

2000 Annual Report



EMERSON

Emerson is organized into five business segments, comprising a number of customer-focused platforms to reach and serve the Company's end markets. Each platform is designed to encompass and leverage Emerson's distinctive capabilities including technology leadership, global reach, product and services breadth, leading brands and customer relationships. As described to the right, each will more formally and efficiently represent and project these capabilities to the customer.

We bring together technology and engineering to create solutions...


Emerson has launched a new brand strategy to better reflect its business today.

The new logo represents Emerson's unique ability to bring technology and engineering together to create world-class solutions. The double helix also symbolizes Emerson divisions working together, leveraging combined resources to better support customers.

The symbol also creates an abstract "E," retaining the proud history of the Company's identity and celebrating over a century of Emerson technology supporting a world in action.



EMERSON



► **Electronics and Telecommunications**, through Emerson Network Power, delivers comprehensive solutions for highly reliable power. Offerings include AC UPS systems, DC power systems, precision air-conditioning systems, embedded power supplies, transfer switches and site monitoring systems and services for the fast-growing communications and Internet infrastructure markets. Additionally, fiber-optic conduit and connectivity products support the global expansion of broadband communications. Key drivers include the rapid build-out of wireless, broadband and other data and voice services, and the increasing need for dependable backup power to support the utility grid.

for the benefit of our customers...


▼ **Emerson Heating, Ventilating and Air Conditioning** offers compressors, thermostats, temperature controls, hermetic terminals and valves for HVAC and refrigeration systems. A key driver of this business is the Copeland Scroll compressor, a revolutionary technology that is more energy efficient, reliable and quiet than competing traditional technologies. Scroll also has created entirely new compression markets outside of HVAC, such as microturbine gas boosters for distributed power generation.




**driven
without
compromise...**



► **Emerson Industrial Automation**




provides integral horsepower motors, alternators, electronic and mechanical drives, industrial valves, electrical equipment, specialty heating, lighting, testing and ultrasonic welding and cleaning products for industrial applications. Key growth drivers for the segment include the embedding of electronics into motors and other equipment to enable self-diagnosis and preventive maintenance functionality, as well as alternators for diesel and natural gas generator sets to create reliable distributed power solutions.



◀ **Appliance and Tools** includes the Emerson Storage Solutions, Emerson Tools, Emerson Appliance Solutions, and Emerson Motors brand platforms. Customer offerings feature an extensive range of consumer, commercial and industrial storage products; market-leading tools; electrical components and systems for appliances; and the world's largest offering of fractional horsepower motors. Key growth drivers include professional-grade tools serving the fast-growing home center market, as well as advanced electrical motors, which create entirely new market opportunities for Emerson.

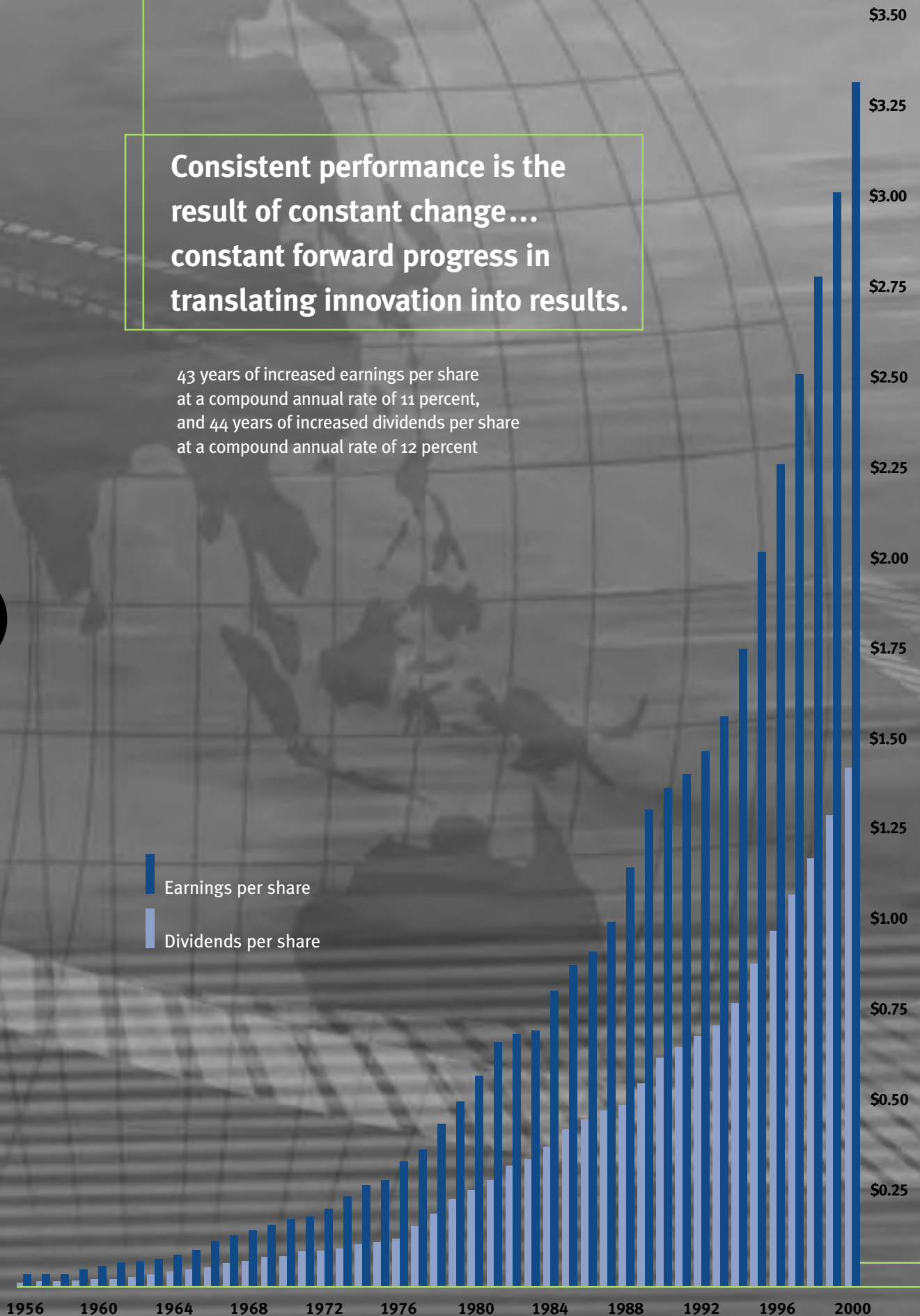
for a world in action.



