment solutions. Snap-on’s mission is to delight its customers – professional tool and equipment users worldwide – by providing innovative, productivity-enhancing products, services and solutions.

MANAGEMENT OVERVIEW

More than two-and-a-half years ago, Snap-on launched the *Driven to Deliver*™ strategic framework to better align the organization and serve as a catalyst for change. Snap-on believes the *Driven to Deliver* framework provides a roadmap for delivering high-quality products and services, as well as improved earnings and cash flow. Using this framework, Snap-on continues to take actions to grow its served customer base, pursue new marketplace opportunities and improve its operating performance. Numerous but necessary measures have been taken to drive this improvement. While the changes have come with a cost, Snap-on management believes that these actions have strengthened the foundation of the business, setting the stage for future profitable growth.

The *Driven to Deliver* framework is based on the balanced application of three strategic principles: Quality People, Operational Fitness and Profitable Growth. This process builds on the solid foundation created through the strategic partnering efforts of Snap-on employees and dealers and fosters a business environment in which all employees contribute toward building a stronger company.

The principle of Quality People means having the right people with the right skills in the right place to deliver positive results. Snap-on wants to ensure that employees are properly trained and motivated to achieve the company’s goals.

Operational Fitness emphasizes the need for continuous improvement, streamlining processes and reducing waste.

With a focus on Quality People and Operational Fitness, a strong foundation is built for sustainable Profitable Growth. Profitable Growth means growing the company while delivering a measurable increase in financial performance. Through innovation in internal development and a disciplined approach to marketplace opportunities, Snap-on is committed to anticipating and meeting its customers’changing needs that will continue to support its business and create incremental shareholder value.

Since the adoption of the *Driven to Deliver* framework, Snap-on has taken significant action to reduce costs companywide and improve operational performance in businesses not earning acceptable financial returns. As its implementation became more widespread in 2003, Snap-on chose to accelerate a number of actions, as discussed below, that are designed to improve the company’s long-term profitability. While the near-term costs of these actions reduced 2003 operating margins, management expects to see an improvement in profitability as the company moves through 2004. The need to drive profitable growth is clearly recognized as a top priority for 2004 at Snap-on.

Within its *Driven to Deliver*framework, Snap-on places heavy emphasis on the use of “Lean” tools, a business approach that seeks to improve processes from a customer value-added point of view. The use of Lean tools is intended to help Snap-on identify and eliminate waste and improve productivity to enhance responsiveness to customers. Snap-on expects to continue to accelerate its Lean and continuous improvement activity levels throughout 2004.

Snap-on’s longer-term financial metrics, as outlined in its *Driven to Deliver* framework, remain the same – to grow profitably and to make sure that the company’s businesses are operationally fit. Snap-on’s goals include producing 30% of sales from products that are less than three years old and driving average earnings per share growth of 9% to 12% per year. The company’s goals also include improving operating margins to 10% or having a 10% improvement for those business units that have already achieved that target, and by the end of 2005, improving working investment turnover to four turns. Snap-on believes that working investment (accounts receivable — net of allowances plus inventories less accounts payable) is a measurement of a company’s effectiveness in using capital to support current sales levels.

Snap-on incurred $30.1 million of costs in 2003 for its continuous improvement initiatives, which include the December 2003 closure of the company’s U.S. facility that assembled large-platform diagnostics and the closure of two U.S. hand-tool plants. The closure of the two hand-tool facilities, both of which are anticipated to be completed by April 2004, is expected to generate annual savings of approximately $12 million per year, beginning in 2004. Snap-on has, since May 2001, initiated the closing or consolidation of 38 manufacturing, distribution and administrative facilities worldwide and effected a 12.2% workforce reduction. Snap-on will continue to look for other continuous improvement opportunities that will further improve processes and strengthen customer responsiveness.

Costs associated with continuous improvement efforts, combined with higher operating costs and softness in key end-markets, particularly those impacting the sale of the company’s equipment products, resulted in lower levels of profitability in 2003. The savings generated from continuous improvement actions taken over the last three years were largely reinvested in new product development and other growth initiatives and continuous improvement actions,

and also used to help offset cost increases, including higher health care, pension and other retirement costs that are being incurred as a result of inflationary impacts on employee health care costs, lower investment returns and discount rates, as well as higher insurance premiums. In 2003, Snap-on incurred higher year-over-year pension, other retirement and insurance costs of $22.2 million, excluding pension and postretirement curtailment gains and losses. Snap-on is unable to predict if the recent trends in cost increases for employee health care, pension, other retirement and insurance will continue on a long-term basis, however, Snap-on does anticipate some cost increases in 2004 related to these items.

In the worldwide Snap-on Dealer Group, U.S. sales activities by Snap-on's franchised dealers are believed to have increased at a high-single-digit percentage rate during the fourth quarter of 2003 and, for the full year, end-market demand for tools and tool storage products increased as sell-through by the dealers was up mid-single-digits year over year. This sales growth rate exceeded the rate of growth in dealers' purchases from Snap-on, and management believes that this reflects the momentum in the dealers' efforts to improve their working investment turns. In 2002, Snap-on began focusing its dealers on the importance of better working capital management, including faster inventory turns, which lowered Snap-on sales. Snap-on believes that this effort is building a healthy foundation for the future, based upon shared success for both the dealer and Snap-on.

Sales gains made by Snap-on dealers, particularly in the North American marketplace, reflect improvements from their business expansion through second vans and franchises, their ability to better serve existing customers as a result of productivity efforts, as well as reaching out to new customers and reaping incremental sales benefits. Over the last three years, the number of dealers in the United States increased 11.4%, reflecting success in a key element of the company's "More Feet on the Street" dealer expansion and enhancement initiative that was launched nationally in 2000. The More Feet on the Street initiative provides new opportunities through additions of dealers and provides a means of enhancement for existing successful Snap-on dealers through second vans and second franchises. Snap-on expects to continue to invest in adding more second vans and new franchise dealers in 2004 under this program.

Within the Commercial and Industrial Group, weak economic conditions in 2003 continued to impact the sale of capital goods equipment to vehicle repair shops and industrial tools to such sectors as aerospace and aviation, general manufacturing and non-residential construction. In addition, during the second quarter of 2003, Snap-on's existing equipment distribution network was supplemented with a new sales organization, the Technical Automotive Group ("TAG"). The TAG direct sales group was created to enhance Snap-on's existing equipment distribution network and improve long-term operating margins. The launch of the new TAG sales organization led to a disruption in sales. Since its inception, however, sales, sales leads and gross margins have been increasing sequentially each quarter, and this trend appears to be continuing into 2004. Ongoing market challenges affected the Commercial and Industrial Group throughout 2003, and it remains a difficult equipment market, particularly for products in collision repair where the price points are at the high end of Snap-on's equipment portfolio. Snap-on believes that the softness in the equipment markets of the last three years is of a cyclical nature and that demand for capital equipment worldwide will rebound. In the interim, Snap-on management will continue to evaluate the financial performance of those businesses not earning acceptable financial returns.

The Diagnostics and Information Group's December 2003 closure of its large-platform diagnostics facility was in response to a marketplace preference towards smaller, handheld diagnostics products, such as the company's Scanner™, MODIS™ and Vantage® products, where Snap-on believes it has leadership. The rapid integration of products and operations of NEXIQ Technologies, which was acquired in December 2002, has provided the company with access to a new marketplace – diagnostics for heavy-duty diesel trucks. Sales and operating income from this acquisition have exceeded the company's expectations to date, and management believes there is significant potential for long-term worldwide growth in this served marketplace.

The planned April 2004 closure of the two U.S. hand-tool facilities is on track as of year-end 2003 and largely meeting management's expectations, despite some minor inefficiencies related to the transfer of production to other Snap-on facilities that occurred in the fourth quarter of 2003. As of year-end 2003, more than 50% of the equipment and related production has been moved to other Snap-on facilities. It is estimated that manufacturing floor space in the company's heritage tool plants will be reduced by approximately 25% as a result of these actions, and response time and production throughput is expected to increase significantly – on some items by as much as 70% to 80%. As part of the transition, nearly 40% of the stock-keeping units ("SKUs") that were being made at these two plants have been discontinued. Some of the discontinued items will be available to customers as outsourced products, but a large portion of the SKUs were deemed to have outlived their useful life or have appropriate substitute products already available. This should not result in any significant reduction in estimated future sales and is expected to improve profitability.

Cash flow from operating activities remained strong in 2003. After dividend payments, share repurchases, and funding $95.2 million in pension obligations, cash flow was used to lower the company's net debt position. With only minimum debt repayment obligations in 2003, the stronger cash flow resulted in a significant increase in cash and cash equivalents at year-end 2003. Snap-on lowered its ratio of total net debt (total debt less cash and cash equivalents) to total invested capital (total net debt plus shareholders' equity) to 19.0% at fiscal year-end 2003, compared with 29.2% at fiscal year-end 2002. Cash flow priorities in 2004 will include the funding of the company's continuous improvement initiatives, investments in capital expenditures, payments of dividends and share repurchases.

In addition to improving operating profitability, the need to drive continued improvements in working investment reduction is another important priority for Snap-on in 2004. The company's target is to improve its working investment turnover to four turns by the end of 2005. At year-end 2003, working investment turnover was 3.2 turns. Substantial progress has been and continues to be made in improving Snap-on's asset utilization. Snap-on's creativity before capital emphasis as part of its Lean efforts resulted in capital spending of $29.4 million in 2003 compared to $45.8 million in 2002.

The economic rebound that appeared in the U.S. Gross Domestic Product ("GDP") figures released in late 2003 did not bring much improvement to Snap-on's cyclically sensitive businesses until late in the fourth quarter of 2003. Snap-on's management believes that, overall, any recovery remains fragile. As a result, Snap-on management continues to challenge its operating teams with doing what must be done to drive Operational Fitness and bring greater levels of profitability now, as opposed to waiting for the positive benefits that could come from a stronger economy.

Within this uncertain economic environment, the company is focused on those things that it can control – expenses, working investment and capital expenditures. Snap-on believes that applying the principles of the *Driven to Deliver* framework will be key to weathering tough economic times in the short term and building sustainable profitable growth for the long term.

Based upon the accelerated continuous improvement actions under way and some early signs of economic recovery late in 2003, Snap-on expects to see a

meaningful improvement in 2004 operating performance. For full-year 2004, Snap-on expects continued steady growth in demand for tools and handheld diagnostics by vehicle-service technicians, as well as in the purchase of tools by its dealers. With recent improving signs of economic recovery in North America, Snap-on could achieve a modest level of sales improvements in its more cyclical commercial and industrial businesses. Snap-on's assumptions for 2004 include maintaining its accelerated pace of continuous improvement activity into 2004, and identifying and implementing those actions and cost improvement initiatives that will deliver improved cash flow and earnings. The company expects that the continuous improvement actions taken during the past year will lead to stronger operating margins going forward, resulting in expected earnings of $1.80 to $2.20 per diluted share for full-year 2004. This estimate, as well as other forward-looking statements contained within this Annual Report, should be read in conjunction with the *Safe Harbor* disclosures included at the end of this Management's Discussion and Analysis.

RESULTS OF OPERATIONS

Highlights of Snap-on's results of operations for the fiscal years ended January 3, 2004 (fiscal 2003), December 28, 2002 (fiscal 2002), and December 29, 2001 (fiscal 2001), are as follows:

(Amounts in millions, except per share data)	**2003**	2002	2001
Net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7
Net earnings	**78.7**	106.0	19.0
Net earnings per share:			
Basic	**1.35**	1.82	0.33
Diluted	**1.35**	1.81	0.33

The following table is intended to illustrate certain Consolidated Statement of Earnings data as a percentage of net sales:

	2003	2002	2001
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold	**56.8%**	54.3%	54.7%
Gross profit	**43.2%**	45.7%	45.3%
Operating expenses	**38.4%**	38.1%	42.9%
Net finance income	**2.0%**	1.8%	1.7%
Operating earnings	**6.7%**	9.4%	4.1%

Snap-on's 2002 and 2001 fiscal years each contained 52 weeks of operating results. Snap-on's 2003 fiscal year contained 53 weeks of operating results, with the additional week occurring in the fourth quarter. The impact of the additional week of operations on 2003 operating results was not material.

Net Sales: Net sales in 2003 were $2.233 billion, up 5.9% from the $2.109 billion reported in 2002. The $124.1 million increase in year-over-year net sales was primarily driven by $111.8 million, or 5.3%, of favorable currency translation and a 0.6% increase in sales, including 0.5% from acquisitions.

Net sales in 2002 were $2.109 billion, up 0.6% from the $2.096 billion in 2001. The increase in year-over-year net sales was attributable to 0.8% of favorable currency translation, partially offset by a 0.2% decline in organic sales, which reflected the weakened economic conditions that continued from 2001. Snap-on defines organic sales growth as the change in year-over-year sales, excluding the impact of acquisitions, divestitures and currency translation. The impact of acquisitions on 2002 net sales was minimal.

Snap-on had product sales in the following geographic regions:

(Amounts in millions)	**2003**	2002	2001
United States	**$ 1,339.0**	$ 1,358.7	$ 1,360.0
Europe	**659.3**	547.0	537.5
All other	**234.9**	203.4	198.2
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7

Net Earnings: Snap-on reported net earnings in 2003 of $78.7 million, or $1.35 per diluted share, as compared to net earnings of $106.0 million, or $1.81 per diluted share, in 2002. Snap-on's earnings in 2003 included $30.1 million in pretax charges for the company's continuous improvement initiatives, as well as higher year-over-year pension, other retirement and insurance costs of $22.2 million pretax, excluding pension and postretirement curtailment gains and losses. Snap-on's earnings in 2003 also included pretax savings generated from its restructuring and cost improvement initiatives of $31.8 million partially offset by unfavorable manufacturing cost absorption and net inventory-related costs of $7.9 million pretax and unfavorable sales mix and lower sales volumes. Snap-on recorded a cumulative effect of a change in accounting principle transition adjustment that increased net earnings in 2002 by $2.8 million, or $0.05 per diluted share, from the recognition of negative goodwill as required by Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. For information on Snap-on's adoption of SFAS No. 142, refer to Note 8 of the Consolidated Financial Statements.

Snap-on's net earnings in 2001 of $19.0 million, or $0.33 per diluted share, were reduced by pretax charges of $120.4 million ($85.2 million after tax or $1.47 per diluted share) including $62.0 million for restructuring and non-recurring charges and $58.4 million for certain other items that included $44.0 million principally for the resolution of a patent arbitration matter and $3.0 million of related legal costs, $7.4 million for costs related to the termination of a

European supplier relationship, and $4.0 million for emissions-related bad debts. Net earnings in 2001 included a net charge of $2.5 million, or $0.04 per diluted share, for the cumulative effect of adopting SFAS No. 133, *Accounting for Derivative and Hedging Activities*. For information on Snap-on's adoption of SFAS No. 133, refer to Note 11 of the Consolidated Financial Statements.

Gross Profit: Snap-on reported gross profit of $964.7 million in 2003, as compared to $964.9 million in 2002. Gross profit in 2003 benefited from favorable net currency impacts of $33.0 million and savings from restructuring and Operational Fitness activities of $15.6 million. Gross profit in 2003 was negatively impacted by $25.8 million of costs for continuous improvement initiatives, including costs of $19.5 million related to the closure of the two U.S. hand-tool plants and costs of $3.5 million for the closure of the company's U.S. facility that assembled large-platform diagnostics. The combination of unfavorable sales mix and lower sales volumes, particularly in the Commercial and Industrial Group, partially offset by benefits from favorable net pricing and sales of new products across all business segments, reduced gross profit by approximately $6.8 million in 2003. Unfavorable manufacturing cost absorption and inventory-related costs, net of last-in, first-out ("LIFO") benefits realized of $14.0 million in 2003, also lowered full-year 2003 gross profit by $7.9 million. Gross profit in 2003 was also adversely impacted by higher year-over-year pension, other retirement and insurance costs of $7.3 million and by plant inefficiencies of $1.0 million incurred in the fourth quarter associated with the closure of the two hand-tool facilities.

Gross profit in 2002 was $964.9 million, up 1.7% from $949.0 million in 2001. Gross profit in 2002 benefited from the success of new product introductions, favorable net pricing and Operational Fitness activities, including cost controls and improvements in manufacturing operations. The unfavorable impact of cost increases and lower production volumes associated with improving inventory turns in a slow sales environment offset the impact of these improvements as compared to the prior year. Additionally, gross profit in 2001 was negatively impacted by $1.5 million for inventory write-downs related to the termination of a European supplier relationship and by $12.6 million in charges that included $2.3 million for inventory write-downs associated with restructuring activities and $10.3 million for inventory write-downs and warranty costs associated with the exiting of a segment of the emissions-testing business.

Operating Expenses: Operating expenses were $858.4 million in 2003 compared to $804.3 million in 2002. The $54.1 million, or 6.7%, increase in year-over-year operating expenses primarily includes unfavorable net currency impacts of $35.7 million, higher pension, other retirement and insurance costs of $14.9 million, excluding pension and postretirement curtailment gains and losses, $1.7 million of higher costs for the More Feet on the Street dealer expansion and enhancement initiative, higher research and development spending of $2.7 million, and increased freight costs of $5.2 million. The year-over-year increase in freight costs largely reflects the impact of inflationary cost increases and a trend towards a higher number of smaller product shipments to improve customer responsiveness. Operating expenses in 2003 also included costs for continuous improvement initiatives of $4.3 million, inflationary health care cost increases of $4.3 million, $4.3 million in higher advertising and promotion expenses reflecting increased catalog and racing promotion costs, costs of $2.4 million to terminate certain life insurance programs, and $2.2 million in costs related to a change in long-term incentive compensation to reflect a higher percentage of restricted stock. The year-over-year operating expense comparison was also impacted by the inclusion, in 2003, of $5.1 million in operating expenses for the prior-year acquisition of two business operations. These year-over-year increases were partially offset by savings of $16.2 million from Snap-on's restructuring and Operational Fitness activities, gains of $2.8 million from the sale of facilities, and lower bad debt expense of $5.7 million, including the absence of $2.6 million incurred in 2002 for the write-down of a receivable related to the closure of auto service centers associated with a major retailer's bankruptcy. In addition, the year-over-year operating expense comparison benefited from the absence of costs incurred in 2002 that included $3.0 million related to the resignation of Snap-on's former chief financial officer. Operating expenses in 2002 included $4.9 million for employee and equipment relocation costs and professional fees to finalize the company's fiscal 2001 restructuring actions and a net $4.6 million benefit from the favorable resolution of a patent infringement matter partially offset by a provision for certain contractual matters.

Operating expenses were $804.3 million in 2002 as compared to $898.1 million in 2001. The improvement in year-over-year operating expenses included $56.9 million from the elimination of charges incurred in 2001 that included $47.0 million for the resolution of an arbitration matter and related legal costs, $5.9 million in operating expenses for costs related to the termination of a European supplier relationship and $4.0 million for emissions-related bad debts. Operating expenses in 2001 also included $40.3 million in restructuring and continuous improvement charges that included $27.1 million for severance costs associated with the planned elimination of 796 salaried and hourly positions, $6.0 million for non-cancelable lease agreements, $5.9 million for facility asset write-downs, and $1.3 million for exit-related legal and professional services. In 2001, Snap-on incurred $8.4 million for management transition costs associated with the April 2001 retirement of Snap-on's former president and chief executive officer, and $0.7 million for equipment and employee relocation costs associated with the facility consolidations. Savings realized in 2002 from reduced discretionary spending and other cost reduction initiatives, as well as savings from the fiscal 2001 restructuring actions, were more than offset by increased spending for dealer expansion, training and recruitment under the More Feet on the Street initiative, higher net pension costs and higher spending for new product development and other Profitable Growth initiatives. Operating expenses in 2002 included costs of $4.9 million for continuous improvement initiatives and a net $4.6 million benefit from the favorable resolution of a patent infringement matter partially offset by a provision for certain contractual matters. The improvement in year-over-year operating expenses also included $15.1 million from the elimination of goodwill and certain other intangible asset amortization. Snap-on adopted SFAS No. 142 at the beginning of its 2002 fiscal year. SFAS No. 142 requires the testing of goodwill and indefinite-lived assets for impairment, at least annually, as compared to the past method of amortizing such assets to expense on a straight-line basis over their estimated useful lives. As a result of adopting SFAS No. 142, operating expenses for post-2001 fiscal years do not include comparable costs for the amortization of goodwill and certain other intangibles.

[Chart]
ADVERTISING AND PROMOTIONS
(in $ millions)
1999-$36
2000-$47
2001-$48
2002-$47
2003-$51

[Chart]
RESEARCH AND ENGINEERING

(in $ millions)
1999-$50
2000-$51
2001-$55
2002-$57
2003-$60

Research and engineering costs for the development of new and improved products and process improvements are included in operating expenses and do not include certain software development costs that qualify for capitalization. In 2003, Snap-on filed 160 new patent applications in connection with its development activities, resulting in more than 3,000 active or pending patents at year end. Research and engineering expenses totaled $59.8 million, $57.1 million and $54.6 million in 2003, 2002 and 2001. In 2003, Snap-on introduced new and improved products such as heavy-duty air hammers, high-performance portable gas analyzers, diagnostic machines for vehicle evaporative system diagnosis and leak detection, ultra-high performance tire changers, wrenches that include the TECHWRENCH™ series of torque wrenches and ratcheting combination wrenches, as well as a variety of other productivity-enhancing power and hand tools. In 2002, Snap-on's new product introductions included the *MODIS*system, tool storage units – including the largest roll cab on the market, a variety of productivity-enhancing power and hand tools, and a versatile mid-rise lift and multi-fluid exchanger. New product sales, defined as sales from products introduced during the last three years, contributed approximately $575 million, or 26%, of total 2003 net sales, compared with approximately $492 million, or 23%, of net sales in 2002, and $304 million, or 15%, of net sales in 2001.

Operating Earnings: Snap-on's operating earnings in 2003 were $150.1 million, as compared to $198.3 million in 2002 and $86.6 million in 2001. In addition to the year-over-year gross profit and operating expense impacts discussed above, net finance income of $43.8 million in 2003 was up $6.1 million as compared to $37.7 million in 2002, primarily as a result of increased credit originations and generally favorable interest rates. Net finance income was $35.7 million in 2001.

Segment Earnings: Snap-on's business segments include the Snap-on Dealer Group, the Commercial and Industrial Group and the Diagnostics and Information Group. Snap-on evaluates the performance of its operating segments based on segment net sales and operating earnings. Snap-on began allocating restructuring and other non-recurring charges to its reportable segments in fiscal 2003. As a result, all prior-year segment information presented herein has been restated to conform to the 2003 presentation. For information regarding the measurement of segment net sales and operating earnings, as well as additional segment information, refer to Note 18 of the Consolidated Financial Statements.

The following discussion focuses on Snap-on's segment net sales and operating earnings by reportable segment.

(Amounts in millions)	**2003**	2002	2001
TOTAL NET SALES:			
Snap-on Dealer Group	**$ 1,073.2**	$ 1,039.7	$ 1,041.3
Commercial and Industrial Group	**1,133.9**	1,045.7	1,027.3
Diagnostics and Information Group	**309.0**	334.4	321.2
Total segment net sales	**2,516.1**	2,419.8	2,389.8
Intersegment eliminations	**(282.9)**	(310.7)	(294.1)
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7

The following is a reconciliation of Snap-on's segment operating earnings to earnings before income taxes:

(Amounts in millions)	**2003**	2002	2001
OPERATING EARNINGS (LOSS):			
Snap-on Dealer Group	**$ 70.2**	$ 89.6	$ 108.1
Commercial and Industrial Group	**13.1**	46.0	3.9
Diagnostics and Information Group	**23.0**	25.0	(17.1)
Segment operating earnings	**106.3**	160.6	94.9
Net finance income	**43.8**	37.7	35.7
Arbitration resolution(a)	**-**	-	(44.0)
Operating earnings	**150.1**	198.3	86.6
Interest expense	**(24.4)**	(28.7)	(35.5)
Other income (expense) - net	**(9.0)**	(8.4)	(3.5)
Earnings before income taxes	**$ 116.7**	$ 161.2	$ 47.6

(a) In 2001, the $44.0 million cost incurred for the resolution of an arbitration matter was not allocated to the reportable segments.

SNAP-ON DEALER GROUP

In the Snap-on Dealer Group, segment net sales were $1.073 billion in 2003, up $33.5 million, or 3.2%, from $1.040 billion in 2002. Currency translation contributed $26.5 million of the sales increase. Higher year-over-year sales in the North American franchised dealer operation and in the Snap-on Dealer Group's international markets, were partially offset by significantly lower sales of large platform-based diagnostics through the company's technical representatives ("tech rep") organization. The sales growth in the North American franchised dealer operation in 2003 reflects sales gains by dealers to end-user customers – automotive technicians and mechanics. In the Snap-on Dealer Group's international markets, sales were up $17.7 million year over year, including $16.3 million from favorable currency translation.

In 2002, Snap-on began focusing its dealers on the importance of better working capital management, including improving inventory turns. Over the past 18 months, Snap-on's sales growth was constrained as dealers continued to improve their inventory turns. End-market demand for tools and tool storage products in 2003 increased as sell-through by the dealers was up mid-single digits when compared with 2002, despite the negative effect of severe winter weather in certain parts of the United States that hindered dealers' sales activity in the first quarter of 2003.

Net segment sales in the Snap-on Dealer Group were $1.040 billion in 2002, compared with $1.041 billion in 2001. Steady U.S. demand for tools by automotive technicians in 2002, along with the successful launch of new products, including new handheld diagnostics sales, was offset by weak demand for big-ticket diagnostics and equipment sales through the company's tech rep organization and the efforts by Snap-on, beginning in 2002, to improve inventory turns of its dealers, which curtailed U.S. dealer sales growth in the second half of 2002. As a result, sales to U.S. dealers, which approximated 75% of total Snap-on Dealer Group sales in each of the last three years, were essentially flat year over year, as an increase in sales in the first half of 2002 was offset by a decrease in sales in the second half of the year. Sales increases in the U.K., Mexico, Japan and Australia more than offset a sales decline in Canada. Currency translation had a negligible impact on 2002 sales.

Segment operating earnings for the Snap-on Dealer Group were $70.2 million in 2003, compared to $89.6 million in 2002. As a percentage of segment net sales, segment operating earnings were 6.5% for 2003, compared to 8.6% in 2002. Costs of $20.9 million for continuous improvement initiatives and increased costs for pension, other retirement and insurance of $11.1 million, lowered segment earnings for the Snap-on Dealer Group in 2003. Higher year-over-year freight and catalog costs of $5.0 million and $2.0 million, respectively, as well as higher costs of $1.7 million for continued investment in the More Feet on the Street initiative, also lowered 2003 operating earnings. Costs incurred for the More Feet on the Street initiative generally included higher dealer turnover costs to address low-performing dealers, as well as higher costs for new dealer training, recruiting and other expansion costs. Production inefficiencies and other expenses of $1.0 million incurred in the fourth quarter of 2003 associated with the relocation of production from the two hand-tool plants also adversely impacted 2003 operating earnings. In 2003, benefits from productivity and cost savings of $8.5 million, as well as benefits from favorable net pricing, the success of new products, LIFO benefits realized from lower inventory levels, along with lower year-over-year bad debts of $3.1 million, were partially offset by lower manufacturing cost absorption and weakness in sales of large platform-based diagnostics sold through the tech rep organization. Operating earnings in 2002 included a net benefit of $2.5 million from the favorable resolution of a patent infringement matter and also included $1.9 million of restructuring-related costs to complete 2001 restructuring initiatives.

Segment operating earnings for the Snap-on Dealer Group were $89.6 million, or 8.6% of segment net sales, in 2002, as compared to $108.1 million, or 10.4% of segment net sales, in 2001. In 2002, segment operating earnings were adversely impacted by $34.4 million primarily as a result of lower sales of large platform-based diagnostics and equipment products and by $18.1 million related to lower sales volumes experienced in the second half of the year, as well as by general cost increases of $11.0 million. Segment operating earnings in 2002 were also adversely impacted by higher year-over-year net pension and bad debt expense of $4.0 million and $2.8 million, as well as by higher spending of $15.8 million for Profitable Growth initiatives, including $11.8 million for continued investment in the More Feet on the Street initiative. Year-over-year segment operating earnings in 2002 included a benefit of $39.2 million from sales of new products and $9.8 million from favorable net pricing. Productivity savings and tighter control on discretionary spending contributed $9.3 million to operating earnings in 2002 over 2001 levels, and operating earnings in 2002 also benefited by $1.4 million from the elimination of goodwill and certain other intangible amortization. Year-over-year segment operating earnings also benefited from lower restructuring and continuous improvement charges in 2002. In 2002, the Snap-on Dealer Group incurred $1.9 million in costs for its continuous improvement initiatives, as compared to $14.2 million of such costs in 2001. Operating earnings in 2002 also included a net benefit of $2.5 million from the favorable resolution of a patent infringement matter.

COMMERCIAL AND INDUSTRIAL GROUP

In the Commercial and Industrial Group, segment net sales for 2003 were $1.134 billion, up 8.4% from $1.046 billion in 2002, including favorable currency translation of $83.6 million. In 2003, Snap-on realized higher year-over-year sales to new vehicle dealerships under facilitation agreements, in which Snap-on provides product procurement, distribution and administrative support to customers for their dealerships' equipment programs, and higher sales of equipment for the European vehicle-service marketplace, reflecting the success of new product introductions over the past three years. These increases in year-over-year segment net sales were largely offset by sales declines in industrial tools, principally in such sectors as aerospace, aviation, general manufacturing and non-residential construction, and lower sales of power tools to the Snap-on Dealer Group. In addition, lower sales of equipment in North America, reflecting the sustained weak economic conditions in the manufacturing and capital goods marketplace and the disruption caused by the launch of the TAG direct sales organization in the second quarter of 2003, also impacted the year-over-year sales comparisons. Snap-on believes that the TAG organization will enhance the company's alignment of resources to provide better sales coverage, training and service to its equipment customers.

Net segment sales in the Commercial and Industrial Group increased 1.8% to $1.046 billion in 2002 from $1.027 billion in 2001, largely due to favorable currency translations. Sales gains realized from new product introductions and pricing increases in 2002 were offset by the continued weak industrial demand for tools and capital goods worldwide, leading to the generally flat year-over-year organic sales performance. In 2002, sales gains were realized from new product introductions, including higher sales of equipment in Europe due to the success of new wheel aligners, along with increased sales to new vehicle dealerships under facilitation agreements, and higher sales of power tools to the Snap-on Dealer Group. These increases were offset by lower sales of industrial tools worldwide and equipment in North America.

Segment operating earnings for the Commercial and Industrial Group were $13.1 million in 2003, down from $46.0 million in 2002. As a percentage of

net sales, segment operating earnings were 1.2% in 2003, as compared to 4.4% in 2002. Segment operating earnings in 2003 were adversely impacted by $21.5 million from lower volumes, general cost increases and unfavorable sales mix (primarily lower sales of high-margin industrial tools and equipment), including the impact related to the start-up of the new TAG organization, partially offset by sales increases in the lower-margin facilitation business. Segment earnings in 2003 were also lowered by $9.3 million due to unfavorable manufacturing absorption and inventory-related costs, net of LIFO benefits realized from lower inventory levels, and costs of $5.6 million for continuous improvement activities, including $2.6 million in shared costs related to the closure of the two U.S. hand-tool facilities. Segment operating earnings were also impacted in 2003 by $9.5 million in higher year-over-year costs for pension, other retirement and insurance, and by $1.9 million for increased health care costs and costs to terminate certain life insurance programs. In 2003, the Commercial and Industrial Group also realized unfavorable year-over-year currency impacts of $2.6 million from the sourcing of a significant portion of its tool and equipment products from Sweden and Canada. Savings of $16.8 million from restructuring and Operational Fitness activities partially offset these declines in year-over-year segment earnings. In 2002, the Commercial and Industrial Group also incurred $4.9 million of restructuring-related costs to complete its 2001 restructuring initiatives. Operating earnings in 2002 also included a net benefit of $2.1 million from the favorable resolution of a patent infringement matter partially offset by a provision for certain contractual matters.

Segment operating earnings for the Commercial and Industrial Group were $46.0 million in 2002, compared to $3.9 million in 2001. As a percentage of segment net sales, operating margin in 2002 improved to 4.4% from 0.4% in 2001, primarily due to benefits of $24.6 million realized in 2002 from the company's restructuring and Operational Fitness activities and by $17.5 million in lower year-over-year costs for continuous improvement initiatives. In conjunction with its *Driven to Deliver* framework, Snap-on began consolidating its equipment operations in North America in 2001 with a focus toward achieving improved operating margin. Segment operating earnings in 2002 also benefited from the elimination of $9.3 million in goodwill and other intangible amortization, favorable net pricing of $4.8 million, higher new product sales of $21.3 million, favorable currency impacts of $5.2 million and the absence of $1.9 million in 2001 for the write-off of receivables and the incurrence of legal costs associated with the emissions-testing business. These improvements in year-over-year segment operating earnings were partially offset by general cost increases of $12.5 million and by $28.7 million due to lower than anticipated sales and production volumes and the related lower manufacturing cost absorption associated with inventory reduction initiatives, as well as by higher costs for new product development and growth initiatives of $2.8 million and increased net pension expenses of $1.2 million. Operating earnings in 2002 also included a net benefit of $2.1 million from the favorable resolution of a patent infringement matter partially offset by a provision for certain contractual matters.

DIAGNOSTICS AND INFORMATION GROUP

Total net segment sales in the Diagnostics and Information Group were $309.0 million in 2003, as compared with net segment sales of $334.4 million in 2002. The $25.4 million, or 7.6%, decrease in year-over-year net segment sales was primarily attributed to lower intersegment sales, partially offset by favorable currency translation of $10.1 million and incremental sales from NEXIQ Technologies. Increased sales of handheld diagnostics were more than offset by a decline in sales of equipment and large platform-based diagnostics in North America, primarily in products sold through the Snap-on Dealer Group's tech rep organization. In addition, the Diagnostics and Information Group transferred production of certain European equipment products to the Commercial and Industrial Group, which reduced its intersegment sales for these products.

Total net segment sales in the Diagnostics and Information Group were $334.4 million in 2002, up $13.2 million, or 4.1%, from $321.2 million in 2001, including 1.1% from favorable currency translation. The year-over-year sales increase was primarily attributed to strong demand for the company's information-based products and new handheld diagnostics equipment, such as the introduction of *MODIS* in 2002 and a Color Graphing *Scanner* in 2001. In 2002, the introduction of handheld products in the U.K. partially offset the weak market demand for large platform-based diagnostics.

Segment operating earnings for the Diagnostics and Information Group were $23.0 million in 2003, as compared to $25.0 million in 2002. As a percentage of segment net sales, operating margin in the Diagnostics and Information Group was 7.4% in 2003, as compared to 7.5% in 2002. Savings of $7.3 million from productivity, restructuring and cost reduction efforts, primarily from the realignment of production capabilities in certain European equipment lines, as well as benefits from favorable net pricing, new product sales and LIFO benefits realized from lower inventory levels, were more than offset by the combined net margin impact of the lower sales volumes and lower manufacturing cost absorption. Segment earnings in 2003 were also lowered by $3.6 million for continuous improvement activities, including $3.5 million incurred in the fourth quarter of 2003 associated with the closing of the large-platform diagnostics facility. In addition, year-over-year segment earnings were lowered by higher costs for pension, other retirement and insurance of $1.6 million, excluding pension and postretirement curtailment gains and losses. These net declines in year-over-year segment earnings were partially offset by gains of $2.5 million from the fourth-quarter 2003 sale of certain facilities. Segment operating earnings in 2002 were lowered by $2.6 million for the write-down of a receivable related to the closure of auto service centers associated with a major retailer's bankruptcy. Segment operating earnings in 2002 also included a benefit of $1.9 million from the reversal of excess restructuring accruals.

Segment operating earnings for the Diagnostics and Information Group were $25.0 million in 2002, as compared to a segment operating loss of $17.1 million in 2001. Operating margin, as a percentage of segment net sales, was 7.5% in 2002. Operating loss, as a percentage of segment net sales, was 5.3% in 2001. The significant increase in year-over-year segment operating earnings was largely due to benefits of $10.8 million from the company's 2001 restructuring initiatives and other ongoing cost-reduction efforts, and $5.8 million from sales of new products. In 2001, Snap-on incurred $25.4 million of costs for continuous improvement initiatives that included costs to realign production capabilities in certain European equipment lines. Segment operating earnings in 2002 also benefited from the absence of $7.4 million of costs incurred in 2001 for inventory write-downs, bad debts and legal expenses related to the termination of a European supplier relationship and the absence of $2.1 million of additional costs incurred in 2001 related to the December 2000 announced exiting of an unprofitable segment of the emissions-testing business. Segment operating earnings in 2002 were also favorably impacted by the elimination of $4.4 million in goodwill and certain other intangible amortization in that year, and by $1.9 million from the reversal of excess restructuring accruals. These items were partially offset by a $2.6 million charge in 2002 for the write-down of a receivable related to the closure of auto service centers associated with a major retailer's bankruptcy, $4.5 million in general cost increases and $5.7 million in higher spending for new product development and other Profitable Growth initiatives.

Net Finance Income: Net finance income consists of royalty and management fees paid to Snap-on by Snap-on Credit LLC ("SOC"), a 50%-owned joint venture, based on the volume of contracts originated by SOC and 50% of any residual net profit or loss of SOC after operating expenses, including royalty and management fees, interest costs and credit loss provisions. Net finance income also consists of installment contract income and dealer financing income, net of administrative expenses, derived from Snap-on's wholly owned international credit operations. Net finance income includes gains on the sale of

receivables when applicable.

Net finance income was $43.8 million in 2003, up $6.1 million from $37.7 million in 2002. Higher credit originations and a more favorable interest-rate environment contributed to the year-over-year increase. Credit originations at SOC for 2003 increased 3.2% from prior-year levels. Net finance income derived from Snap-on's wholly owned international credit operations totaled $13.4 million in 2003 and $9.5 million in 2002.

Net finance income was $37.7 million in 2002, up from $35.7 million in 2001. The year-over-year increase in net finance income was a result of higher credit originations, primarily related to the U.S. dealer business, along with improved year-over-year interest rate spreads on originated loans. Credit originations at SOC for 2002 increased 9.0% from prior-year levels. Net finance income derived from Snap-on's wholly owned international credit operations totaled $9.5 million in 2002 and $10.8 million in 2001. For information on Snap-on's credit joint venture and international credit operations, refer to Note 9 of the Consolidated Financial Statements.

Exit or Disposal Activities: For a discussion of Snap-on's exit and disposal activities, refer to Note 4 of the Consolidated Financial Statements.

Interest Expense: Interest expense for 2003 was $24.4 million, compared with $28.7 million in 2002 and $35.5 million in 2001. The decline in interest expense over the last two years reflects the impact of both lower average interest rates and significantly lower average debt levels due to strong cash flow from operating activities.

Other Income (Expense): This income statement line item includes the impact of all non-operating items such as interest income, minority interests, hedging and exchange rate transaction gains and losses, and other miscellaneous non-operating items. In 2003, other income (expense)-net was an expense of $9.0 million, compared to an expense of $8.4 million in 2002 and an expense of $3.5 million in 2001. Minority interests for 2003, 2002 and 2001 were $3.1 million, $3.4 million and $2.7 million.

Income Taxes: Snap-on's effective income tax rate was 32.6% in 2003, 35.4% in 2002 and 56.3% in 2001. Snap-on's effective tax rate in 2003 was reduced by 2.5 percentage points from the conclusion of certain prior-years' tax matters. The 2001 effective tax rate was increased by 19.8 percentage points as a result of approximately $25 million of restructuring and other expenses incurred in various foreign jurisdictions that provided no tax benefit. For income tax information, refer to Note 12 of the Consolidated Financial Statements.

Fourth Quarter: Net sales in the fourth quarter of 2003 were $599.3 million, up $49.8 million, or 9.1%, from $549.5 million in the comparable prior-year period. Currency translation contributed $33.4 million, or 6.1%, of the year-over-year increase in fourth-quarter net sales, and incremental sales from acquisitions contributed $3.2 million. Segment net sales in the Snap-on Dealer Group of $275.4 million were up $11.6 million, or 4.4%, over $263.8 million of sales in the fourth quarter of 2002, driven by higher sales in the North American franchised dealer operation, partially offset by lower sales of equipment and large platform-based diagnostics sold through the tech rep organization. Snap-on's franchised dealers in the United States reported that their sales to end-use customers increased at a high single-digit-rate for the quarter. This improvement in market penetration is believed to have largely resulted from dealer expansions, primarily through second vans and franchises, allowing dealers to reach new, and better serve existing, customers.

Segment net sales in the Commercial and Industrial Group were $314.3 million in the fourth quarter of 2003, up $38.7 million, or 14.0%, including $24.1 million, or 8.8%, from favorable currency translation, as compared to $275.6 million of sales in the fourth quarter of 2002. Increased sales in the company's facilitation business for new vehicle dealerships and an improving sales trend for industrial tools in North America largely supported the year-over-year sales increase. Weak economic conditions in Europe and, at the beginning of the fourth quarter in North America, continued to impact the sale of equipment to vehicle repair shops and the sale of industrial tools in such sectors as aerospace and aviation, general manufacturing and non-residential construction.

Segment net sales in the Diagnostics and Information Group were $77.2 million in the fourth quarter of 2003, as compared to $78.9 million in the comparable prior-year period. Growth in sales of handheld diagnostics was more than offset by a market contraction in large platform-based diagnostics, primarily sold through the Snap-on Dealer Group's tech rep organization, and the impact from transferring certain European equipment production to the Commercial and Industrial Group, which reduced intersegment sales for these products.

Snap-on's 2003 fiscal year contained 53 weeks of operating results, with the additional week occurring in the fourth quarter. The impact of the additional week of operations on 2003 operating results was not material.

Net earnings for the fourth quarter of 2003 were $17.3 million, compared with $33.1 million in the fourth quarter of 2002. Earnings per diluted share were $0.30 in the fourth quarter of 2003, compared with $0.56 per share in the prior year. Operating earnings for the fourth quarter were $35.3 million in 2003 compared with operating earnings of $61.3 million in 2002. The decline in year-over-year fourth-quarter operating earnings reflects $11.9 million in higher costs in 2003 for continuous improvement actions, including $6.2 million for the closure of the two U.S. hand-tool plants and $3.5 million for the closure of the large-platform diagnostics facility. Operating earnings in 2003 were also adversely impacted by higher pension, other retirement and insurance costs of $6.0 million, excluding pension and postretirement curtailment gains and losses. Lower sales and performance in the company's equipment businesses, particularly as a result of lower sales of collision repair equipment, reduced fourth-quarter 2003 earnings by approximately $6.0 million. Operating results in the fourth quarter of 2002 included a net $4.6 million benefit from the favorable resolution of a patent infringement matter partially offset by a provision for certain contractual matters.

Fourth-quarter 2003 net earnings reflect savings from restructuring and cost-reduction initiatives of $5.2 million, benefits of $2.1 million from lower LIFO inventory reserves, net of inventory-related write-offs and adjustments, lower bad debt expense of $3.0 million, and gains from sales of facilities of $2.8 million. These increases in year-over-year operating earnings were more than offset by adverse currency impacts of $2.1 million, higher spending for new product development of $1.3 million, higher freight and catalog costs of $4.0 million, production inefficiencies associated with the relocation of production from the two U.S. hand-tool facilities of $1.0 million, and costs of $2.4 million to terminate certain life insurance programs.