◀ **Emerson Process Automation** offers control systems and software; analytical instrumentation; measurement devices; and valves and other control equipment for customers in oil and gas, chemical, power, water and wastewater, food and beverage, pharmaceutical and other industries. Key growth drivers include Emerson's innovative PlantWeb technology, which redefines plant architecture, and new solution and service opportunities created by Emerson's unique ability to apply its technology to specific customer needs.

**Consistent performance is the
result of constant change...
constant forward progress in
translating innovation into results.**

43 years of increased earnings per share
at a compound annual rate of 11 percent,
and 44 years of increased dividends per share
at a compound annual rate of 12 percent



Five-Year Performance

Years ended September 30 (Dollars in millions, except per share amounts)

	1995	2000	5-Year CAGR
Sales	\$10,013	\$15,545	9%
Operating Profit	1,599	2,541	10%
Percent of Sales	16.0%	16.3%	
Net Earnings	908	1,422	9%
Earnings Per Share	2.01	3.30	10%
Earnings Per Share Excluding Goodwill	2.14	3.63	11%
Dividends Per Share	0.89	1.43	10%
Operating Cash Flow	1,142	1,840	10%
Return on Total Capital	16.4%	16.1%	
Return on Equity	19.7%	22.6%	

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One-Year Performance

Years ended September 30 (Dollars in millions, except per share amounts)

	1999	2000	Percent Increase
Sales	\$14,270	\$15,545	9%
Operating Profit	2,306	2,541	10%
Percent of Sales	16.2%	16.3%	
Net Earnings	1,314	1,422	8%
Earnings Per Share	3.00	3.30	10%
Earnings Per Share Excluding Goodwill	3.27	3.63	11%
Dividends Per Share	1.30	1.43	10%
Operating Cash Flow	1,811	1,840	2%
Return on Total Capital	16.4%	16.1%	
Return on Equity	21.9%	22.6%	

Dear Investors and Employees

This is an exciting time for Emerson.

Through repositioning, we have strengthened our leadership in the fast-growing market for network power. We have continued to realize success in our major growth initiatives that now account for more than half of our revenues, including increasing sales in developing international markets, and expanding solutions and services for our customers. As a result, we have accelerated the Company's underlying growth rate to within our target range, reaching over 7 percent in 2000 – the highest level since fiscal 1995 – and we have momentum as we enter 2001.

We have reached new milestones of operational excellence, and we are utilizing Internet technologies to make our businesses even more efficient. We are introducing a new company logo. And for the third time in only 45 years, the Board of Directors, as part of a planned succession process, has elected a new chief executive officer.

Further, in fiscal 2000, we marked Emerson's 43rd consecutive year of increased earnings and earnings per share and 44th consecutive year of increased dividends per share. We all can be immensely proud of this record of performance, as it has enabled Emerson to deliver consistently strong, long-term total returns to stockholders – approximately 16 percent compound annual growth, whether the horizon is five, 10, 15, or 20 years.