FINANCIAL CONDITION

Liquidity: Snap-on's growth has historically been supported by a combination of cash provided by operating activities and debt financing. Snap-on believes

that its cash from operations, coupled with its sources of borrowings, are sufficient to support its anticipated requirements for working capital, capital expenditures, restructuring and continuous improvement activities, acquisitions, common stock repurchases and dividend payments. Due to Snap-on's credit rating over the years, external funds have been available at a reasonable cost. At the end of 2003, Snap-on's long-term debt and commercial paper was rated A2 and P-1 by Moody's Investors Service and A and A-1 by Standard & Poor's. Snap-on believes that the strength of its balance sheet affords the company the financial flexibility to respond to both internal growth opportunities and those available through acquisition.

(Amounts in millions)	**2003**	2002	2001
Net cash provided by operating activities	**$ 177.0**	$ 224.1	$ 163.7
Decrease in debt	**(27.5)**	(113.9)	(68.7)

In 2003, net cash provided by operating activities decreased $47.1 million from prior-year levels. The year-over-year decrease in net cash provided by operating activities in 2003 is due to lower earnings of $27.3 million and $95.2 million of pension contributions made in 2003, including a $78.2 million voluntary U.S. pension contribution in the fourth quarter, compared to $13.1 million of pension contributions made in 2002. Based on current actuarial assumptions, Snap-on expects that it will not need to make further contributions to its U.S. pension plans until 2006. Snap-on used its 2003 cash flow principally to fund debt repayment, the cash requirements of its restructuring and continuous improvement activities and internal growth opportunities, including new product development, as well as share repurchases, dividend payments and pension plan contributions. The year-over-year increase in net cash provided by operating activities from 2001 to 2002 is primarily due to higher earnings in 2002 and better management of working capital elements – particularly accounts receivable. Net cash provided by operating activities in 2002 included a $44.0 million payment for the December 2001 resolution of an arbitration matter.

The ratio of Snap-on's total net debt to total invested capital was 19.0% at January 3, 2004, compared to 29.2% at year-end 2002, better than the company's long-term target of 30% to 35%. The improvement in this ratio reflects lower debt levels and increased shareholders' equity, including increases of $131.5 million from foreign currency translation, since December 28, 2002. This ratio may vary from time to time as the company issues commercial paper to fund seasonal working capital requirements and to the extent that the company may use debt to fund acquisitions. Total notes payable and long-term debt was $333.2 million at the end of 2003, as compared to $360.7 million at year-end 2002. Cash and cash equivalents were $96.1 million at January 3, 2004, compared to $18.4 million and $6.7 million at year-end 2002 and 2001. Total shareholders' equity at January 3, 2004, was $1.011 billion, up $180.5 million from year-end 2002. The company's total net debt to total invested capital ratio at year-end 2001 was 37.6%.

[Chart]
NET CASH PROVIDED BY OPERATING ACTIVITIES
(in $ millions)
1999-$236
2000-$190
2001-$164
2002-$224
2003-$177

[Chart]
TOTAL NET DEBT AT YEAR END
(in $ millions)
1999-$612
2000-$537
2001-$468
2002-$342
2003-$237

In June 2003, Snap-on received proceeds of $5.1 million for the termination of a $25 million interest rate swap that was a fair value hedge for a portion of its $200 million, 6.25% long-term notes. The $5.1 million is being amortized to income using the effective interest rate method over the remaining life of the notes, which mature on August 15, 2011. At the same time, Snap-on entered into a new $25 million interest rate swap to hedge that same portion of these notes.

At the end of 2003, Snap-on had commercial paper outstanding denominated in U.S. dollars of $25.0 million compared to commercial paper outstanding denominated in U.S. dollars of $25.0 million and Japanese yen of $7.9 million at year-end 2002. Snap-on currently anticipates that it will continue to have positive cash flow and debt reduction for the foreseeable future and, as a result, commercial paper borrowings at January 3, 2004, of $25.0 million are included in *Notes payable and current maturities of long-term debt* on the accompanying Consolidated Balance Sheets.

At January 3, 2004, Snap-on had $408 million of multi-currency revolving credit facilities that provide back-up liquidity for its commercial paper programs. These facilities include a $200 million, 364-day revolving credit facility with a one-year term-out option that terminates on July 30, 2004. The term-out option allows Snap-on to elect to borrow under the credit facility for an additional year after the termination date. The company's credit facilities also include a five-year, $208 million revolving credit facility that terminates on August 20, 2005. As of January 3, 2004, and December 28, 2002, Snap-on was in compliance with all covenants of its revolving credit facilities and there were no borrowings under any revolving credit facility. The most restrictive financial covenant requires that Snap-on maintain a total debt to total capital (defined as total debt plus shareholders'equity) ratio that does not exceed 60%. The company's total debt to total capital ratio, computed as defined by the financial covenant, was 24.8% at January 3, 2004, and 30.3% at December 28, 2002. At January 3, 2004, Snap-on also had an unused committed $20 million bank line of credit that expires August 1, 2004.

Average commercial paper and bank notes outstanding were $59.2 million in 2003 and $189.6 million in 2002. The weighted-average interest rate on

these instruments was 1.2% in 2003 and 1.7% in 2002. As of January 3, 2004, and December 28, 2002, commercial paper and bank notes outstanding had a weighted-average interest rate of 1.1% and 1.3%.

In August 2001, Snap-on issued $200 million of unsecured notes pursuant to a $300 million shelf registration statement filed with the Securities and Exchange Commission in 1994. In October 1995, Snap-on issued $100 million of unsecured notes to the public under this shelf registration statement. The August 2001 notes require semiannual interest payments at the rate of 6.25% and mature in their entirety on August 15, 2011. The October 1995 notes require semiannual interest payments at a rate of 6.625% and mature in their entirety on October 1, 2005. The proceeds from these issuances were used to repay a portion of Snap-on's outstanding commercial paper and for working capital and general corporate purposes.

At January 3, 2004, Snap-on had cash and cash equivalents of $96.1 million and approximately $403 million of unused available debt capacity under the terms of its revolving credit facilities and committed bank line of credit.

Snap-on maintains sufficient credit facilities to cover its expected funding needs on both a short-term and long-term basis. Snap-on manages its aggregate short-term borrowings so as not to exceed its availability under its revolving credit facilities and committed line of credit. The company accesses short-term debt markets, predominantly through commercial paper issuances, to fund its short-term requirements and to ensure near-term liquidity. Near-term liquidity requirements for Snap-on in 2004 include the funding of its restructuring and continuous improvement initiatives, investments in capital expenditures, payments of dividends and share repurchases. As funding needs are determined to be of a longer-term nature, Snap-on could access medium- and long-term debt markets, as appropriate, to refinance short-term borrowings and, thus, replenish its short-term liquidity. In 2005, Snap-on's funding requirements will include a $100.4 million scheduled repayment of long-term debt. Snap-on's long-term financing strategy is to maintain continuous access to the debt markets to accommodate its liquidity needs. For additional information on Snap-on's debt and credit facilities, refer to Note 10 of the Consolidated Financial Statements.

Working capital was $564.5 million at the end of 2003, an increase of $65.9 million from $498.6 million at year-end 2002.

(Amounts in millions)	**2003**	2002	2001
Current assets	**$ 1,131.7**	$ 1,051.0	$ 1,097.0
Current liabilities	**(567.2)**	(552.4)	(549.4)
Working capital	**$ 564.5**	$ 498.6	$ 547.6

The ratio of current assets to current liabilities at year-end 2003 was 2.0 to 1, compared with 1.9 to 1 and 2.0 to 1 at year-end 2002 and 2001.

Working investment decreased $47.0 million from year-end 2002, and $98.6 million from year-end 2001. The year-over-year decreases in all periods presented primarily reflect the results of Snap-on's continued efforts to reduce working investment through improved inventory turnover and reduced days sales outstanding.

(Amounts in millions)	**2003**	2002	2001
Accounts receivable - net of allowances	**$ 546.8**	$ 556.2	$ 572.8
Inventories	**351.1**	369.9	375.2
Less: Accounts payable	**(189.7)**	(170.9)	(141.2)
Total working investment	**$ 708.2**	$ 755.2	$ 806.8

Accounts receivable — net of allowances decreased $9.4 million in 2003, despite a $54.9 million increase from currency translation, as compared with year-end 2002, due to Snap-on's emphasis on reducing days sales outstanding. As of the end of 2003, days sales outstanding improved to 88 days from 95 days as of the end of 2002. Accounts receivable — net of allowances decreased $16.6 million in 2002, despite a $24.0 million increase from currency translation, as compared with year-end 2001. Bad debt write-offs in 2003 represented 5.2% of total average accounts receivable, compared with 5.7% in 2002 and 4.9% in 2001. At the end of 2003, Snap-on's bad debt allowance as a percentage of current accounts receivable was 7.6%, compared to 6.9% and 6.5% at the end of 2002 and 2001.

Inventories decreased $18.8 million from year-end 2002, despite a $41.9 million increase from currency translation, and were down $24.1 million from year-end 2001. The decrease in year-over-year inventory levels in both years reflects Snap-on's continued focus on improving working investment levels. As a result of the progress made in reducing its inventory levels, the company's LIFO reserve declined from $95.8 million at December 28, 2002, to $81.8 million at January 3, 2004. As compared to year-end 2002, inventory turns (defined as cost of goods sold for the year, divided by the average of the last four quarter-end's inventory balances) have improved from 2.9 turns to 3.5 turns at year-end 2003.

Trade payables at year-end 2003 were $189.7 million, an increase of $18.8 million from year-end 2002 and up $48.5 million from 2001 levels.

Total shareholders' equity at January 3, 2004, was $1.011 billion, an increase of $180.5 million compared with $830.4 million at year-end 2002. Snap-on's shareholders' equity at year-end 2003 was reduced by $31.6 million for the excess of accumulated pension benefit obligations over the fair market value of plan assets, versus a comparable $60.9 million reduction in shareholders' equity at year-end 2002. These reductions in shareholders' equity resulted from the combination of lower-than-expected returns on plan investments and a decrease in both the discount rate used to calculate pension obligations and the

expected long-term rate of return on plan assets. Snap-on currently expects that its 2004 worldwide pension expense will be approximately $4 million higher than 2003 levels, excluding the impact of the $8.2 million curtailment loss recognized in 2003 related to the closure of the two U.S. hand-tool facilities. For additional information on Snap-on's pension plans and assumptions, refer to Note 13 of the Consolidated Financial Statements.

Capital Expenditures: Capital expenditures in 2003 were $29.4 million, compared to $45.8 million in 2002 and $53.6 million in 2001. The declines in capital expenditures over the last two years reflects focusing capital spending on investment in growth projects and the benefits of continuous improvement and restructuring activities that have reduced the manufacturing footprint. Capital expenditures in all three years reflect new product, quality, and cost-reduction capital investments, as well as ongoing replacements and upgrades of manufacturing and distribution facilities and equipment. Snap-on anticipates that 2004 capital expenditures will approximate $40 million to $45 million, of which two-thirds is expected to be used for investments relating to new products, quality enhancement or cost reduction.

Depreciation and Amortization: Depreciation in 2003 was $58.2 million, compared with $49.9 million in 2002 and $50.4 million in 2001. Amortization expense was $2.1 million in 2003, $1.8 million in 2002 and $17.6 million in 2001. The decrease in 2003 and 2002 amortization expense, as compared with 2001 levels, resulted from Snap-on's adoption of SFAS No. 142 at the beginning of its 2002 fiscal year. For information on Snap-on's adoption of SFAS No. 142, refer to Note 8 of the Consolidated Financial Statements.

Dividends: Snap-on has paid quarterly cash dividends, without interruption or decline, since 1939. In the fourth quarter of 2003, Snap-on's Board of Directors declared a quarterly dividend of $0.25 per share. Cash dividends paid in 2003, 2002, and 2001 totaled $58.2 million, $56.5 million and $55.6 million.

	2003	2002	2001
Cash dividends paid per common share	**$ 1.00**	$ 0.97	$ 0.96
Cash dividends paid as a percent of prior-year retained earnings	**5.5%**	5.6%	5.3%

Stock Repurchase Program: Snap-on has undertaken repurchases of Snap-on common stock from time to time to offset dilution created by shares issued for employee and dealer stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable. During 2003, Snap-on repurchased 450,000 shares of common stock for $12.5 million under its previously announced share repurchase programs. In 2002 and 2001, Snap-on repurchased 405,000 shares and 400,000 shares. As of the end of 2003, Snap-on has remaining availability to repurchase up to an additional $144.0 million in common stock pursuant to the Board of Director's authorizations. Snap-on expects to accelerate its planned 2004 full-year share repurchases of approximately 750,000 to 1,000,000 common shares. The purchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions.

Contractual Obligations and Commitments: A summary of Snap-on's future contractual obligations and commitments as of January 3, 2004, is as follows:

	Contractual Obligations and Commitments				
(Amounts in millions)	*Total*	*Less Than 1 Year*	*1 to 3 Years*	*3 to 5 Years*	*More Than 5 Years*
Contractual obligations:					
Long-term debt	$ 303.3	$ 0.3	$ 100.4	$ -	$ 202.6
Operating leases	134.7	27.7	37.5	23.8	45.7
Purchase obligations	22.0	22.0	-	-	-
Total	$ 460.0	$ 50.0	$ 137.9	$ 23.8	$ 248.3

At January 3, 2004, $14.1 million of loans originated by SOC have a primary recourse provision to Snap-on if the loans become more than 90 days past due. For information on SOC, long-term debt and operating leases see Notes 9, 10 and 17 of the Consolidated Financial Statements.

Environmental Matters: Snap-on is subject to various federal, state and local government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Snap-on's policy is to comply with these requirements, and the company believes that, as a general matter, its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with its business. Some risk of environmental damage is, however, inherent in some of Snap-on's operations and products, as it is with other companies engaged in similar businesses.

Snap-on is and has been engaged in the handling, manufacture, use and disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. The company believes that, as a general matter, its handling, manufacture, use and disposal of these substances are in accordance with environmental laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies, could bring into question the company's handling, manufacture, use or disposal of these substances.

UNCONSOLIDATED JOINT VENTURE

SOC is an unconsolidated 50%-owned joint venture between Snap-on and The CIT Group, Inc. ("CIT"). SOC was formed as a limited liability corporation with member contributions totaling $2.0 million, and commenced operations on January 3, 1999. SOC provides a broad range of financial services to Snap-on's U.S. dealer and customer network and to Snap-on's industrial and other customers. Snap-on and CIT have identical voting and participating rights and responsibilities in SOC. As of January 3, 2004, and December 28, 2002, Snap-on's equity investment in SOC totaled approximately $6.8 million and $2.7 million.

As a result of establishing SOC, Snap-on effectively outsourced to SOC its domestic captive credit function. Snap-on provides extended-term financing internationally through its wholly owned credit subsidiaries, the results of which are included in Snap-on's Consolidated Financial Statements. Snap-on receives royalty and management fee income from SOC based on the volume of financings originated by SOC. Snap-on also shares with CIT ratably in any residual net profit or loss of the joint venture after operating expenses, including royalty and management fees, interest costs and credit loss provisions. These amounts are included in *Net finance income* on the accompanying Consolidated Statements of Earnings.

SOC sells substantially all of its originated contracts (through asset-securitization transactions) on a limited recourse basis to CIT, net of certain fees. SOC continues to service these contracts for an estimated market rate-servicing fee. In 2003, SOC originated contracts totaling $522.4 million, compared to $506.3 million in 2002 and $464.7 million in 2001.

Financial information regarding SOC loan originations for 2003, 2002 and 2001, and number of accounts outstanding as of year-end 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Originations: *(Amounts in millions)*			
Extended-credit receivables	**$ 381.8**	$ 361.9	$ 343.6
Equipment leases	**38.6**	40.1	47.7
Dealer financing	**102.0**	104.3	73.4
Total originations	**$ 522.4**	$ 506.3	$ 464.7
Number of accounts outstanding:			
Extended-credit receivables	**186,356**	181,567	177,484
Equipment leases	**13,476**	14,754	16,765
Dealer financing	**3,765**	3,214	2,781
Total	**203,597**	199,535	197,030

SOC strives to maintain strict credit standards and the contract receivables are generally secured by the underlying tools or equipment financed and other dealer assets. SOC establishes accruals for estimated credit loss for all contract receivables sold to CIT, and SOC's credit losses on the sold contract receivables are limited to the extent of the accrual. At year-end 2003 and 2002, SOC's accruals for estimated credit loss for contract receivables sold to CIT were $12.8 million and $8.3 million. SOC also establishes a prepayment accrual to cover estimated amounts due to CIT as a result of early prepayments by customers on loans sold to CIT. Loan losses on owned contract receivables were not material in any year.

Snap-on has credit risk exposure for certain loan originations with recourse provisions against Snap-on. At January 3, 2004, and December 28, 2002, $14.1 million and $32.1 million of these loans, with terms ranging from six months to ten years, have a primary recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for all fiscal-2003 loan originations with recourse as of January 3, 2004, was not material.

At December 28, 2002, SOC maintained a $25 million bank line of credit for working capital purposes, of which Snap-on was a 60% guarantor and CIT was a 40% guarantor. Borrowings under this facility totaled $11.0 million at December 28, 2002. SOC's bank line of credit expired May 31, 2003, and was not renewed. CIT and Snap-on have agreed to fund SOC's future working capital requirements on a 50/50 basis, with a combined maximum borrowing limit not to exceed $24 million. As of January 3, 2004, there were no outstanding amounts owed from SOC pursuant to this agreement.

Snap-on's exposure related to SOC as of January 3, 2004, was the $6.8 million equity investment plus the recourse obligations discussed above.

Based on information provided by SOC, summarized financial information of SOC as of December 31, 2003, and 2002, and for the years ended December 31, 2003, 2002 and 2001, is as follows:

	At December 31,	
(Amounts in millions)	**2003**	2002
Cash and cash equivalents	**$ 4.2**	$ 5.4
Receivables - net of allowances	**10.7**	13.4
Servicing receivables	**8.6**	7.6
Due from members	**14.0**	10.9
Other assets	**6.2**	8.0

	2003	2002
Total assets	**$ 43.7**	$ 45.3
Payable to members	**$ 13.2**	$ 12.4
Accruals for contract receivables sold	**12.8**	8.3
Other accrued liabilities	**4.1**	8.6
Short-term borrowings	-	11.0
Members' equity	**13.6**	5.0
Total liabilities and members' equity	**$ 43.7**	$ 45.3

		Year Ended December 31,	
(Amounts in millions)	**2003**	2002	2001
Revenues:			
Gain on sale of contract receivables	**$ 60.5**	$ 55.7	$ 50.2
Servicing fee income	**10.5**	9.0	8.3
Other income	**0.5**	1.3	1.9
Total revenues	**71.5**	66.0	60.4
Expenses:			
Royalty fees	**23.4**	22.8	20.9
Salaries and benefits	**16.9**	15.7	15.8
Management fees	**11.7**	11.2	10.3
Other	**11.1**	10.8	10.9
Total expenses	**63.1**	60.5	57.9
Net income	**$ 8.4**	$ 5.5	$ 2.5

The Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities (an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements*) in January 2003. FIN No. 46 provides consolidation guidance regarding the identification of variable interest entities ("VIE") for which control is achieved through means other than through voting rights. FIN No. 46 provides guidance in determining if a business enterprise is the primary beneficiary of a VIE and whether or not that business enterprise should consolidate the VIE for financial reporting purposes. FIN No. 46 applies to a VIE in which equity investors of the VIE, if any, do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the VIE to finance its activities independently. FIN No. 46 requires each enterprise involved with a special purpose entity to determine whether it provides financial support to the special purpose entity through a variable interest. Variable interests may arise from financial instruments, service contracts, minority ownership interests or other arrangements. If an entity holds a majority of the variable interests, or a significant variable interest that is considerably more than any other party's variable interest, then that entity would be the primary beneficiary and would be required to include the assets, liabilities and results of operations of the special purpose entity in its consolidated financial statements.

Since its issuance, the effective date of FIN No. 46 has been deferred once, and FIN No. 46R, a modification to FIN No. 46, was released in December 2003. FIN No. 46R delayed the effective date for certain entities until no later than fiscal periods ending after March 31, 2004, and also provided numerous technical clarifications to implementation issues. Based on the company's analysis of FIN No. 46R, the company has concluded that Snap-on is required to consolidate SOC as of January 4, 2004, the beginning of Snap-on's fiscal 2004 first quarter.

MARKET, CREDIT AND ECONOMIC RISKS

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Snap-on is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Snap-on monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of financial instruments such as forward exchange contracts and interest rate swap agreements. Snap-on does not use derivative instruments for speculative or trading purposes. Snap-on's broad-based business activities help to reduce the impact that volatility in any particular area or related areas may have on its operating earnings as a whole. Snap-on's management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks.

Foreign Currency Risk Management: Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations and restrictions on movement of funds. Foreign exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. Snap-on's financial position and results of operations have not been materially affected by such events to date. For additional information, refer to Note 11 of the Consolidated Financial Statements.

Interest Rate Risk Management: Snap-on's interest rate risk management policies are designed to reduce the potential volatility of earnings that could arise

from changes in interest rates. Through the use of interest rate swaps, Snap-on aims to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on's assets and liabilities. For additional information, refer to Note 11 of the Consolidated Financial Statements.

Snap-on utilizes a Value-at-Risk ("VAR") model to determine the potential one-day loss in the fair value of its interest rate and foreign exchange-sensitive financial instruments from adverse changes in market factors. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Snap-on's computations are based on the inter-relationships among movements in various currencies and interest rates (variance/co-variance technique). These inter-relationships were determined by observing interest rate and foreign currency market changes over the preceding quarter.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, at January 3, 2004, was $1.0 million on interest rate-sensitive financial instruments and $0.6 million on foreign currency-sensitive financial instruments. The VAR model is a risk management tool and does not purport to represent actual losses in fair value that will be incurred by Snap-on, nor does it consider the potential effect of favorable changes in market factors.

Credit Risk: Credit risk is the possibility of loss from a customer's failure to make payments according to contract terms. Prior to granting credit, each customer is evaluated, taking into consideration the borrower's financial condition, collateral, debt-servicing capacity, past payment experience, credit bureau information and other financial and qualitative factors that may affect the borrower's ability to repay. Specific credit reviews and standard industry credit scoring models are used in performing this evaluation. Loans that have been granted are typically monitored through an asset-quality-review process that closely monitors past due accounts and initiates collection actions when appropriate. In addition to its direct credit risk exposure, Snap-on also has credit risk exposure for certain SOC loan originations with recourse provisions against Snap-on. At January 3, 2004, $14.1 million of loans originated by SOC have a recourse provision to Snap-on if the loans become more than 90 days past due. For additional information on SOC, refer to the section entitled *Unconsolidated Joint Venture* in this Management's Discussion and Analysis and to Note 9 of the Consolidated Financial Statements.

Economic Risk: Economic risk is the possibility of loss resulting from economic instability in certain areas of the world. Snap-on continually monitors its exposure in these markets. Snap-on's Commercial and Industrial Group includes a hand-tool manufacturing facility in Argentina with net assets of approximately $10.0 million as of January 3, 2004. Due to economic instability in Argentina, Snap-on resized its operations there in 2001 and will continue to assess Argentina's economic situation to determine if any future actions or impairment write-downs are warranted.

As a result of the above market, credit and economic risks, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. Inflation has not had a significant impact on the company.

OTHER MATTERS

Acquisitions: In 2002, Snap-on acquired full ownership of two business operations for $7.9 million. The purchase price paid plus the liabilities assumed exceeded the fair value of the tangible and intangible assets acquired by approximately $3.7 million. In 2001, Snap-on incurred acquisition costs of $0.9 million related to the finalization of its fiscal 2000 acquisitions. Each of the acquisitions provided Snap-on with a complementary product line, new customer relationships, access to additional distribution and/or an extended geographic reach. Pro forma financial information has not been presented as the effects of these businesses, individually and in the aggregate, were not material.

Government Contract Matters: Snap-on has government contracts with federal departments and agencies, two of which are presently under audit by the U.S. General Services Administration. The two contracts involve sales from March 1996 through February 2001, and sales since February 2001. The primary focus of these audits concerns the interpretation and application of the price reduction provisions of these contracts.

On February 6, 2004, Snap-on received a letter from the Department of Justice indicating that they were seeking to discuss these audit findings with Snap-on before taking any further action. On March 2, 2004, the government provided Snap-on with their claim estimate of approximately $12 million for billing discrepancies relating to the audited contract periods from July 1997 through May 2002. Additional amounts could be claimed by the government for contract periods not covered by these audits. Snap-on intends to continue discussions with the government in an effort to advance its positions with respect to the government's claims. At this time, Snap-on cannot predict the period of time any discussions will take, or the outcome or specific consequences of these matters, which could include settlement, civil litigation by the government to recover treble damages and other penalties under the False Claims Act, as well as suspension or debarment from future government business or other legal or administrative action. Should the government prevail in these matters, the impact on Snap-on's results of operations would be material.

ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Notes 2 and 9 of the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements and related notes contain information that is pertinent to management's discussion and analysis. 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are generally based on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources, as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates. Snap-on considers the following policies to be the most critical in understanding the judgments that are involved in the preparation of the company's consolidated financial statements and the uncertainties that could impact the company's financial position, results of operations and cash flows.

Allowances for Doubtful Accounts: Snap-on's accounts receivable are reported net of estimated bad debt allowances, which are regularly evaluated by management for adequacy. The evaluations take into consideration various financial and qualitative factors that may affect the customers' ability to pay. These factors may include the customers' financial condition, collateral, debt-servicing capacity, past payment experience and credit bureau information. Snap-on regularly reviews the estimation process and adjusts the allowances as appropriate. It is possible, however, that the accuracy of Snap-on's estimation process could be adversely impacted if the financial condition of its customers were to deteriorate. Snap-on's accounts receivable do not represent significant

concentrations of credit risk because of the diversified portfolio of individual customers and geographical areas.

Inventory Valuation: Snap-on values its inventory at the lower of cost or market and adjusts for the value of inventory that is estimated to be excess, obsolete or otherwise unmarketable. Inventory adjustments for raw materials are largely based on analysis of raw material age and actual physical inspection of raw material for fitness for use. As part of evaluating work-in-progress and finished goods, management reviews individual product SKUs by product category and product life cycle. Cost adjustments for each product category/product life cycle stage are generally established and maintained based on a combination of historical experience, forecasted sales and promotions, technological obsolescence, inventory age and other actual known conditions and circumstances. Should actual product marketability and raw material fitness for use be affected by conditions that are different from management estimates, further adjustments may be required.

Warranty Accruals: Snap-on provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience; including the timing of claims during the warranty period and actual costs incurred. For additional analysis of Snap-on's warranty accrual, refer to Note 17 of the Consolidated Financial Statements.

Pension Benefits: The calculation of Snap-on's pension expense and projected benefit obligation requires the use of a number of assumptions. Changes in these assumptions are primarily influenced by factors outside of Snap-on's control and can have a significant effect on the amounts reported in the financial statements. Snap-on believes that the two most critical assumptions are the expected return on plan assets and the assumed discount rate.

For a discussion of the development of Snap-on's expected return on plan assets assumption, refer to Note 13 of the Consolidated Financial Statements. Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected rate of return assumption for Snap-on's domestic pension plan assets by 0.5% would increase Snap-on's 2004 domestic pension expense by approximately $3 million. At year-end 2003, Snap-on's domestic plan assets comprised approximately 92% of Snap-on's worldwide pension plan assets.

Snap-on establishes the domestic discount rate using the current rates earned on long-term bonds with a Moody's Aa rating. Pension expense and projected benefit obligation both increase as the discount rate is reduced. Lowering Snap-on's domestic discount rate assumption by 0.5% would increase Snap-on's 2004 domestic pension expense and projected benefit obligation by approximately $4 million and $40 million, respectively. At year-end 2003, Snap-on's domestic projected benefit obligation comprised approximately 86% of Snap-on's worldwide projected benefit obligation.

OUTLOOK

Snap-on will continue to emphasize the consistent and widespread application of its Driven to Deliver strategic framework to reach its targeted financial objectives. The company remains committed to seeking opportunities for process improvements, through the use of Lean tools, that Snap-on believes will enhance competitiveness and customer responsiveness throughout its global organization.

Snap-on expects that first-quarter 2004 results will include approximately $15 million in further continuous improvement costs, including approximately $8 million of costs associated with the two aforementioned U.S. hand-tool facilities closings, in order to maintain its accelerated pace of activity. Lean and continuous improvement activity levels will continue throughout the year, with an estimated additional $8 million to $10 million of related costs beyond the first quarter. However, in the second half of 2004, Snap-on expects the profit benefits, from these and prior actions, will begin to exceed such costs.

For full-year 2004, Snap-on expects continued steady growth in demand for tools and handheld diagnostics by vehicle service technicians, as well as in the purchase of tools by its dealers. Additionally, with improving signs of economic recovery in North America, Snap-on anticipates that it could achieve a modest level of sales improvements in its more cyclical commercial and industrial businesses. Snap-on expects full-year 2004 reported earnings to be in the range of $1.80 to $2.20 per diluted share, including the estimated $0.25 to $0.28 per share in costs for continuous improvement actions.

SAFE HARBOR

Statements in this document that are not historical facts, including statements (i) that include the words "expects," "estimates," "believes," "anticipates," or similar words that reference Snap-on or its management; (ii) specifically identified as forward-looking; or (iii) describing Snap-on's or management's future outlook, plans, estimates, objectives or goals, are forward-looking statements. Snap-on or its representatives may also make similar forward-looking statements from time to time orally or in writing. Snap-on cautions the reader that these statements are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Some of these factors are discussed below, as well as elsewhere in this document, and in Snap-on's Securities and Exchange Commission filings.

Those important factors include the validity of the assumptions and bases underlying such statements, and the timing and progress with which Snap-on can continue to achieve savings from cost reduction, continuous improvement and other Operational Fitness initiatives; Snap-on's capability to retain and attract dealers, effectively implement new programs, capture new business, introduce successful new products and other Profitable Growth initiatives; Snap-on's further success in scaling up its TAG operation; its ability to weather disruption arising from planned facility closures; Snap-on's ability to withstand external negative factors including terrorist disruptions on business; changes in trade, monetary and fiscal policies, regulatory reporting requirements, laws and regulations, or other activities of governments or their agencies, including military actions and such aftermath that might occur; and the absence of significant changes in inflation, the current competitive environment, energy and/or steel supply or pricing, legal proceedings, supplier disruptions, currency fluctuations or the material worsening of economic and political situations around the world.

These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. Snap-on operates in a continually changing business environment and new factors emerge from time to time. Snap-on cannot predict such factors nor can it assess the impact, if any, of such factors on Snap-on's financial position or its results of operations. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document.

Consolidated Statements of Earnings

(Amounts in millions, except per share data)	2003	2002	2001
Net sales	$ **2,233.2**	$ 2,109.1	$ 2,095.7
Cost of goods sold	**(1,268.5)**	(1,144.2)	(1,146.7)
Gross profit	**964.7**	964.9	949.0
Operating expenses	**(858.4)**	(804.3)	(898.1)
Net finance income	**43.8**	37.7	35.7
Operating earnings	**150.1**	198.3	86.6
Interest expense	**(24.4)**	(28.7)	(35.5)
Other income (expense) - net	**(9.0)**	(8.4)	(3.5)
Earnings before income taxes	**116.7**	161.2	47.6
Income taxes	**38.0**	58.0	26.1
Earnings before cumulative effect of a change in accounting principle	**78.7**	103.2	21.5
Cumulative effect of a change in accounting principle, net of tax	-	2.8	(2.5)
Net earnings	$ **78.7**	$ 106.0	$ 19.0
Net earnings per share - basic			
Earnings before cumulative effect of a change in accounting principle	$ **1.35**	$ 1.77	$ .37
Cumulative effect of a change in accounting principle, net of tax	-	.05	(.04)
Net earnings per share - basic	$ **1.35**	$ 1.82	$ .33
Net earnings per share - diluted			
Earnings before cumulative effect of a change in accounting principle	$ **1.35**	$ 1.76	$ .37
Cumulative effect of a change in accounting principle, net of tax	-	.05	(.04)
Net earnings per share - diluted	$ **1.35**	$ 1.81	$ .33
Weighted-average shares outstanding			
Basic	**58.2**	58.2	57.9
Effect of dilutive options	**0.2**	0.3	0.2
Diluted	**58.4**	58.5	58.1

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Amounts in millions, except share data)	January 3, 2004	December 28, 2002
ASSETS		
Current assets		
Cash and cash equivalents	$ **96.1**	$ 18.4
Accounts receivable - net of allowances	**546.8**	556.2
Inventories	**351.1**	369.9
Deferred income tax benefits	**71.4**	56.4
Prepaid expenses and other assets	**66.3**	50.1
Total current assets	**1,131.7**	1,051.0
Property and equipment - net	**328.6**	330.2
Deferred income tax benefits	**16.1**	60.9
Goodwill	**417.6**	366.4
Other intangibles - net	**69.5**	65.7

Other assets	**175.0**	119.9
Total assets	**$ 2,138.5**	$ 1,994.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 189.7**	$ 170.9
Notes payable and current maturities of long-term debt	**30.2**	56.4
Accrued benefits	**35.3**	40.1
Accrued compensation	**49.2**	44.4
Dealer deposits	**49.9**	46.1
Deferred subscription revenue	**20.6**	42.5
Income taxes	**20.1**	29.8
Other accrued liabilities	**172.2**	122.2
Total current liabilities	**567.2**	552.4
Long-term debt	**303.0**	304.3
Deferred income taxes	**34.3**	33.6
Retiree health care benefits	**89.3**	94.0
Pension liabilities	**74.2**	136.6
Other long-term liabilities	**59.6**	42.8
Total liabilities	**1,127.6**	1,163.7
Shareholders' equity		
Preferred stock - authorized 15,000,000 shares of $1 par value; none outstanding	**-**	-
Common stock - authorized 250,000,000 shares of $1 par value; issued 66,956,246 and 66,897,506 shares	**67.0**	66.9
Additional paid-in capital	**94.5**	72.9
Retained earnings	**1,084.7**	1,064.2
Accumulated other comprehensive income (loss)	**38.6**	(123.8)
Grantor stock trust at fair market value - 5,007,809 and 5,321,977 shares	**(159.2)**	(147.5)
Treasury stock at cost - 3,774,764 and 3,326,462 shares	**(114.7)**	(102.3)
Total shareholders' equity	**1,010.9**	830.4
Total liabilities and shareholders' equity	**$ 2,138.5**	$ 1,994.1

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(Amounts in millions, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Grantor Stock Trust	Treasury Stock	Total Shareholders' Equity
Balance at December 30, 2000	66,789,090	$ 66.8	$ 71.6	$ 1,051.3	$ (87.2)	$ (179.6)	$ (78.9)	$ 844.0
Comprehensive income (loss):								
Net earnings for 2001				19.0				19.0
Foreign currency translation					(29.9)			(29.9)
Mark to market for cash flow hedges, net of tax of $0.7 million (unrealized holding losses of $2.4 million net of reclassifications to net income of $0.4 million)					(2.0)			(2.0)
Minimum pension liability					(1.5)			(1.5)
Total comprehensive loss								(14.4)
Cash dividends - $0.96 per share				(55.6)				(55.6)
Dividend reinvestment plan	47,650		1.3					1.3
Stock compensation plans	10,367		0.3					0.3
Grantor stock trust - 458,888 shares						10.4		10.4
Share repurchase, net of reissuance - 400,000 shares							(11.2)	(11.2)
Tax benefit from certain stock options			1.0					1.0
Adjustment of grantor stock trust to fair market value			33.8			(33.8)		-
Balance at December 29, 2001	66,847,107	66.8	108.0	1,014.7	(120.6)	(203.0)	(90.1)	775.8
Comprehensive income (loss):								

Net earnings for 2002				106.0				106.0
Foreign currency translation					55.5			55.5
Mark to market for cash flow hedges, net of tax of $1.0 million (unrealized holding losses of $2.5 million net of reclassifications to net income of $1.2 million)					(1.3)			(1.3)
Minimum pension liability, net of tax of $36.8 million					(57.4)			(57.4)
Total comprehensive income								102.8
Cash dividends - $0.97 per share				(56.5)				(56.5)
Dividend reinvestment plan	45,649	0.1	1.3					1.4
Stock compensation plans	4,750		1.4					1.4
Grantor stock trust - 661,468 shares						16.1		16.1
Share repurchase - net of reissuance - 403,027 shares							(12.2)	(12.2)
Tax benefit from certain stock options			1.6					1.6
Adjustment of grantor stock trust to fair market value			(39.4)			39.4		-
Balance at December 28, 2002	66,897,506	66.9	72.9	1,064.2	(123.8)	(147.5)	(102.3)	830.4
Comprehensive income (loss):								
Net earnings for 2003				78.7				78.7
Foreign currency translation					131.5			131.5
Mark to market for cash flow hedges, net of tax of $1.0 million (unrealized holding gains of $1.1 million net of reclassifications to net income of $0.5 million)					1.6			1.6
Minimum pension liability, net of tax of $17.8 million					29.3			29.3
Total comprehensive income								241.1
Cash dividends - $1.00 per share				(58.2)				(58.2)
Dividend reinvestment plan	54,504	0.1	1.5					1.6
Stock compensation plans	4,236		0.1					0.1
Grantor stock trust - 314,168 shares						7.9		7.9
Share repurchase, net of reissuance - 448,302 shares							(12.4)	(12.4)
Tax benefit from certain stock options			0.4					0.4
Adjustment of grantor stock trust to fair market value			19.6			(19.6)		-
Balance at January 3, 2004	**66,956,246**	**$ 67.0**	**$ 94.5**	**$ 1,084.7**	**$ 38.6**	**$ (159.2)**	**$ (114.7)**	**$ 1,010.9**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Amounts in millions)	**2003**	2002	2001
Operating activities			
Net earnings	**$ 78.7**	$ 106.0	$ 19.0
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Cumulative effect of a change in accounting principle, net of tax	**-**	(2.8)	2.5
Depreciation	**58.2**	49.9	50.4
Amortization of goodwill	**-**	-	13.9
Amortization of other intangibles	**2.1**	1.8	3.7
Deferred income tax provision	**9.9**	33.5	5.4
Loss (gain) on sale of assets	**0.2**	(0.3)	(0.1)
Loss (gain) on mark to market for cash flow hedges	**1.6**	(1.3)	(2.0)
Changes in operating assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in receivables	**64.3**	42.5	19.3
(Increase) decrease in inventories	**60.7**	25.8	18.9
(Increase) decrease in prepaid and other assets	**(68.9)**	33.0	(19.8)
Increase (decrease) in accounts payable	**4.4**	22.1	(13.2)
Increase (decrease) in accruals and other liabilities	**(34.2)**	(86.1)	65.7
Net cash provided by operating activities	**177.0**	224.1	163.7
Investing activities			
Capital expenditures	**(29.4)**	(45.8)	(53.6)
Acquisitions of businesses - net of cash acquired	**0.1**	(7.9)	(0.9)
Proceeds from disposal of property and equipment	**8.7**	6.0	6.9

Net cash used in investing activities	**(20.6)**	(47.7)	(47.6)
Financing activities			
Payment of long-term debt	**(0.3)**	(1.9)	(6.4)
Increase in long-term debt	**-**	-	200.4
Net decrease in short-term borrowings	**(28.9)**	(116.0)	(255.1)
Purchase of treasury stock	**(12.5)**	(12.2)	(11.2)
Proceeds from stock purchase and option plans	**10.0**	20.5	13.0
Proceeds from termination of interest rate swap agreement	**5.1**	-	-
Cash dividends paid	**(58.2)**	(56.5)	(55.6)
Net cash used in financing activities	**(84.8)**	(166.1)	(114.9)
Effect of exchange rate changes on cash and cash equivalents	**6.1**	1.4	(0.6)
Increase in cash and cash equivalents	**77.7**	11.7	0.6
Cash and cash equivalents at beginning of year	**18.4**	6.7	6.1
Cash and cash equivalents at end of year	**$ 96.1**	$ 18.4	$ 6.7
Supplemental cash flow disclosures			
Cash paid for interest	**$ 24.1**	$ 29.9	$ 32.3
Cash paid for income taxes	**39.8**	9.1	27.4

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1: NATURE OF OPERATIONS

Snap-on Incorporated ("Snap-on" or "the company") was incorporated under the laws of the state of Wisconsin in 1920 and reincorporated under the laws of the state of Delaware in 1930. Snap-on is a leading global innovator, manufacturer and marketer of high-quality tool, diagnostic and equipment solutions for professional tool and equipment users. Product lines include a broad range of hand and power tools, tool storage, saws and cutting tools, pruning tools, vehicle service diagnostics equipment, vehicle service equipment, including wheel service, safety testing and collision repair equipment, vehicle service information, business management systems, equipment repair services, and other tool and equipment solutions. Snap-on's customers include automotive technicians, vehicle service centers, manufacturers, industrial tool and equipment users and those involved in commercial applications such as construction, electrical and agriculture. Products are sold through Snap-on's franchised dealer van, company-direct, distributor and Internet sales channels.

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

Principles of consolidation and presentation: The consolidated financial statements include the accounts of Snap-on and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Snap-on Credit LLC ("SOC"), a 50%-owned joint venture with The CIT Group, Inc. ("CIT"), is accounted for using the equity method. Snap-on and CIT have identical voting and participating rights and responsibilities in SOC.

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

Fiscal year accounting period: Snap-on's fiscal year ends on the Saturday nearest December 31. The 2002 and 2001 fiscal years each contained 52 weeks and ended on December 28, 2002, and December 29, 2001. Snap-on's 2003 fiscal year contained 53 weeks and ended on January 3, 2004.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: Snap-on recognizes revenues when all of the following conditions are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) delivery has occurred or services have been rendered. Snap-on establishes an accrual for estimated future product returns in the period in which the sale is recorded. Estimated returns are based upon past experience and include assumptions of the expected return period, gross profit margin, and volume of sales returns. Franchise fee revenue is recognized as the fees are earned; such revenue was not material in any year. Subscription revenue is deferred and recognized over the life of the subscription.

Research and engineering: Research and engineering costs are charged to expense in the year incurred. For 2003, 2002 and 2001, research and engineering costs totaled $59.8 million, $57.1 million and $54.6 million.

Shipping and handling: Amounts billed to customers for shipping and handling are included as a component of sales. Costs incurred by Snap-on for shipping and handling are generally included as a component of cost of goods sold when the costs relate to manufacturing activities. In 2003, 2002 and 2001, Snap-on incurred shipping and handling charges of $10.9 million, $11.1 million and $11.2 million that were recorded in *Cost of goods* sold on the accompanying Consolidated Statements of Earnings. Shipping and handling costs incurred in conjunction with selling or distribution activities are generally

included as a component of operating expenses. In 2003, 2002 and 2001, Snap-on incurred shipping and handling charges of $46.2 million, $41.0 million and $41.9 million that were recorded in *Operating expenses* on the accompanying Consolidated Statements of Earnings.

Advertising and promotion: Production costs of future media advertising are deferred until the advertising occurs. All other advertising and promotion costs are generally expensed when incurred. For 2003, 2002 and 2001, advertising and promotion expense totaled $51.0 million, $46.7 million and $47.6 million.

Warranties: Snap-on provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which the sale is recorded. Refer to Note 17 for additional information.

Foreign currency translation: The financial statements of Snap-on's foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*. Assets and liabilities of foreign subsidiaries are translated at current rates of exchange, and income and expense items are translated at the average exchange rate for the period. The resulting translation adjustments are recorded directly into *Accumulated other comprehensive income (loss)* in the accompanying Consolidated Balance Sheets. Foreign exchange transactions resulted in pretax losses of $6.6 million in 2003, $4.4 million in 2002 and $6.5 million in 2001. Foreign exchange transaction gains and losses are reported in *Other income (expense) – net* in the accompanying Consolidated Statements of Earnings.

Income taxes: Deferred income taxes are provided for temporary differences arising from differences in bases of assets and liabilities for tax and financial reporting purposes. Deferred income taxes are recorded on temporary differences at the tax rate expected to be in effect when the temporary differences reverse. Refer to Note 12 for additional information.

Net finance income: Net finance income consists of royalty and management fees received from SOC based on the volume of financings originated by SOC. Snap-on also shares with CIT ratably in any residual net profit or loss of the joint venture after operating expenses, including royalty and management fees, interest costs and credit loss provisions. Net finance income also consists of installment contract income and dealer loan receivable income, net of administrative expenses, derived from Snap-on's wholly owned international credit operations, and which totaled $13.4 million in 2003, $9.5 million in 2002 and $10.8 million in 2001. Net finance income includes gains on the sale of receivables when applicable. Refer to Note 9 for additional information.

Minority interest: Minority interest in income of consolidated subsidiaries for 2003, 2002 and 2001 totaled $3.1 million, $3.4 million and $2.7 million and is included in *Other income (expense) – net* on the accompanying Consolidated Statements of Earnings. At the end of 2003 and 2002 minority interest in subsidiaries totaled $16.0 million and $15.5 million and is included in *Other long-term liabilities* on the accompanying Consolidated Balance Sheets.

Derivatives: Snap-on utilizes derivative financial instruments, including interest rate swaps and foreign exchange contracts, to manage its exposure to interest rate and foreign currency exchange rate risks. Snap-on accounts for its derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138 and SFAS No. 149. Snap-on does not hold or issue financial instruments for speculative or trading purposes. Refer to Note 11 for additional information.

Per share data: Basic earnings per share calculations were computed by dividing net earnings by the corresponding weighted-average number of common shares outstanding for the period. The dilutive effect of the potential exercise of outstanding options to purchase common shares is calculated using the treasury stock method. Snap-on had dilutive shares as of year-end 2003, 2002 and 2001, of 171,395 shares, 271,051 shares and 241,557 shares. Options to purchase 3,694,950 shares, 2,668,711 shares and 3,008,596 shares of Snap-on common stock at year-end 2003, 2002 and 2001 were not included in the computation of diluted earnings per share as the exercise prices of the options was greater than the average market price of the common stock for the respective year and, as a result, the effect on earnings per share would be anti-dilutive.

Stock-based employee compensation arrangements: Snap-on has various stock-based employee compensation plans. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123.* SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation and also amends the disclosure provisions of SFAS No. 123. Snap-on will continue to account for its stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. Refer to Note 15 for additional information.

Concentrations: Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its interest rate swap and foreign exchange contracts. Snap-on does not obtain collateral or other security to support its financial instruments subject to credit risk, but monitors the credit standing of the counterparties and enters into agreements only with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties.

Snap-on's accounts receivable do not represent significant concentrations of credit risk because of the diversified portfolio of individual customers and geographic areas.

Approximately 4,400 employees, or 35% of Snap-on's worldwide workforce, are represented by unions and/or covered under collective bargaining agreements. Of these, approximately 2,900 employees are covered under an agreement expiring in 2004, including approximately 400 covered employees as of January 3, 2004, affected by the planned closure of two of the company's U.S. hand-tool facilities in 2004. In recent years, Snap-on has not experienced any significant work slow-downs, stoppages or other labor disruptions.

Cash equivalents: Snap-on considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Inventories: Inventories consist of manufactured products and merchandise for resale. Manufactured products include the costs of materials, labor and manufacturing overhead. Most of Snap-on's inventories are valued at the lower of cost, on the first-in, first-out ("FIFO") basis, or market. Remaining inventories are generally valued at cost, on the last-in, first-out ("LIFO") basis. Inventories accounted for using the FIFO basis represented 69% and 65% of

total gross inventories on January 3, 2004, and December 28, 2002, respectively. Refer to Note 6 for additional information.

Property and equipment: Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over estimated useful lives. Major repairs that extend the useful life of an asset are capitalized, while routine maintenance and repairs are expensed as incurred. Capitalized software included in property and equipment reflects costs related to internally developed or purchased software for internal use and is amortized on a straight-line basis over their estimated useful lives. Development costs for computer software to be sold, leased or otherwise marketed externally are also capitalized once technological feasibility has been achieved and are amortized on a straight-line basis over their estimated useful lives. Capitalized software is subject to an ongoing assessment of recoverability based upon anticipated future revenues and identified changes in hardware and software technologies. Refer to Note 7 for additional information.

On December 30, 2001, the beginning of its 2002 fiscal year, Snap-on adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* . SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. The effect of this change in accounting principle was not material to Snap-on's financial position or results of operations.

Goodwill and other intangible assets: Snap-on adopted SFAS No. 142, *Goodwill and Other Intangible Assets* at the beginning of its 2002 fiscal year. SFAS No. 142 requires the testing of goodwill and indefinite-lived intangible assets for impairment, at least annually, as compared to the past method of amortizing such assets to expense on a straight-line basis over their estimated useful lives. Snap-on evaluates annually, and as events arise, the existence of goodwill and indefinite-lived intangible asset impairment on the basis of whether the assets are fully recoverable from projected, discounted cash flows of the related business unit. Refer to Note 8 for additional information.

Cumulative effect of changes in accounting principles : Snap-on recorded a cumulative effect of a change in accounting principle transition adjustment that increased net earnings in the first quarter of 2002 by $2.8 million, on both a pretax and after-tax basis, from the recognition of negative goodwill as prescribed by SFAS No. 142. Refer to Note 8 for additional information.

In accordance with the provisions of SFAS No. 133, Snap-on recorded a transition adjustment on December 31, 2000, the beginning of Snap-on's 2001 fiscal year, to recognize its derivative instruments at fair value, and to recognize the difference between the carrying values and fair values of related hedged assets and liabilities upon adoption of these standards. The cumulative effect of this transition adjustment was to decrease reported net income in the first quarter of 2001 by $2.5 million after tax ($4.1 million pretax) related to a hedge strategy that did not qualify for hedge accounting under SFAS No. 133. Refer to Note 11 for additional information.

Accounting pronouncements: In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employer's Disclosures about Pensions and Other Postretirement Benefits*, that revises employer's disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 does not change the measurement or recognition of those plans. Refer to Notes 13 and 14 for the related pension and postretirement disclosures.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* . SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities and supercedes the Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* . SFAS No. 146 was effective for exit and disposal activities initiated after December 31, 2002. See Note 4 for additional information on Snap-on's exit and disposal activities.

The FASB issued Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities (an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements)* in January 2003. See Note 9 for additional information regarding the adoption of FIN No. 46.

NOTE 3: ACQUISITIONS AND DIVESTITURES

In 2002, Snap-on acquired full ownership of two businesses for $7.9 million. The purchase price paid plus the liabilities assumed exceeded the fair value of the tangible and intangible assets acquired by approximately $3.7 million. The purchase accounting for these two acquisitions was finalized in 2003. Pro forma financial information has not been presented as the effects of these businesses, individually and in the aggregate, were not material. In 2001, Snap-on incurred acquisition costs of $0.9 million related to the finalization of its fiscal 2000 acquisitions.

NOTE 4: EXIT OR DISPOSAL ACTIVITIES

During 2003, Snap-on announced plans to phase out production at two of its U.S. hand-tool manufacturing facilities and close the company's U.S. facility that assembled large-platform diagnostics, as well as consolidation initiatives and management realignment actions at various other Snap-on facilities. In 2003, Snap-on recorded restructuring and continuous improvement charges of $30.2 million, including charges of $25.8 million that are included in *Cost of goods sold* and charges of $4.4 million that are included in *Operating expenses* on the accompanying Consolidated Statements of Earnings.

Restructuring and continuous improvement charges incurred in 2003 included $19.5 million related to the phase out of production at two U.S. hand-tool manufacturing facilities, which included $12.2 million for the recognition of pension and post-retirement medical curtailment losses, with the remaining costs primarily for severance, equipment transfer, accelerated depreciation and other costs. The remaining $10.7 million of charges related to consolidation initiatives and management realignment actions at various other Snap-on facilities, including $3.5 million for the December 2003 closure of the company's U.S. facility that assembled large-platform diagnostics.

Snap-on's 2003 restructuring accrual activity related to its 2003 actions was as follows:

(Amounts in millions)	Provision in 2003	Usage in 2003	Balance at January 3, 2004
Severance costs:			

Snap-on Dealer Group	$ 7.6	$ (3.7)	$ 3.9
Commercial and Industrial Group	2.8	(1.7)	1.1
Diagnostics and Information Group	1.0	(0.1)	0.9
Facility consolidation or closure costs:			
Snap-on Dealer Group	0.1	(0.1)	-
Diagnostics and Information Group	0.3	-	0.3
Total	$ 11.8	$ (5.6)	$ 6.2

Restructuring accrual usage of $5.6 million in 2003 consisted of $5.5 million for severance payments related to the separation of 390 employees and $0.1 million for lease termination payments.

Snap-on expects to fund the remaining cash requirements of its 2003 restructuring activities with cash flows from operations and borrowings under the company's existing credit facilities. Snap-on anticipates that the restructuring accrual related to its 2003 actions will be fully utilized by the end of the second quarter of 2004. The specific restructuring measures and estimated costs were based on management's best business judgment under prevailing circumstances. Snap-on also expects that it will record approximately $8 million of remaining severance and transition costs in the first quarter of 2004 related to the closure of the two U.S. hand-tool facilities.

In the fourth quarter of 2002, Snap-on recorded restructuring and continuous improvement charges of $3.6 million that are included in *Operating expenses* on the accompanying Consolidated Statements of Earnings. These charges were primarily for severance costs related to salaried and hourly workforce reductions. During the fourth quarter of 2002, Snap-on eliminated 31 positions, resulting in a $0.7 million usage of the recorded restructuring accrual. During the first quarter of 2003, Snap-on utilized $2.8 million of the restructuring accrual for severance payments related to the separation of 149 employees.

Snap-on's restructuring accrual activity related to its 2002 actions was as follows:

(Amounts in millions)	Provision in 2002	Usage in 2002	Balance at December 28, 2002	Usage in 2003	Reversed in 2003	Balance at January 3, 2004
Severance costs	$ 3.6	$ (0.7)	$ 2.9	$ (2.8)	$ (0.1)	$ -

As of January 3, 2004, Snap-on had finalized all actions as contemplated under its 2002 restructuring activities and all costs related to these actions have been incurred. In 2003, the remaining accrual of $0.1 million was reversed to income.

Snap-on announced in the second quarter of 2001 that it was taking significant action to (i) reduce costs companywide to adjust to the slower sales environment and (ii) improve operational performance in businesses not earning acceptable financial returns. As a result of selective rationalization and consolidation actions, Snap-on recorded $62.0 million in restructuring and other non-recurring charges in 2001 for actions that included the consolidation or closure of 32 facilities, including facility-related asset write-downs, and severance costs to effect a 6% reduction in workforce. The $62.0 million charge, including $49.4 million in *Operating expenses* and $12.6 million in *Cost of goods* sold on the accompanying Consolidated Statements of Earnings, included restructuring charges of $40.3 million and non-recurring charges of $21.7 million. The restructuring charge of $40.3 million included $27.1 million for severance costs associated with the planned elimination of 796 salaried and hourly positions, $6.0 million for non-cancelable lease agreements, $5.9 million for facility-related asset write-downs, and $1.3 million for exit-related legal and professional services. The $21.7 million of other non-recurring charges included $12.6 million (recognized in cost of goods sold) for inventory write-downs and warranty costs primarily associated with Snap-on's exiting of an unprofitable segment of the emissions-testing business, $8.4 million for management transition costs associated with the April 2001 retirement of Snap-on's former president and chief executive officer, and $0.7 million for equipment and employee relocation costs associated with the facility consolidations. As of December 29, 2001, Snap-on utilized $17.2 million of the $40.3 million of restructuring accruals that were established for the fiscal 2001 restructuring actions.

In 2002, Snap-on recorded restructuring-related charges of $7.9 million, including $3.0 million related to the 2002 resignation of Snap-on's former chief financial officer and $4.9 million for employee and equipment relocation costs and professional fees to finalize the company's 2001 restructuring activities. These costs did not qualify for restructuring accrual treatment and were expensed as incurred and are included in *Operating expenses* on the accompanying Consolidated Statements of Earnings.

The initial 2001 restructuring cost estimates were based on management's best business judgment under prevailing circumstances. The 2001 restructuring accrual usage of $16.7 million in 2002 was primarily for severance payments related to the separation of 479 employees.

Snap-on's 2001 restructuring accrual activity related to its 2001 actions was as follows:

Provision	Usage	Balance at December 29,	Usage	Reversed	Balance at December 28,

(Amounts in millions)	in 2001	in 2001	2001	in 2002	in 2002	2002
Severance costs	$ 27.1	$ (6.0)	$ 21.1	$ (16.6)	$ (4.5)	$ -
Facility consolidation or closure costs	7.3	(5.3)	2.0	(0.1)	(1.9)	-
Loss on asset write-downs	5.9	(5.9)	-	-	-	-
Total	$ 40.3	$ (17.2)	$ 23.1	$ (16.7)	$ (6.4)	$ -

As of December 28, 2002, Snap-on had finalized its 2001 actions and all costs related to these actions have been incurred. Snap-on reversed $6.4 million of excess restructuring accruals in the fourth quarter of 2002, which is recorded in *Operating expenses* on the accompanying Consolidated Statements of Earnings. The 2001 restructuring activities resulted in the consolidation or closure of 32 facilities and, combined with other operational activities, an 8.4% reduction in workforce.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable include trade accounts, installment and other receivables, including the current portion of dealer financing receivables. The components of Snap-on's current accounts receivable as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)	**2003**	2002
Trade accounts receivable	**$ 501.8**	$ 497.0
Installment receivables, net of unearned finance charges of $11.4 million and $8.1 million	**55.1**	41.4
Other accounts receivable	**34.9**	59.0
Total	**591.8**	597.4
Allowances for doubtful accounts	**(45.0)**	(41.2)
Total accounts receivable - net	**$ 546.8**	$ 556.2

The long-term portion of accounts receivable is classified in *Other assets* on the accompanying Consolidated Balance Sheets and is comprised of installment and other receivables, including dealer financing receivables, with payment terms that are due beyond one year. The components of Snap-on's long-term accounts receivable as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)	**2003**	2002
Installment receivables, net of unearned finance charges of $9.1 million and $7.9 million	**$ 41.9**	$ 37.3
Other long-term accounts receivable	**19.8**	20.5
Total	**$ 61.7**	$ 57.8

NOTE 6: INVENTORIES

Inventories by major classification as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)	**2003**	2002
Finished goods	**$ 305.7**	$ 337.5
Work in process	**46.5**	42.0
Raw materials	**80.7**	86.2
Total FIFO value	**432.9**	465.7
Excess of current cost over LIFO cost	**(81.8)**	(95.8)
Total inventories	**$ 351.1**	$ 369.9

The company's LIFO inventory reserve decreased $14.0 million during fiscal 2003 due to lower inventory levels. The decrease in the company's LIFO inventory reserves is reflected as a reduction of *Cost of goods* sold on the accompanying Consolidated Statements of Earnings.

NOTE 7: PROPERTY AND EQUIPMENT

Snap-on's property and equipment values, which are carried at cost, as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)		**2003**		2002
Land	**$**	**26.9**	$	23.8
Buildings and improvements		**217.8**		202.9
Machinery and equipment		**580.4**		541.8
		825.1		768.5
Accumulated depreciation and amortization		**(496.5)**		(438.3)
Property and equipment - net	**$**	**328.6**	$	330.2

The estimated service lives of property and equipment are principally as follows:

Buildings and improvements	3 to 50 years
Machinery and equipment	2 to 15 years
Computer software	2 to 7 years
Transportation vehicles	2 to 6 years

NOTE 8: GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of segment goodwill for fiscal 2002 and 2003, are as follows:

(Amounts in millions)		Snap-on Dealer Group		Commercial and Industrial Group		Diagnostics and Information Group		Total
Balance as of December 29, 2001	$	14.6	$	251.8	$	64.8	$	331.2
Goodwill acquired during year		-		1.2		2.5		3.7
Currency translation		-		31.3		0.2		31.5
Balance as of December 28, 2002		14.6		284.3		67.5		366.4
Transfers between segments		-		1.3		(1.3)		-
Finalization of purchase accounting		(2.5)		0.1		0.3		(2.1)
Currency translation		0.2		53.0		0.1		53.3
Balance as of January 3, 2004	**$**	**12.3**	**$**	**338.7**	**$**	**66.6**	**$**	**417.6**

In 2001, pretax goodwill amortization totaled $13.9 million.

Additional disclosures related to acquired other intangible assets as of fiscal year-end 2003 and 2002 are as follows:

	2003				2002			
(Amounts in millions)		**Gross Carrying Value**		**Accumulated Amortization**		Gross Carrying Value		Accumulated Amortization
Amortized other intangible assets:								
Trademarks	**$**	**2.7**	**$**	**(0.4)**	$	3.9	$	(0.3)
Patents		**32.3**		**(11.3)**		29.4		(8.3)
Total		**35.0**		**(11.7)**		33.3		(8.6)
Unamortized other intangible assets:								
Trademarks		**46.2**		**-**		41.0		-
Total	**$**	**81.2**	**$**	**(11.7)**	$	74.3	$	(8.6)

The weighted-average amortization period is 32 years for trademarks and 16 years for patents. The weighted-average amortization period for trademarks and patents on a combined basis is 19 years.

The aggregate amortization expense for 2003 and 2002 was $2.1 million and $1.8 million. Total estimated annual amortization expense expected for the next five fiscal years, based on current levels of other intangible assets, is $1.9 million.

In accordance with the adoption provisions of SFAS No. 142, Snap-on completed the initial assessment of goodwill and other intangibles as of December

30, 2001, the results of which indicated that the carrying values of goodwill and other intangibles were not impaired. Snap-on recorded a cumulative effect of a change in accounting principle transition adjustment that increased net earnings in the first quarter of 2002 by $2.8 million, on both a pretax and after-tax basis, from the recognition of negative goodwill as prescribed by SFAS No. 142.

The following is a reconciliation of earnings before cumulative effect of a change in accounting principle and net earnings reflecting the impact of this standard on reported results as if SFAS No. 142 had been in effect during 2001.

(Amounts in millions)	**2003**	2002	2001
Earnings before cumulative effect of a change in accounting principle as reported	**$ 78.7**	$ 103.2	$ 21.5
Goodwill amortization, net of tax	**-**	-	11.9
Trademark amortization, net of tax	**-**	-	0.8
Adjusted earnings before cumulative effect item	**$ 78.7**	$ 103.2	$ 34.2
Net earnings as reported	**$ 78.7**	$ 106.0	$ 19.0
Goodwill amortization, net of tax	**-**	-	11.9
Trademark amortization, net of tax	**-**	-	0.8
Adjusted net earnings	**$ 78.7**	$ 106.0	$ 31.7

The following reflects the impact of SFAS No. 142 on earnings per share as if this standard had been in effect during 2001.

	2003	2002	2001
Earnings per share as reported*:			
Basic	**$ 1.35**	$ 1.77	$ 0.37
Diluted	**1.35**	1.76	0.37
Adjusted earnings per share*:			
Basic	**$ 1.35**	$ 1.77	$ 0.59
Diluted	**1.35**	1.76	0.59
Net earnings per share as reported:			
Basic	**$ 1.35**	$ 1.82	$ 0.33
Diluted	**1.35**	1.81	0.33
Adjusted net earnings per share:			
Basic	**$ 1.35**	$ 1.82	$ 0.55
Diluted	**1.35**	1.81	0.55

* Before cumulative effect of a change in accounting principle.

NOTE 9: SNAP-ON CREDIT LLC JOINT VENTURE

SOC is an unconsolidated 50%-owned joint venture between Snap-on and CIT. SOC was formed as a limited liability corporation with member contributions totaling $2.0 million, and commenced operations on January 3, 1999. SOC provides a broad range of financial services to Snap-on's U.S. dealer and customer network and to Snap-on's industrial and other customers. Snap-on and CIT have identical voting and participating rights and responsibilities in SOC. As of January 3, 2004, and December 28, 2002, Snap-on's equity investment in SOC totaled approximately $6.8 million and $2.7 million.

As a result of establishing SOC, Snap-on effectively outsourced to SOC its domestic captive credit function. Snap-on provides extended-term financing internationally through its wholly owned credit subsidiaries, the results of which are included in Snap-on's Consolidated Financial Statements. Snap-on receives royalty and management fee income from SOC based on the volume of financings originated by SOC. Snap-on also shares with CIT in any residual net profit or loss of the joint venture after operating expenses, including royalty and management fees, interest costs and credit loss provisions. These amounts are included in *Net finance income* on the accompanying Consolidated Statements of Earnings.

SOC sells substantially all of its originated contracts (through asset-securitization transactions) on a limited recourse basis to CIT, net of certain fees. SOC continues to service these contracts for an estimated market rate-servicing fee. In 2003, SOC originated contracts totaling $522.4 million, compared to

$506.3 million in 2002 and $464.7 million in 2001.

SOC strives to maintain strict credit standards and the contract receivables are generally secured by the underlying tools or equipment financed and other dealer assets. SOC establishes accruals for estimated credit loss for all contract receivables sold to CIT, and SOC's credit losses on the sold contract receivables are limited to the extent of the accrual. At year-end 2003 and 2002, SOC's accruals for estimated credit loss for contract receivables sold to CIT were $12.8 million and $8.3 million. SOC also establishes a prepayment accrual to cover estimated amounts due to CIT as a result of early prepayments by customers on loans sold to CIT. Loan losses on owned contract receivables were not material in any year.

Snap-on has credit risk exposure for certain loan originations with recourse provisions against Snap-on. At January 3, 2004, and December 28, 2002, $14.1 million and $32.1 million of these loans, with terms ranging from six months to ten years, have a primary recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for all fiscal-2003 loan originations with recourse as of January 3, 2004, was not material.

At December 28, 2002, SOC maintained a $25 million bank line of credit for working capital purposes, of which Snap-on was a 60% guarantor and CIT was a 40% guarantor. Borrowings under this facility totaled $11.0 million at December 28, 2002. SOC's bank line of credit expired May 31, 2003, and was not renewed. CIT and Snap-on have agreed to fund SOC's future working capital requirements on a 50/50 basis, with a combined maximum borrowing limit not to exceed $24 million. As of January 3, 2004, there were no outstanding amounts owed from SOC pursuant to this agreement.

Snap-on's exposure related to SOC as of January 3, 2004, was the $6.8 million equity investment plus the recourse obligations on customer financings discussed above.

Summarized financial information of SOC as of December 31, 2003, and 2002, and for the years then ended is as follows:

(Amounts in millions)	**2003**	2002
Cash and cash equivalents	**$ 4.2**	$ 5.4
Receivables - net of allowances	**10.7**	13.4
Servicing receivables	**8.6**	7.6
Due from members	**14.0**	10.9
Other assets	**6.2**	8.0
Total assets	**$ 43.7**	$ 45.3
Payable to members	**$ 13.2**	$ 12.4
Accruals for contract receivables sold	**12.8**	8.3
Other accrued liabilities	**4.1**	8.6
Short-term borrowings	**-**	11.0
Members' equity	**13.6**	5.0
Total liabilities and members' equity	**$ 43.7**	$ 45.3

(Amounts in millions)	**2003**	2002
Revenues:		
Gain on sale of contract receivables sold	**$ 60.5**	$ 55.7
Servicing fee income	**10.5**	9.0
Other income	**0.5**	1.3
Total revenues	**71.5**	66.0
Expenses:		
Royalty fees	**23.4**	22.8
Salaries and benefits	**16.9**	15.7
Management fees	**11.7**	11.2
Other	**11.1**	10.8
Total expenses	**63.1**	60.5
Net income	**$ 8.4**	$ 5.5

The FASB issued FIN No. 46 in January 2003. FIN No. 46 provides consolidation guidance regarding the identification of variable interest entities ("VIE") for which control is achieved through means other than through voting rights. FIN No. 46 provides guidance in determining if a business enterprise is the primary beneficiary of a VIE and whether or not that business enterprise should consolidate the VIE for financial reporting purposes. FIN No. 46 applies

to a VIE in which equity investors of the VIE, if any, do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the VIE to finance its activities independently. FIN No. 46 requires each enterprise involved with a special purpose entity to determine whether it provides financial support to the special purpose entity through a variable interest. Variable interests may arise from financial instruments, service contracts, minority ownership interests or other arrangements. If an entity holds a majority of the variable interests, or a significant variable interest that is considerably more than any other party's variable interest, then that entity would be the primary beneficiary and would be required to include the assets, liabilities and results of operations of the special purpose entity in its consolidated financial statements.

Since its issuance, the effective date of FIN No. 46 has been deferred once, and FIN No. 46R, a modification to FIN No. 46, was released in December 2003. FIN No. 46R delayed the effective date for certain entities until no later than fiscal periods ending after March 31, 2004, and also provided numerous technical clarifications to implementation issues. Based on the company's analysis of FIN No. 46R, the company has concluded that Snap-on is required to consolidate SOC as of January 4, 2004, the beginning of Snap-on's fiscal 2004 first quarter.

NOTE 10: SHORT-TERM AND LONG-TERM DEBT

Notes payable to banks under bank lines of credit totaled $4.9 million and $22.3 million at the end of 2003 and 2002. At the end of 2003, Snap-on had commercial paper outstanding denominated in U.S. dollars of $25.0 million, compared to commercial paper outstanding denominated in U.S. dollars of $25.0 million and Japanese yen of $7.9 million at year-end 2002. The company currently anticipates that it will continue to have positive cash flow and debt reduction for the foreseeable future and, as a result, commercial paper borrowings are included in *Notes payable and current maturities of long-term debt* on the accompanying Consolidated Balance Sheets.

At January 3, 2004, Snap-on had $408 million of multi-currency revolving credit facilities that serve to back its commercial paper programs, including a $200 million, 364-day revolving credit facility with a one-year term-out option that terminates on July 30, 2004. The term-out option allows Snap-on to elect to borrow under the credit facility for an additional year after the termination date. In addition, Snap-on has a five-year, $208 million revolving credit facility that terminates on August 20, 2005. At the end of 2003 and 2002, Snap-on was in compliance with all covenants of the revolving credit facilities and there were no borrowings under either revolving credit commitment. The most restrictive financial covenant requires that Snap-on maintain a total debt to total capital (defined as total debt plus shareholders' equity) percentage that does not exceed 60%. Snap-on's total debt to total capital percentage, computed as defined by the financial covenant, was 24.8% at January 3, 2004. At January 3, 2004, Snap-on also had an unused committed $20 million bank line of credit that expires on August 1, 2004, as well as uncommitted credit facilities. At January 3, 2004, Snap-on had approximately $403 million of unused available debt capacity under the terms of its revolving credit facilities and committed bank line of credit.

Average commercial paper and bank notes outstanding were $59.2 million in 2003 and $189.6 million in 2002. The weighted-average interest rate on these instruments was 1.2% in 2003 and 1.7% in 2002. As of January 3, 2004, and December 28, 2002, commercial paper and bank notes outstanding had a weighted-average interest rate of 1.1% and 1.3%.

In August 2001, Snap-on issued $200 million of unsecured notes pursuant to a $300 million shelf registration statement filed with the Securities and Exchange Commission in 1994. In October 1995, Snap-on issued $100 million of unsecured notes to the public under this shelf registration. The August 2001 notes require semiannual interest payments at the rate of 6.25% and mature in their entirety on August 15, 2011. The October 1995 notes require semiannual interest payments at a rate of 6.625% and mature in their entirety on October 1, 2005. The proceeds from these issuances were used to repay a portion of Snap-on's outstanding commercial paper and for working capital and general corporate purposes.

Snap-on's long-term debt as of fiscal year-end 2003 and 2002 consisted of the following:

(Amounts in millions)	**2003**	2002
Senior unsecured indebtedness	**$ 300.0**	$ 300.0
Other long-term debt	**3.3**	5.5
	303.3	305.5
Less: current maturities	**(0.3)**	(1.2)
Total long-term debt	**$ 303.0**	$ 304.3

The annual maturities of Snap-on's long-term debt due in the next five years are $0.3 million in 2004, $100.4 million in 2005, with no maturities of long-term debt in 2006, 2007 and 2008.

NOTE 11: FINANCIAL INSTRUMENTS

Snap-on accounts for its hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138 and SFAS No. 149. These standards require that all derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or on the accompanying Consolidated Balance Sheets in *Accumulated other comprehensive income (loss)*, depending on the type of hedged transaction and whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments reported in *Accumulated other comprehensive income (loss)* must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item, and the ineffective portion of all hedges must be recognized in earnings in the current period.

In accordance with the provisions of SFAS No. 133, Snap-on recorded a transition adjustment on December 31, 2000, the beginning of Snap-on's 2001 fiscal year, to recognize its derivative instruments at fair value, and to recognize the difference between the carrying values and fair values of related hedged assets and liabilities upon adoption of these standards. The cumulative effect of this transition adjustment was to decrease reported net income in the first quarter of 2001 by $2.5 million after tax related to a hedge strategy that did not qualify for hedge accounting under SFAS No. 133. Snap-on also recorded in

the first quarter of 2001 a transition adjustment of $1.2 million after tax in *Accumulated other comprehensive income (loss)* to recognize previously deferred net gains on derivatives designated as cash flow hedges that qualify for hedge accounting under SFAS No. 133.

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for speculative or trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure, (ii) whether or not overall risk is being reduced, and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation. On the date a derivative contract is entered into, Snap-on designates the derivative as either a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the values of the hedged item.

Foreign Currency Derivative Instruments: Snap-on has operations in a number of countries that have transactions outside their functional currencies and, as a result, is exposed to changes in foreign currency exchange rates. In addition, Snap-on hedges the anticipated repayment of intercompany loans to foreign subsidiaries denominated in foreign currencies. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Forward exchange contracts are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

At January 3, 2004, Snap-on had net outstanding foreign exchange forward contracts to sell $84.0 million comprised of buy contracts of $72.8 million in Swedish kronor and $3.2 million in Taiwan dollars and $0.6 million in other currencies and sell contracts of $72.8 million in euros, $43.3 million in British pounds, $11.8 million in Canadian dollars, $10.2 million in Japanese yen, $8.9 million in Singapore dollars, $5.7 million in Danish kronor, $4.3 million in Norwegian kronor, $2.3 million in Mexican pesos and $1.3 million in Australian dollars. At December 28, 2002, Snap-on had net outstanding foreign exchange forward contracts to sell $161.9 million comprised of buy contracts of $52.5 million in Swedish kronor and sell contracts of $103.8 million in euros, $59.1 million in British pounds, $31.2 million in Canadian dollars, $7.5 million in Singapore dollars, $3.0 million in Danish kronor, $2.5 million in Australian dollars, $3.7 million in Mexican pesos and $3.6 million in other currencies.

The majority of Snap-on's forward exchange contracts are not designated as hedges under SFAS No. 133. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in *Other income (expense) – net* on the accompanying Consolidated Statements of Earnings. Those forward exchange contracts that qualify for hedge accounting treatment are accounted for as cash flow hedges where the effective portion of the changes in fair value of the derivative is recorded in *Accumulated other comprehensive income (loss)*. When the hedged item is realized in income, the gain or loss included in *Accumulated other comprehensive income (loss)* is reclassified to income in the same financial statement caption as the hedged item. For all cash flow hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at January 3, 2004, was $0.5 million. At January 3, 2004, the maximum maturity date of any cash flow hedge was approximately one year. During the next 12 months, Snap-on expects to reclassify into earnings net losses from *Accumulated other comprehensive income (loss)* of approximately $0.5 million after tax at the time the underlying hedged transactions are realized. The ineffective portion of changes in fair value of the cash flow hedges are reported in earnings as foreign exchange gain or loss, which is included in *Other income (expense)* – net and which were not material.

Non-Derivative Instruments Designated in Hedging Relationships: Snap-on uses non-U.S. dollar financing transactions as net investment hedges of long-term investments in the corresponding foreign currency. Hedges that meet the effectiveness requirements are accounted for under net investment hedging rules. The effective portion of the net investment hedge of a foreign operation is recorded in *Accumulated other comprehensive income (loss)* as a cumulative translation adjustment. When applicable, the ineffective portion of the net investment hedge is recorded in earnings as foreign exchange gain or loss, which is included in *Other income (expense) – net* and which were not material. At January 3, 2004, net losses of $0.1 million arising from effective hedges of net investments have been reflected in the cumulative translation adjustment account as a component of *Accumulated other comprehensive income (loss)*.

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swap agreements are accounted for as either cash flow hedges or fair value hedges. The differentials paid or received on interest rate swap agreements are accrued and recognized as adjustments to interest expense. For fair value hedges, the effective portion of the change in fair value of the derivative is recorded in *Long-term debt* on the accompanying Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to interest expense. For cash flow hedges, the effective portion of the change in fair value of the derivative is recorded in *Accumulated other comprehensive income (loss)*, while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps was $75 million at January 3, 2004, and included $50 million of fair value hedges and $25 million of cash flow hedges. The notional amount of interest rate swaps was $50 million at December 28, 2002, and included $25 million of fair value hedges and $25 million of cash flow hedges.

In June 2003, Snap-on received proceeds of $5.1 million for the termination of a $25 million interest rate swap that was a fair value hedge for a portion of its $200 million, 6.25% long-term notes. The $5.1 million is being amortized to income using the effective interest rate method over the remaining life of the notes, which mature on August 15, 2011. At the same time, Snap-on entered into a new $25 million interest rate swap to hedge that same portion of these notes.

For all cash flow hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at January 3, 2004, was $1.0 million, after tax, and is reflected in *Accumulated other comprehensive income (loss)*. Changes in the fair value of derivative financial instruments qualifying for hedge accounting under SFAS No. 133, are reflected as derivative assets or liabilities with the corresponding gains or losses reflected in earnings in the period of change. An offsetting gain or loss is also reflected in earnings based upon the changes of the fair value of the debt instrument being hedged. For all fair value hedges qualifying for hedge accounting under SFAS No. 133, the net accumulated derivative loss at January 3, 2004, was $2.1 million. At January 3, 2004, the maximum maturity date of any cash flow hedge and fair value hedge was approximately one year and eight years, respectively. During the next 12 months, Snap-on expects to reclassify into earnings net losses from *Accumulated other comprehensive income (loss)* of approximately $0.9 million after tax at the time the underlying hedged transactions are realized. During the year ended January 3, 2004, cash flow hedge and fair value hedge ineffectiveness was not material.

Fair Value of Financial Instruments: SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires Snap-on to disclose the fair value

of financial instruments for both on- and off-balance-sheet assets and liabilities for which it is practicable to estimate that value. The following methods and assumptions were used in estimating the fair value of financial instruments:

Installment Contracts: A discounted cash flow analysis was performed over the average life of a contract using a discount rate currently available to Snap-on adjusted for credit quality, cost and profit factors. As of January 3, 2004, and December 28, 2002, the fair value was approximately $114 million and $92 million, versus a book value of $97.0 million and $78.7 million.

Long-term Debt: The fair value of long-term debt, including current maturities, was estimated using a discounted cash flow analysis based on quoted market rates for similar instruments. As of January 3, 2004, and December 28, 2002, the fair value was approximately $330 million and $340 million, versus a book value of $303.3 million and $305.5 million.

All Other Financial Instruments: The carrying amounts of all cash equivalents, interest rate swaps and forward exchange contracts approximate fair value based upon quoted market prices or discounted cash flows. The fair value of trade accounts receivables, accounts payable and other financial instruments approximates carrying value due to their short-term nature.

NOTE 12: INCOME TAXES

Earnings before income taxes, including the pretax impact of cumulative effects of changes in accounting principles in 2002 and 2001, consisted of the following:

(Amounts in millions)	**2003**	2002	2001
U.S.	**$ 62.2**	$ 129.2	$ 20.7
Foreign	**54.5**	34.8	22.8
Total earnings before income taxes	**$ 116.7**	$ 164.0	$ 43.5

The provision (benefit) for income taxes consisted of the following:

(Amounts in millions)	**2003**	2002	2001
Current:			
Federal	**$ 10.2**	$ (5.0)	$ 21.8
Foreign	**12.9**	19.6	13.3
State	**1.0**	2.6	3.7
Total current	**24.1**	17.2	38.8
Deferred:			
Federal	**8.1**	38.3	(8.1)
Foreign	**3.4**	(0.2)	(1.3)
State	**2.4**	2.7	(4.9)
Total deferred	**13.9**	40.8	(14.3)
Total income tax provision	**$ 38.0**	$ 58.0	$ 24.5

A reconciliation of the statutory federal income tax rate to Snap-on's effective tax rate, after cumulative effect of changes in accounting principles, is as follows:

	2003	2002	2001
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
State income taxes, net of federal benefit	**1.9**	1.8	3.2
Extraterritorial income exclusion/foreign sales corporation tax benefit	**(2.3)**	(1.5)	(1.6)
Restructuring and other non-recurring charges	**-**	-	19.8
Change in valuation allowance			

for foreign losses	**1.0**	1.4	(0.1)
Reversal of excess tax accrual	**(2.5)**	-	-
Non-deductible goodwill amortization	**-**	-	1.8
Foreign rate difference	**(1.3)**	(0.8)	(0.8)
Other	**0.8**	(0.5)	(1.0)
Effective tax rate	**32.6%**	35.4%	56.3%

Temporary differences that give rise to the net deferred tax benefit are as follows:

(Amounts in millions)	**2003**	2002	2001
Current deferred income tax assets:			
Inventories	**$ 28.2**	$ 29.6	$ 26.4
Accruals not currently deductible	**32.3**	17.5	19.0
Restructuring and other non-recurring accruals	**1.3**	1.9	31.5
Other	**2.7**	3.0	3.3
Total current (included in Deferred income tax benefits and Other accrued liabilities)	**64.5**	52.0	80.2
Long-term deferred income tax assets (liabilities):			
Employee benefits	**37.2**	78.9	46.8
Net operating losses	**48.7**	32.8	26.3
Depreciation	**(45.2)**	(40.9)	(37.5)
SOC securitizations	**(21.2)**	(15.0)	(10.2)
Other	**0.1**	0.2	3.9
Valuation allowance	**(37.8)**	(28.7)	(26.3)
Total long term	**(18.2)**	27.3	3.0
Net deferred income tax asset	**$ 46.3**	$ 79.3	$ 83.2

At January 3, 2004, Snap-on had tax net operating loss carryforwards totaling $219.6 million as follows:

(Amounts in millions)	*State*	*U.S.*	*Foreign*	*Total*
Year of expiration:				
2004 - 2008	$ -	$ 3.8	$ 7.6	$ 11.4
2009 - 2013	16.1	-	4.7	20.8
2014 - 2020	56.1	-	-	56.1
2021 - 2023	7.6	23.9	-	31.5
Indefinite	-	-	99.8	99.8
Total net operating loss carryforwards	$ 79.8	$ 27.7	$ 112.1	$ 219.6

A valuation allowance totaling $37.8 million, $28.7 million and $26.3 million in 2003, 2002 and 2001 has been established for deferred income tax benefits related to certain subsidiary loss carryforwards that may not be realized. Approximately $8 million of the increase in the valuation allowance and the net operating losses for 2003 is attributable to the impact of foreign currency exchange. Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The undistributed earnings of all non-U.S. subsidiaries totaled $214.7 million, $180.0 million and $159.1 million at the end of 2003, 2002 and 2001. Snap-on has not provided any deferred taxes on these undistributed earnings as it considers the undistributed earnings to be permanently invested.

NOTE 13: PENSION PLANS

Snap-on has several non-contributory defined benefit pension plans covering most U.S. employees and certain employees in foreign countries. Snap-on also has foreign contributory defined benefit pension plans covering certain foreign employees. Retirement benefits are generally provided based on employees' years of service and average earnings or stated amounts for years of service. Normal retirement age is 65, with provisions for earlier retirement. Snap-on recognizes retirement plan expenses in accordance with SFAS No. 87, *Employers' Accounting for Pensions*.

Snap-on's net pension expense (income) included the following components:

(Amounts in millions)	**2003**	2002	2001
Service cost	**$ 17.7**	$ 15.1	$ 15.8
Interest cost	**41.6**	39.9	38.9
Return on assets:			
Actual (gain) loss	**(82.8)**	48.9	1.6
Deferred gain (loss)	**38.2**	(103.4)	(57.2)
Amortization of:			
Actuarial (gain) loss	**2.5**	(0.8)	(5.6)
Prior service cost	**1.8**	2.0	1.5
Net transition asset	**(0.2)**	(1.3)	(1.3)
Curtailment loss (gain)	**8.2**	(0.5)	-
Net pension expense (income)	**$ 27.0**	$ (0.1)	$ (6.3)

The status of Snap-on's pension plans as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)	**2003**	2002
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 624.4**	$ 562.0
Service cost	**17.7**	15.1
Interest cost	**41.6**	39.9
Plan participants' contributions	**1.4**	0.8
Benefits paid	**(38.2)**	(30.1)
Curtailment loss (gain)	**2.4**	(0.5)
Plan amendments	**0.3**	2.7
Actuarial loss	**68.4**	34.3
Foreign currency impact	**14.4**	6.5
Effect of settlements	**-**	(6.3)
Benefit obligation at end of year	**$ 732.4**	$ 624.4
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 460.7**	$ 529.7
Actual return (loss) on plan assets	**82.8**	(48.9)
Plan participants' contributions	**1.4**	0.8
Employer contributions	**95.2**	13.1
Benefits paid	**(36.4)**	(30.1)
Foreign currency impact	**6.6**	2.4
Effect of settlements	**-**	(6.3)
Fair value of plan assets at end of year	$ **610.3**	$ 460.7
Unfunded status	**$ (122.1)**	$ (163.7)
Unrecognized net assets at year end	**(1.1)**	(1.7)
Unrecognized net loss from experience different than assumed	**166.0**	137.6
Unrecognized prior service cost	**8.7**	15.5
Net amount recognized	**$ 51.5**	$ (12.3)

Amounts recognized in the consolidated balance sheets consist of:

	2003	2002
Prepaid benefit cost	**$ 69.8**	$ 9.7
Accrued benefit liability	**(72.4)**	(134.8)
Other intangibles	**3.5**	15.0
Deferred income tax benefits	**19.0**	36.9
Accumulated other comprehensive loss	**31.6**	60.9
Net amount recognized	**$ 51.5**	$ (12.3)

The accumulated benefit obligation for Snap-on's pension plans was $673.5 million and $588.7 million at January 3, 2004, and December 28, 2002.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for Snap-on's pension plans in which the accumulated benefit obligation exceeds the fair value of plan assets as of fiscal year-end 2003 and 2002 are as follows:

(Amounts in millions)	**2003**	2002
Projected benefit obligation	$ 203.6	$ 602.4
Accumulated benefit obligation	190.0	568.9
Fair value of plan assets	120.6	435.2

The amount included in Snap-on's accumulated other comprehensive income (loss) arising from recognizing additional minimum pension liabilities are as follows:

(Amounts in millions)	
Balance at December 29, 2001	$ (3.5)
Increase in minimum pension liability, net of tax	(57.4)
Balance at December 28, 2002	(60.9)
Decrease in minimum pension liability, net of tax	29.3
Balance at January 3, 2004	$ (31.6)

The worldwide weighted-average assumptions used to determine Snap-on's full-year pension cost are as follows:

	2003	2002	2001
Discount rate	**6.5%**	6.7%	7.4%
Expected long-term return on plan assets	**8.3%**	8.2%	9.6%
Rate of compensation increase	**3.3%**	3.7%	4.6%

The worldwide weighted-average assumptions used to determine Snap-on's projected benefit obligation as of fiscal year-end 2003 and 2002 are as follows:

	2003	2002
Discount rate	**5.9%**	6.7%
Rate of compensation increase	**3.3%**	3.7%

Snap-on uses a December 31 measurement date for the majority of its plans. Snap-on does not expect to make a contribution to its domestic pension plans in 2004.

Snap-on's domestic pension plans' weighted-average asset allocation at December 31, 2003, and December 31, 2002, by asset category are as follows:

Asset Category	**2003**	2002
Equity securities	**58%**	55%
Debt securities and cash	**42%**	45%
Real estate and other real assets	-	-
Other	-	-

Total	**100%**	100%

Snap-on's domestic pension plans have a long-term investment horizon, and therefore Snap-on has a total return strategy that emphasizes a capital growth objective. The long-term investment performance objective for Snap-on's domestic plan assets is to achieve net-of-expense returns that meet or exceed the 8.5% domestic long-term rate-of-return-on-assets assumption used for reporting purposes.

The basis for determining the overall expected long-term rate-of-return-on-assets assumption applies a nominal returns forecasting method. For each asset class, future returns are estimated by identifying the premium of riskier asset classes over lower risk alternatives. The methodology constructs expected returns using a building block approach to the individual components of total return. These forecasts are stated in both nominal and real (after inflation) terms. This process first considers the long-term historical return premium based on the longest set of data available for each asset class. These premiums are then adjusted based on current relative valuation levels and macro-economic conditions. Recently, due to relatively higher valuation levels for equities, expected equity risk premiums have been adjusted downward to be more conservative than the actual long-term results.

For risk and correlation assumptions, the actual experience for each asset class is reviewed for the longest time period available. Expected relationships for a ten- to twenty-year time horizon are determined based upon historical results, with adjustments made for material changes. For example, expected correlations for international equities relative to U.S. equities are higher than historical averages due to the integration of the global economy.

Investments are broadly diversified to attempt to minimize the risk of large losses. Since asset allocation is a key determinant of expected investment returns, assets are periodically rebalanced to the targeted allocation to correct significant deviations from the asset allocation policy that are caused by market fluctuations and cash flows.

Snap-on has adopted a strategic asset allocation policy that is intended to offer the highest probability of achieving the long-term investment return goal with the lowest level of risk. Asset/liability studies are conducted periodically to determine if any revisions to the strategic asset allocation policy are indicated. Snap-on's strategic domestic asset allocation targets are as follows:

Asset Category	**Target**
Equity securities	55%
Debt securities and cash	35%
Real estate and other real assets	5%
Other	5%
Total	100%

Snap-on has several 401(k) plans covering certain U.S. employees. Snap-on's employer match to the 401(k) plans is made in Snap-on common stock, which is funded through the Grantor Stock Trust, or cash. Employees have the opportunity to diversify the employer match made in Snap-on common stock as they approach retirement. For 2003, 2002 and 2001, Snap-on recognized $12.4 million, $2.0 million and $0.4 million of expense related to its 401(k) plans. Included in Snap-on's 2003 401(k) plan expense is $10.2 million related to the closure of the two U.S. hand-tool facilities disclosed in Note 4 above.

NOTE 14: RETIREE HEALTH CARE

Snap-on provides certain health care benefits for most retired U.S. employees. The majority of Snap-on's U.S. employees become eligible for those benefits if they reach early retirement age while working for Snap-on; however, the age and service requirements for eligibility under the plans have been increased for certain employees hired on and after specified dates since 1992. Generally, most plans pay stated percentages of covered expenses after a deductible is met. There are several plan designs, with more recent retirees being covered under a comprehensive major medical plan. In determining benefits, the plans take into consideration payments by Medicare and other insurance coverage.

For employees retiring under the comprehensive major medical plans, retiree contributions are required, and these plans contain provisions allowing for benefit and coverage changes. The plans require retirees to contribute either the full cost of the coverage or amounts estimated to exceed a capped per-retiree annual cost commitment by Snap-on. Most employees hired since 1994 are required to pay the full cost. Snap-on does not fund the retiree health care plans.

Snap-on recognizes postretirement health care expense in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*.

Snap-on's net postretirement health care benefits expense included the following components:

(Amounts in millions)	**2003**	2002	2001
Service cost	**$ 0.9**	$ 1.1	$ 1.1
Interest cost	**6.2**	6.0	5.5
Curtailment gain	**(6.2)**	(0.2)	-
Amortization of unrecognized net gain	-	(0.6)	(1.4)
Net postretirement health care benefits expense	**$ 0.9**	$ 6.3	$ 5.2

The status of Snap-on's U.S. postretirement health care plans is as follows:

(Amounts in millions)	**2003**	2002
Change in accumulated benefit obligation:		
Benefit obligation at beginning of year	**$ 95.3**	$ 75.3
Service cost	**0.9**	1.1
Interest cost	**6.2**	6.0
Plan participants' contributions	**3.1**	2.7
Curtailment gain	**(6.2)**	(0.2)
Benefits paid	**(8.3)**	(7.8)
Actuarial loss	**2.7**	18.2
Benefit obligation at end of year	**$ 93.7**	$ 95.3
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ -**	$ -
Plan participants' contributions	**3.1**	2.7
Employer contributions	**5.2**	5.1
Benefits paid	**(8.3)**	(7.8)
Fair value of plan assets at end of year	**$ -**	$ -
Unfunded status	**$ (93.7)**	$ (95.3)
Unrecognized actuarial gain	**(0.7)**	(3.4)
Net amount recognized	**$ (94.4)**	$ (98.7)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued benefit liability	**$ (5.1)**	$ (4.7)
Retiree health care benefits	**(89.3)**	(94.0)
Net amount recognized	**$ (94.4)**	$ (98.7)

The weighted-average discount rates used to determine Snap-on's postretirement health care expense are as follows:

	2003	2002	2001
Discount rate	**6.6%**	6.75%	7.5%

The weighted-average discount rates used to determine Snap-on's accumulated benefit obligation are as follows:

	2003	2002
Discount rate	**6.0%**	6.75%

The actuarial calculation assumes a health care cost trend rate of 9.9% in 2003, decreasing gradually to 6.0% in 2009 and thereafter. As of January 3, 2004, a one-percentage-point increase in the health care cost trend rate for future years would increase the accumulated postretirement benefit obligation by $1.5 million and the aggregate of the service cost and interest cost components by $0.1 million. Conversely, a one-percentage-point decrease in the health care cost trend rate for future years would decrease the accumulated postretirement benefit obligation by $1.4 million and the aggregate of the service cost and interest cost components by $0.1 million.

Snap-on expects to contribute $5.1 million to its retiree health care plans in 2004.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("the Act") was signed into law. In accordance with FASB Staff Position 106-1's deferral election, Snap-on's net periodic postretirement benefit expense and accumulated postretirement benefit obligation do not reflect the effects of the Act on Snap-on's postretirement health care plans. Specific authoritative guidance on the accounting for the federal subsidy provided for under the Act is pending and guidance, when issued, could require Snap-on to change previously reported information.

NOTE 15: STOCK OPTIONS AND PURCHASE PLANS

Snap-on has various stock award and purchase plans for directors, officers and key employees.

2001 Incentive Stock and Awards Plans: On April 27, 2001, Snap-on's shareholders approved the 2001 Incentive Stock and Awards Plan ("2001 Plan"). This plan reserves five million shares of common stock for issuance, of which 2,578,047 shares were available for future grants at January 3, 2004. There are no shares available for future grants under the predecessor plan. Stock options outstanding under the 2001 Plan and the predecessor plan have expiration dates ranging from 2004 to 2013 and vesting periods ranging from immediate to three years. The plans provide that options be granted at exercise prices equal to market value on the date the option is granted. Stock option activity under the 2001 Plan and predecessor plans was as follows:

	2003		2002		2001	
	Options	**Exercise Price***	Options	Exercise Price*	Options	Exercise Price*
Outstanding at beginning of year	**5,399,594**	**$ 30.70**	5,189,146	$ 29.83	4,526,481	$ 29.44
Granted	**694,900**	**25.24**	863,809	31.90	1,227,707	28.95
Exercised	**(191,857)**	**22.60**	(478,285)	22.80	(375,756)	21.83
Canceled	**(260,418)**	**32.30**	(175,076)	32.96	(189,286)	30.14
Outstanding at end of year	**5,642,219**	**$ 30.23**	5,399,594	$ 30.70	5,189,146	$ 29.83
Exercisable at end of year	**4,583,646**	**$ 30.83**	4,060,271	$ 30.66	3,447,146	$ 30.65

*Weighted-average

The following table summarizes information about stock options outstanding as of January 3, 2004:

	2003 Options Outstanding			2003 Options Exercisable	
Range of Exercise Prices	Options Outstanding	Remaining Contractual Life (Years)*	Exercise Price*	Options Exercisable	Exercise Price*
$19 to $25	72,540	1.07	$ 21.71	72,540	$ 21.71
$25 to $31	3,355,974	8.18	27.15	2,649,524	27.63
$31 to $38	1,768,088	5.94	33.96	1,415,965	34.39
$38 to $46	445,617	4.07	39.98	445,617	39.98
Totals	5,642,219	7.06	$ 30.23	4,583,646	$ 30.83

*Weighted-average

In 2003, Snap-on granted 423,300 shares of restricted stock to certain executive officers and other key employees under the 2001 Plan. Vesting of the shares of restricted stock will be dependent upon performance relative to pre-defined goals for revenue growth and return on net assets employed before interest and taxes for fiscal years 2003 through 2005. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the restricted stock award. For performance achieved above a certain level, the recipient will earn performance units in addition to the restricted stock, not to exceed 50% of the number of shares of restricted stock initially awarded. Each performance unit represents the right to receive in cash $24.49, which was the fair market value of a share of Snap-on's common stock on March 14, 2003. Based on the grant performance criteria, Snap-on was not required to recognize any compensation expense in 2003 for these awards.

In 2002, Snap-on granted 209,000 shares of restricted stock to certain executive officers and other key employees under the 2001 Plan. Vesting of the shares of restricted stock was dependent upon performance relative to pre-defined goals for revenue growth and return on net assets employed before interest and taxes for fiscal years 2002 and 2003. Based on the grant performance criteria, Snap-on was not required to recognize any compensation expense in 2003 or 2002 for these awards, as none of these shares vested.

As of January 3, 2004 and December 28, 2002, Snap-on also had 105,600 and 5,600 restricted stock grants outstanding under the 2001 Plan whose vesting is not dependent on performance. Compensation expense is being recognized on a straight-line basis over the respective service period. Snap-on recognized compensation expense of $1.0 million in 2003, 2002 and 2001 related to non-performance restricted shares.

As of January 3, 2004, Snap-on had 682,500 stock appreciation rights outstanding that were granted to certain key non-U.S. employees with an average grant price of $29.60 per unit. These performance units expire ten years after date of grant and have vesting periods that range from two to three years. The performance units provide for the cash payment of the excess of the fair market value of Snap-on's common stock price on the date of exercise over the grant price, and Snap-on accrues compensation expense based upon the current market price for its common stock and the number of performance units outstanding. The performance share units have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on's common stock value over the grant price is paid in cash and not in common stock.

Directors' Fee Plan: Under the Directors' Fee Plan, non-employee directors receive a mandatory minimum of 50% and an elective maximum of up to 100% of their fees and retainer in shares of Snap-on's common stock. Directors may elect to defer receipt of all or part of these shares. For 2003, 2002 and 2001, issuances under the Directors' Fee Plan totaled 4,236 shares, 4,750 shares and 10,367 shares. Additionally, receipt of 11,130 shares, 11,865 shares and

15,043 shares was deferred in 2003, 2002 and 2001. At January 3, 2004, shares reserved for issuance to directors under this plan totaled 168,347 shares.

Employee Stock Purchase Plan: Employees of Snap-on are eligible to participate in an employee stock purchase plan. The employee purchase price of the common stock is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (May 14) of each plan year. For 2003, 2002 and 2001, issuances under the employee stock ownership plan totaled 36,428 shares, 53,142 shares and 57,231 shares. At January 3, 2004, shares reserved for issuance to employees under this plan totaled 454,286 and Snap-on held contributions of approximately $0.8 million for the purchase of common stock by employees.

Dealer Stock Purchase Plan: Franchised dealers are eligible to participate in a dealer stock purchase plan. The dealer purchase price of the common stock is the lesser of the mean of the high and low price of the stock on the beginning date (May 15) or ending date (May 14) of each plan year. For 2003, 2002 and 2001, issuances under the dealer stock purchase plan totaled 49,923 shares, 76,381 shares and 78,440 shares. At January 3, 2004, shares reserved for issuance to franchised dealers under this plan totaled 164,620 and Snap-on held dealer contributions of approximately $1.1 million for the purchase of common stock. Compensation expense for plan participants in 2003, 2002 and 2001 was not material.

Dividend Reinvestment and Stock Purchase Plan: Under this plan, participating shareholders may invest the cash dividends from all or a portion of their common stock to buy additional shares. The plan also permits new investors and current shareholders to make additional contributions. For 2003, 2002 and 2001, issuances under the dividend reinvestment and stock purchase plan totaled 54,504 shares, 45,649 shares and 47,650 shares. At January 3, 2004, shares available for purchase under this plan totaled 1,708,133.

SFAS No. 148 Disclosure: Snap-on accounts for its stock-based employee compensation plans under the recognition and measurement principles of APB Opinion No. 25. In accordance with the provisions of APB Opinion No. 25, no compensation expense was recorded for stock options as all options granted had an exercise price equal to the market value of the underlying common stock on the measurement date. For restricted stock and stock appreciation rights awards, Snap-on recorded compensation expense in the respective periods as appropriate.

The following table illustrates the effect on net earnings and earnings per share as if Snap-on had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation using the Black-Scholes option-pricing model.

(Amounts in millions, except per share data)	**2003**	2002	2001
Net earnings, as reported	**$ 78.7**	$ 106.0	$ 19.0
Add: Stock-based employee compensation expense (income) included in reported net income, net of related tax effects	**1.5**	(0.4)	2.3
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(5.6)**	(7.3)	(8.3)
Pro forma net earnings	**$ 74.6**	$ 98.3	$ 13.0
Net earnings per share - basic:			
As reported	**$ 1.35**	$ 1.82	$ 0.33
Pro forma	**1.28**	1.69	0.22
Net earnings per share - diluted:			
As reported	**$ 1.35**	$ 1.81	$ 0.33
Pro forma	**1.28**	1.68	0.22
Weighted-average assumptions under Black-Scholes:			
Risk-free interest rate	**4.4%**	3.8%	4.9%
Dividend yield	**3.4%**	2.8%	2.8%
Expected stock price volatility	**31.6%**	33.1%	38.7%
Expected option life (in years)	**6.9**	6.1	5.6

For disclosure purposes only under SFAS No. 123, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of options granted was $6.91 in 2003, $9.16 in 2002 and $9.37 in 2001, as calculated using the Black-Scholes option-pricing model.

NOTE 16: CAPITAL STOCK

Snap-on has undertaken repurchases of Snap-on common stock from time to time to offset dilution created by shares issued for employee and dealer stock purchase plans, stock options, and other corporate purposes, as well as to repurchase shares when market conditions are favorable. Snap-on repurchased 450,000 shares in 2003, following the repurchase of 405,000 shares in 2002 and 400,000 shares in 2001. As of the end of 2003, Snap-on has remaining availability to repurchase up to an additional $144.0 million in common stock pursuant to the Board of Directors'authorizations. The purchase of Snap-on

common stock is at the company's discretion, subject to prevailing financial and market conditions. In 2003, Snap-on's average common stock repurchase price was approximately $27.73 per share.

In August 1997, the Board of Directors declared a dividend distribution of one preferred stock purchase right for each share of Snap-on's outstanding common stock. The rights are exercisable only if a person or group acquires 15% or more of Snap-on's common stock ("Acquiring Person") or publicly announces a tender offer to become an Acquiring Person. Each right may then be exercised to purchase one one-hundred-and-fiftieth of a share of Series A Junior Preferred Stock for $190, but if a person or group becomes an Acquiring Person, then each right entitles the holder (other than an Acquiring Person) to acquire common stock of Snap-on having a market value equivalent to two times the current purchase price. If Snap-on is acquired in a merger or other business combination not approved by the Board of Directors, then each holder of a right will be entitled to purchase common stock of the surviving company having a market value equivalent to two times the current purchase price. The effect of the rights is to cause ownership dilution to a person or group attempting to acquire Snap-on without approval of Snap-on's Board of Directors. The rights expire on November 3, 2007, and may be redeemed by Snap-on at a price of $0.01 per right under certain circumstances.

Snap-on created a Grantor Stock Trust ("GST") in 1998 that was subsequently amended. In conjunction with the formation of the GST, Snap-on sold 7.1 million shares of treasury stock to the GST. The sale of these shares had no net impact on shareholders' equity or on Snap-on's Consolidated Statements of Earnings. The GST is a funding mechanism for certain benefit programs and compensation arrangements, including the 2001 Incentive Stock and Awards Plan and employee and dealer stock purchase plans. The Northern Trust Company, as trustee of the GST, votes the common stock held by the GST based on the terms set forth in the GST Agreement as amended. The GST is recorded as Grantor stock trust at fair market value on the accompanying Consolidated Balance Sheets. Shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with employee benefits. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in additional paid-in capital. At January 3, 2004, the GST held 5,007,809 shares of common stock.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Snap-on leases facilities and office equipment under non-cancelable operating leases that extend for varying amounts of time. Snap-on's future minimum lease commitments under these leases, net of sub-lease income, were as follows:

Year Ending	*(Amounts in millions)*
2004	$ 27.7
2005	21.2
2006	16.3
2007	12.6
2008	11.2
2009 and thereafter	45.7

Rent expense, net of sub-lease rental income, for worldwide facilities and office equipment was $33.0 million, $32.3 million and $32.1 million in 2003, 2002 and 2001.

At December 28, 2002, SOC maintained a $25 million bank line of credit for working capital purposes, of which Snap-on was a 60% guarantor and CIT was a 40% guarantor. Borrowings under this facility totaled $11.0 million at December 28, 2002. SOC's bank line of credit expired May 31, 2003, and was not renewed. CIT and Snap-on have agreed to fund SOC's future working capital requirements on a 50/50 basis, with a combined maximum borrowing limit not to exceed $24 million. As of January 3, 2004, there were no outstanding amounts owed from SOC to this agreement. Refer to Note 9 for additional information.

Snap-on has credit risk exposure for certain loan originations with recourse provisions against Snap-on. At January 3, 2004, and December 28, 2002, $14.1 million and $32.1 million of these loans, with terms ranging from six months to ten years, have a primary recourse provision to Snap-on if the loans become more than 90 days past due.

The maximum potential amount of future payments that Snap-on could be required to make to SOC under the recourse provisions as of January 3, 2004, is $14.1 million, including $6.7 million that was originated in fiscal 2003. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for all fiscal-2003 loan originations with recourse as of January 3, 2004, was not material. Refer to Note 9 for additional information.

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience. The following is an analysis of Snap-on's product warranty accrual for fiscal-year 2003 and 2002:

(Amounts in millions)	**2003**	2002
Warranty accrual:		
Beginning of year	**$ 11.6**	$ 8.2
Additions	**11.6**	15.2
Usage	**(10.7)**	(11.8)
End of year	**$ 12.5**	$ 11.6

Snap-on has government contracts with federal departments and agencies, two of which are presently under audit by the U.S. General Services Administration. The two contracts involve sales from March 1996 through February 2001, and sales since February 2001. The primary focus of these audits concerns the interpretation and application of the price reduction provisions of these contracts.

On February 6, 2004, Snap-on received a letter from the Department of Justice indicating that they were seeking to discuss these audit findings with Snap-on before taking any further action. On March 2, 2004, the government provided Snap-on with their claim estimate of approximately $12 million for billing discrepancies relating to the audited contract periods from July 1997 through May 2002. Additional amounts could be claimed by the government for contract periods not covered by these audits. Snap-on intends to continue discussions with the government in an effort to advance its positions with respect to the government's claims. At this time, Snap-on cannot predict the period of time any discussions will take, or the outcome or specific consequences of these matters, which could include settlement, civil litigation by the government to recover treble damages and other penalties under the False Claims Act, as well as suspension or debarment from future government business or other legal or administrative action. Should the government prevail in these matters, the impact on Snap-on's results of operations would be material.

Snap-on held more than 3,000 active or pending patents as of year-end 2003, and Snap-on vigorously prosecutes its claims and defends its patents in the ordinary course of business. In February 1998, Snap-on filed a complaint alleging infringement of certain of Snap-on's patents by Hunter Engineering Company ("Hunter"). Hunter counterclaimed, alleging infringement of certain of its patents and one trademark. In April 2002, the court set a trial date of October 14, 2002, for various patents. In May 2002, Hunter alleged infringement of two additional patents for which a March 2003 trial date was later set. That trial date was vacated when the case was consolidated with the above litigation in October 2002.

The October 14, 2002, trial date was later postponed by the court to October 30, 2002. On October 22, 2002, a settlement was reached between Snap-on and Hunter for all of the above-mentioned matters, and in the fourth quarter of 2002, a final, comprehensive agreement was reached in Snap-on's favor for $10.8 million, net of related legal expenses incurred in the year.

In 1996, Snap-on filed a complaint against SPX Corporation ("SPX") alleging infringement of Snap-on's patents and asserting claims relating to SPX's hiring of the former president of Sun Electric, a subsidiary of Snap-on acquired in 1992. SPX filed a counterclaim alleging infringement of certain SPX patents. These patents, which related to engine analyzer products first introduced in the 1980s, have expired. As part of a binding arbitration process in 2001, the arbitrator ruled in favor of SPX and Snap-on was ordered to pay $44 million in damages to SPX. This obligation was paid in January 2002 and was recorded in *Operating expenses* on the accompanying 2001 Consolidated Statement of Earnings.

Snap-on is also involved in various other legal matters that are being defended and handled in the ordinary course of business. Snap-on maintains accruals for such costs that it expects to incur with regard to these matters. Although it is not possible to predict the outcome of these other legal matters, management believes that the results will not have a material impact on Snap-on's financial statements.

NOTE 18: SEGMENTS

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments include: (i) the Snap-on Dealer Group, (ii) the Commercial and Industrial Group and (iii) the Diagnostics and Information Group. The Snap-on Dealer Group consists of Snap-on's business operations serving the worldwide franchised dealer van channel. The Commercial and Industrial Group consists of the business operations providing tools and equipment products to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchised distribution channels. The Diagnostics and Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, equipment repair services and other solutions for customers in the worldwide vehicle service and repair marketplace.

Snap-on evaluates the performance of its operating segments based on segment net sales and operating earnings. Segment net sales are defined as total net sales, including both net sales to external customers and intersegment sales. Segment operating earnings are defined as segment net sales less cost of goods sold and operating expenses, including applicable restructuring and other non-recurring charges. Snap-on began allocating restructuring and other non-recurring charges to its reportable segments in fiscal 2003. Prior to fiscal 2003, Snap-on did not allocate such charges to the reportable segments. As a result, all prior-year segment information presented herein has been restated to conform to the 2003 presentation. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Snap-on allocates shared services expenses to those segments that utilize the services based on a percentage of either cost of goods sold or segment net sales, as appropriate. Certain other prior-year reclassifications have been made to conform to the 2003 management reporting structure.

Neither Snap-on nor any of its segments depends on any single customer, small group of customers or government for more than 10% of its sales.

Financial data by segment is as follows:

(Amounts in millions)	**2003**	2002	2001
Net sales from external customers:			
Snap-on Dealer Group	**$ 1,046.2**	$ 1,014.6	$ 1,014.4
Commercial and Industrial Group	**1,011.4**	929.0	917.5
Diagnostics and Information Group	**175.6**	165.5	163.8
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7

Intersegment sales:			
Snap-on Dealer Group	**$ 27.0**	$ 25.1	$ 26.9
Commercial and Industrial Group	**122.5**	116.7	109.8
Diagnostics and Information Group	**133.4**	168.9	157.4
Total intersegment sales	**$ 282.9**	$ 310.7	$ 294.1
Total net sales:			
Snap-on Dealer Group	**$ 1,073.2**	$ 1,039.7	$ 1,041.3
Commercial and Industrial Group	**1,133.9**	1,045.7	1,027.3
Diagnostics and Information Group	**309.0**	334.4	321.2
Segment net sales	**2,516.1**	2,419.8	2,389.8
Intersegment eliminations	**(282.9)**	(310.7)	(294.1)
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7

The following is a reconciliation of Snap-on's segment operating earnings to earnings before income taxes:

(Amounts in millions)	**2003**	2002	2001
Operating earnings (loss):			
Snap-on Dealer Group	**$ 70.2**	$ 89.6	$ 108.1
Commercial and Industrial Group	**13.1**	46.0	3.9
Diagnostics and Information Group	**23.0**	25.0	(17.1)
Segment operating earnings	**106.3**	160.6	94.9
Net finance income	**43.8**	37.7	35.7
Arbitration resolution[(a)]	-	-	(44.0)
Operating earnings	**150.1**	198.3	86.6
Interest expense	**(24.4)**	(28.7)	(35.5)
Other income (expense) - net	**(9.0)**	(8.4)	(3.5)
Earnings before income taxes	**$ 116.7**	$ 161.2	$ 47.6

(a) In 2001, the $44.0 million cost incurred for the resolution of patent arbitration was not allocated to the reportable segments.

(Amounts in millions)	**2003**	2002	2001
Total assets:			
Snap-on Dealer Group	**$ 779.9**	$ 759.7	$ 805.0
Commercial and Industrial Group	**1,101.9**	1,010.7	921.8
Diagnostics and Information Group	**189.9**	198.5	208.7
Total from reportable segments	**2,071.7**	1,968.9	1,935.5
Financial Services	**103.9**	82.5	82.0
Elimination of intersegment receivables	**(37.1)**	(57.3)	(43.2)
Total assets	**$ 2,138.5**	$ 1,994.1	$ 1,974.3
Capital expenditures:			
Snap-on Dealer Group	**$ 9.7**	$ 15.0	$ 19.3
Commercial and Industrial Group	**15.2**	23.9	29.5
Diagnostics and			

	2003	2002	2001
Information Group	**4.5**	6.9	4.8
Total from reportable segments	**29.4**	45.8	53.6
Financial Services	-	-	-
Total capital expenditures	**$ 29.4**	$ 45.8	$ 53.6
Depreciation and amortization:			
Snap-on Dealer Group	**$ 27.1**	$ 24.3	$ 28.3
Commercial and Industrial Group	**25.8**	22.9	30.0
Diagnostics and Information Group	**7.4**	4.5	9.7
Total from reportable segments	**60.3**	51.7	68.0
Financial Services	-	-	-
Total depreciation and amortization	**$ 60.3**	$ 51.7	$ 68.0

Geographic Regions: Geographic data is as follows:

(Amounts in millions)	**2003**	2002	2001
Net sales:*			
United States	**$ 1,339.0**	$ 1,358.7	$ 1,360.0
Europe	**659.3**	547.0	537.5
All other	**234.9**	203.4	198.2
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7
Long-lived assets:**			
United States	**$ 328.1**	$ 351.9	$ 357.7
Sweden	**172.7**	143.3	117.9
Luxembourg	**146.1**	119.0	102.9
All other	**168.8**	148.1	141.1
Total long-lived assets	**$ 815.7**	$ 762.3	$ 719.6

*Net sales are attributed to countries based on the origin of the sale.
**Long-lived assets consist of Property and equipment — net plus Goodwill plus Other intangibles —net.

Products and Services: Snap-on derives revenue from a broad line of products and complementary services that are grouped into two categories: tools and equipment. The tools category is comprised of Snap-on's hand tools, power tools, tool storage units, saws and cutting and pruning tools product offerings. The equipment category is comprised of vehicle service diagnostics equipment, vehicle service equipment, vehicle service information, business management systems and equipment repair service product offerings. Further product line information is not presented, as it is not practicable to do so. The following table shows the consolidated sales of these product groups in the last three years:

(Amounts in millions)	**2003**	2002	2001
Net sales:			
Tools	**$ 1,368.9**	$ 1,281.7	$ 1,291.1
Equipment	**864.3**	827.4	804.6
Total net sales	**$ 2,233.2**	$ 2,109.1	$ 2,095.7

Quarterly Financial Information *(Unaudited)*

(Amounts in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2003					
Net sales	**$ 543.1**	**$ 565.2**	**$ 525.6**	**$ 599.3**	**$ 2,233.2**

Gross profit	**245.4**	**246.1**	**221.8**	**251.4**	**964.7**
Net earnings	**21.4**	**22.3**	**17.7**	**17.3**	**78.7**
Earnings per share - basic	**0.37**	**0.38**	**0.30**	**0.30**	**1.35**
Earnings per share - diluted	**0.37**	**0.38**	**0.30**	**0.30**	**1.35**
Cash dividends paid per share	**$ 0.25**	**$ 0.25**	**$ 0.25**	**$ 0.25**	**$ 1.00**
2002					
Net sales	$ 510.0	$ 547.2	$ 502.4	$ 549.5	$ 2,109.1
Gross profit	235.7	251.4	227.8	250.0	964.9
Net earnings	24.5	29.2	19.2	33.1	106.0
Earnings per share - basic	0.42	0.50	0.33	0.57	1.82
Earnings per share - diluted	0.42	0.50	0.33	0.56	1.81
Cash dividends paid per share	$ 0.24	$ 0.24	$ 0.24	$ 0.25	$ 0.97

In 2003, net restructuring and continuous improvement charges totaled $30.1 million ($19.6 million after tax or $0.34 per basic and diluted share). Restructuring and continuous improvement charges were incurred throughout the year as follows: First quarter — $2.5 million; Second quarter — $3.0 million; Third quarter — $13.3 million; Fourth quarter — $11.3 million.

In 2002, net restructuring and other non-recurring charges totaled $5.1 million ($3.3 million after tax or $0.05 per basic share and $0.06 per diluted share). Restructuring and non-recurring charges (credits) were incurred throughout the year as follows: First quarter — $3.4 million; Second quarter — $1.4 million; Third quarter — $1.6 million; Fourth quarter — $(1.3) million. Non-comparable credits in 2002 totaled a net gain of $2.0 million ($1.3 million after tax or $0.02 per basic and diluted share). Non-comparable charges (credits) occurred as follows: First quarter — $ 2.6 million for the write-down of a receivable related to the closure of auto service centers associated with a major retailer's bankruptcy; Fourth quarter — $(4.6) million net pretax benefit from the resolution of a patent infringement matter partially offset by a provision for certain contractual matters.

2002 includes a pretax gain of $2.8 million ($2.8 million after tax or $0.05 per basic and diluted share) for the cumulative effect of a change in accounting principle for goodwill in the first quarter.

Management's Responsibility for Financial Reporting

The management of Snap-on Incorporated is responsible for the preparation and integrity of all financial statements and other information contained in this Annual Report. The consolidated financial statements include amounts based on informed judgments and best estimates by management. In management's opinion, the financial statements present fairly the financial position, results of operations and cash flows of the company in conformity with accounting principles generally accepted in the United States of America.

Management relies on a system of internal accounting controls and procedures that is intended, consistent with reasonable cost, to provide reasonable assurance that transactions are executed in accordance with management's authorization, that they are included in the financial records in all material respects, and that accountability for assets is maintained. The company maintains a staff of internal auditors that conducts operational and financial audits to evaluate the adequacy of internal controls and accounting practices.

Snap-on's consolidated financial statements for fiscal 2003 and 2002 have been audited by Deloitte & Touche LLP, independent auditors, whose report thereon appears herein. As part of their audit of Snap-on's consolidated financial statements, Deloitte & Touche LLP considered Snap-on's system of internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests. Management has made available to Deloitte & Touche LLP Snap-on's financial records and related data.

The Board of Directors has appointed an Audit Committee composed entirely of directors who are not employees of the company. The committee meets periodically and independently with management, internal auditors and the independent auditors to discuss Snap-on's internal accounting controls, auditing and financial reporting matters. The committee reports to the Board of Directors on its activities and findings. The internal auditors and independent auditors have unrestricted access to the Audit Committee.

/s/ Dale F. Elliott
Dale F. Elliott
Chairman, President and
Chief Executive Officer

/s/ Martin M. Ellen
Martin M. Ellen
Senior Vice President - Finance
and Chief Financial Officer

Independent Auditors' Report

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF SNAP-ON INCORPORATED:**

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated and subsidiaries (the "Company") as of January 3, 2004 and December 28, 2002, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company for the year ended December 29, 2001, were audited by other auditors who have ceased operations. Those auditors, whose report dated January 29, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the changes in accounting method for derivatives effective December 31, 2000 (explained in Note 11 to these consolidated financial statements), and pensions effective January 2, 2000 (explained in Note 13 to the consolidated financial statements).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable

basis for our opinion.

In our opinion, such 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 3, 2004 and December 28, 2002, and the result of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the consolidated financial statements of the Company for the year ended December 29, 2001, were audited by other auditors who have ceased operations. As described in Note 8, these consolidated financial statements have been revised to include the transitional disclosures required by Statement No. 142. Our audit procedures with respect to the disclosures in Note 8 with respect to 2001 included (i) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net earnings representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and other indefinite-lived intangible assets as a result of initially applying Statement No. 142 (including any related tax effects) to the Company's underlying records obtained from management, and (ii) testing the mathematical accuracy of the reconciliation of adjusted net earnings to reported net earnings, and the related earnings-per-share amounts. In our opinion, the disclosures for 2001 in Note 8 are appropriate.

As discussed above, the consolidated financial statements of the Company for the year ended December 29, 2001, were audited by other auditors who have ceased operations. As described in Note 18, the Company began allocating restructuring and other non-recurring charges to its reportable segments in 2003. In addition, the Company changed the composition of its segments in 2002. The amounts in the 2002 and 2001 financial statements relating to reportable segments have been restated to conform to the 2003 presentation of reportable segments. We audited the adjustments that were applied to restate the disclosures for reportable segments reflected in the 2001 financials statements. Our procedures included (i) agreeing the adjusted amounts of segment net sales from external customers, intersegment sales, earnings and assets to the Company's underlying records obtained from management, and (ii) testing the mathematical accuracy of the reconciliations of segment amounts to the consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In our opinion, the adjustments described above to present the transitional disclosures required by Statement No. 142 and to restate the reportable segments have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Milwaukee, Wisconsin
February 3, 2004 (except for paragraphs 7 and 8 of
Note 17, to which the date is March 12, 2004)

Report of Independent Public Accountants

The following Report of Independent Public Accountants is a copy of a report that Arthur Andersen LLP previously issued in connection with Snap-on's Annual Report on Form 10-K for the year ended December 29, 2001. Arthur Andersen LLP has not reissued this report in connection with the preparation of Snap-on's financial statements as of and for the periods ended January 3, 2004, and December 28, 2002. The Arthur Andersen LLP report does not extend to transitional disclosures required by SFAS No. 142, the restatement of presentation of reportable segments or reclassified amounts for the period ended December 29, 2001. These transitional disclosures and restated and reclassified amounts are reported on by Deloitte & Touche LLP as stated in their report appearing herein.

**TO THE BOARD OF DIRECTORS AND
SHAREHOLDERS OF SNAP-ON INCORPORATED:**

We have audited the accompanying consolidated balance sheets of Snap-on Incorporated (a Delaware Corporation) and subsidiaries as of December 29, 2001, and December 30, 2000, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 29, 2001. These consolidated financial statements are the responsibility of Snap-on's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Snap-on Incorporated and subsidiaries as of December 29, 2001, and December 30, 2000, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 10 to the financial statements, effective December 31, 2000, Snap-on Incorporated changed its method of accounting for derivatives.

As explained in Note 11 to the financial statements, effective January 2, 2000, Snap-on Incorporated changed its method of accounting for pensions.

/s/ Arthur Andersen LLP
Arthur Andersen LLP
Chicago, Illinois
January 29, 2002

Directors and Corporate Organizations

BOARD OF DIRECTORS

DALE F. ELLIOTT [a,* e]
Chairman of the Board, President
and Chief Executive Officer
Snap-on Incorporated
Director since 2001

BRUCE S. CHELBERG [a, b, c*]
Retired Chairman of the Board
and Chief Executive Officer

Whitman Corporation
Director since 1993

ROXANNE J. DECYK [a, c, d*]
Senior Vice President - Corporate
Affairs and Human Resources
Shell Oil Company
Director since 1993

JOHN F. FIEDLER
Retired Chairman of the Board
and Chief Executive Officer

BorgWarner Inc.

Director since 2004

LEONARD A. HADLEY [b, e]
Retired Chairman of the Board,
President and Chief Executive Officer
Maytag Corporation
Director since 1997

ARTHUR L. KELLY [a, d, e*]
Managing Partner
KEL Enterprises L.P.

Director since 1978

W. DUDLEY LEHMAN [d]
Group President - Business to Business
Kimberly-Clark Corporation
Director since 2003

JACK D. MICHAELS [c, d]
Chairman of the Board
and Chief Executive Officer

HON INDUSTRIES

Director since 1998

LARS NYBERG [b, d]
Chairman of the Board
NCR Corporation
Director since 2002

FRANK S. PTAK [a, e]
Vice Chairman
Illinois Tool Works Inc.
Director since 2000

EDWARD H. RENSI [c, e]
Owner and Chief Executive Officer
Team Rensi Motorsports, and
Retired President and Chief Executive Officer
of McDonald's U.S.A.
Director since 1992

RICHARD F. TEERLINK [a, b*, c]
Retired Chairman of the Board
and Chief Executive Officer
Harley-Davidson, Inc.
Director since 1997

BOARD COMMITTEES:

a: Executive Committee
b: Audit Committee
c: Organization and Executive Compensation Committee
d: Corporate Governance and Nominating Committee
e: Finance Committee

* Denotes Chair

CORPORATE MANAGEMENT

DALE F. ELLIOTT
Chairman of the Board, President
and Chief Executive Officer +

ALAN T. BILAND
Vice President - Chief Information Officer and
President - Diagnostics and Information
Group +

SHARON M. BRADY
Vice President and
Chief Human Resources Officer +

JEFFREY N. EGGERT
Vice President - Snap-on Tools Operations +

MARTIN M. ELLEN
Senior Vice President - Finance
and Chief Financial Officer +

CONSTANCE R. JOHNSEN
Vice President and
Controller +

JOHN A. KIELICH
Vice President - Planning and
Snap-on Business Process

SUSAN F. MARRINAN
Vice President, Secretary
and Chief Legal Officer +

BLAINE A. METZGER
Vice President - Finance and Treasurer +

MICHAEL F. MONTEMURRO
Senior Vice President and President -
Worldwide Snap-on Dealer Group +

WILLIAM H. PFUND
Vice President - Investor Relations

NICHOLAS T. PINCHUK
Senior Vice President and President -
Worldwide Commercial and Industrial Group +

OPERATING MANAGEMENT

DONALD E. BROMAN
Vice President and General Manager -
Worldwide Industrial Sales

OH KEH CHAI
President - Asia-Pacific

DAVID E. COX, JR
Vice President - North American
Technical Sales

C. JOHN CREECH

DAVID R. ELLINGEN
President and Chief Executive Officer -
Mitchell Repair Information Company LLC

RAMON IRIONDO
President - Eurotools Group

THOMAS L. KASSOUF
President - Worldwide Equipment

JEAN-PIERRE LEVREY

MARK S. PEZZONI
President - Specialty Products

GERALD E. SEEBECK
President - Power Tools

GIULIANO SPAGGIARI
Vice President - Equipment Europe

WILLIAM J. TOBIAS

President - Snap-on Tools Japan

President - Bahco Group

NICHOLAS L. LOFFREDO
Vice President - Sales,
Worldwide Dealer Group

General Manager - EquiServ

THOMAS J. WARD
President - Diagnostics

+ Denotes Executive Officer

Exhibit (21)

SUBSIDIARIES OF THE CORPORATION
As of January 3, 2004

Name	State or other jurisdiction of organization
IDSC Holdings, Inc.	Wisconsin
Mitchell Repair Information Company, LLC	Delaware
SB Tools S.a.r.l	Luxembourg
Snap-on Global Holdings, Inc.	Delaware
Snap-on Holdings AB	Sweden
Snap-on Technologies, Inc.	Illinois
Snap-on Tools Company LLC	Delaware
Snap-on Tools International, Ltd.	Delaware

Exhibit (23)a

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the previously filed Registration Statement Nos. 2-53663, 2-53578, 33-7471, 33-22417, 33-37924, 33-39660, 33-57898, 33-55607, 33-58939, 33-58943, 333-14769, 333-21277, 333-21285, 333-41359 and 333-62098 of Snap-on Incorporated of our report dated February 3, 2004, (except for paragraphs 7 and 8 of Note 17, to which the date is March 12, 2004) (which expresses an unqualified opinion and includes explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets", revision of prior-period financial statements for the transitional disclosures required upon the adoption of SFAS No. 142 and the change in presentation of its reportable segments), incorporated by reference in the Annual Report on Form 10-K of Snap-on Incorporated for the year ended January 3, 2004.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
March 12, 2004

Exhibit (23)b

INFORMATION REGARDING CONSENT OF ARTHUR ANDERSEN

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

Snap-on Incorporated dismissed Arthur Andersen LLP ("Andersen") as its independent auditors effective June 14, 2002. For additional information, see Snap-on's Current Report on Form 8-K dated June 21, 2002. After reasonable efforts, Snap-on has been unable to obtain Andersen's written consent to the incorporation by reference into Snap-on's registration statements (Registration Statement File Nos. 2-53663, 2-53578, 33-7471, 33-22417, 33-37924, 33-39660, 33-57898, 33-55607, 33-58939, 33-58943, 333-14769, 333-21277, 333-21285, 333-41359 and 333-62098) and the related prospectuses (the "Registration Statements") of Andersen's audit reports with respect to Snap-on's consolidated financial statements as of December 29, 2001 and for the two years in the period then ended where such incorporation is by virtue of Snap-on including such report in this Annual Report on Form 10-K. Under these circumstances, Rule 437a under the Securities Act permits Snap-on to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in Snap-on's securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein where such liability would otherwise arise by virtue of Snap-on including such report in this Annual Report on Form 10-K. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act based on such circumstances.

EXHIBIT 31.1

CERTIFICATION

I, Dale F. Elliott, Chief Executive Officer of Snap-on Incorporated, certify that:

1. I have reviewed this annual report on Form 10-K of Snap-on Incorporated;

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;

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: March 16, 2004

/s/ Dale F. Elliott
Dale F. Elliott
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Martin M. Ellen, Principal Financial Officer of Snap-on Incorporated, certify that:

1. I have reviewed this annual report on Form 10-K of Snap-on Incorporated;

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;

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: March 16, 2004

/s/ Martin M. Ellen
Martin M. Ellen
Principal Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer 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 of Snap-on Incorporated (the “Company”) on Form 10-K for the period ending January 3, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Dale F. Elliott as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, 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 the Company.

/s/ Dale F. Elliott
Dale F. Elliott
Chief Executive Officer

March 16, 2004

A signed original of this written statement required by Section 906 has been provided to Snap-on Incorporated and will be retained by Snap-on Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification of Principal Financial Officer 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 of Snap-on Incorporated (the "Company") on Form 10-K for the period ending January 3, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Martin M. Ellen as Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, 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 the Company.

/s/ Martin M. Ellen
Martin M. Ellen
Principal
Financial Officer

March 16, 2004

A signed original of this written statement required by Section 906 has been provided to Snap-on Incorporated and will be retained by Snap-on Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.