Emerson's ability to deliver consistent performance is derived from the Company's management process. This process is not a rigid document that hangs on walls or resides in manuals. Rather, it is a reflection of our people and their ability to understand and capitalize on changes in market conditions and new technologies. It has been the efforts of people across the organization, working within the management process, that have enabled Emerson to create the opportunities we have today.

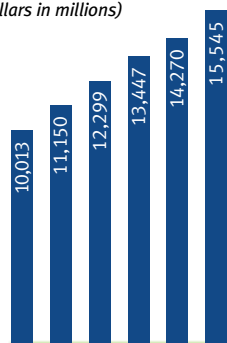


C.F. Knight
Chairman

D.N. Farr
Chief Executive Officer

Sales

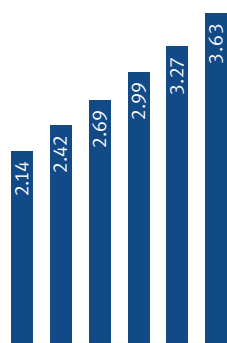
(Dollars in millions)



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Five-year compound annual growth rate of 9 percent.

Earnings Per Share Excluding Goodwill

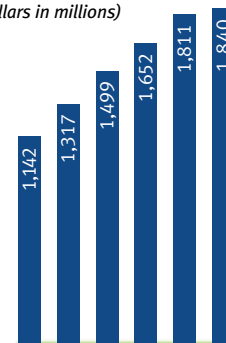


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Five-year compound annual growth rate of 11 percent.

Operating Cash Flow

(Dollars in millions)



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Five-year compound annual growth rate of 10 percent.

Repositioning into Faster-Growth Markets

Our acquisition and divestiture strategy has been focused on enhancing the Company's underlying sales growth. In recent years, we accelerated this strategy, investing \$2.5 billion in companies focused on the fast-growth markets for network power to support the communications industry and buildout of the Internet infrastructure.

With the addition this year of Emerson Telecommunications Products and Emerson Energy Systems, we added over \$1 billion in annualized sales to our core network power capabilities, making Emerson the global leader in highly reliable power systems. Emerson alone provides complete solutions to customers' reliable power needs, from inbound power to connectivity solutions to engineering and service support. Network Power represented over \$3.7 billion in pro forma annual sales in 2000, making it Emerson's largest business at 25 percent of our total, double what it was only two years ago.

In addition to fast-growth acquisitions, we have divested slower-growth operations with combined sales of more than \$1 billion. We will continue to make selected divestitures, but we do not anticipate a major shift in our business mix.

Network Power represented over \$3.7 billion in pro forma annual sales in 2000, making it Emerson's largest business at 25 percent of our total, double what it was only two years ago.

Major Growth Initiatives, Driven by Technology Leadership

Along with strategic acquisitions and divestitures, a key component of accelerating Emerson's underlying growth rate has been an emphasis on programs that leverage our technology leadership, global reach, brand strength, and other unique characteristics. Programs born of this activity started six years ago and have reached levels of success and scale that significantly impact the entire Company's performance:

- In fiscal 2000, we opened our ninth Copeland Scroll compressor plant, this one in Suzhou, China, to meet the growing demand for this technology in Asian markets. We now can produce over five million scroll compressors annually, making us far and away the market leader for this technology. Scroll sales approached \$800 million in 2000, representing a 22 percent compound annual growth rate over the past five years.

- PlantWeb is being selected by an increasing number of large, global customers for their most demanding applications. Emerson's investment in this area has uniquely

positioned us to lead the transition of the process automation world to a field-based architecture that leverages intelligent devices with new industry-standard communications technology, an inflection point that will dramatically improve the efficiency of customers' operations. Sales in this area grew over 30 percent in 2000.

■ Emerson's service and solutions business, which reached \$1.8 billion in 2000, continues to develop scale. Growth in this area is based on our technology leadership in process control, network power, HVAC, and other areas; targeted investments to strengthen our engineering and consulting capability; and development of industry centers of excellence to deliver solutions for these markets.

Our remaining initiatives – products and services for the distributed power market; advanced motor technology for new markets; growth in developing regions; storage solutions for consumer, commercial, and industrial applications; and a tool partnership with The Home Depot – have realized similar success. In total, these initiatives continue to grow at strong rates.

Technology is fundamental to our growth efforts, and we have continued to increase our investment in Engineering & Development, particularly in the areas of communications, software, and electronics. E&D investment has increased every year since 1973, reaching nearly \$600 million in 2000.

We are taking operational excellence to new levels, with added focus on capital efficiency as well as productivity opportunities associated with e-business.

Building on Operational Excellence

The foundation of the Emerson management process has been our commitment to planning and our ability to execute those plans. We have long had a strong profit planning process that has given Emerson a cost advantage relative to our competitors. Today we are taking operational excellence to new levels, with added focus on capital efficiency as well as productivity opportunities associated with e-business.

J.G. Berges
President

C.A. Peters
Senior Executive Vice
President

W.J. Galvin
Executive Vice President
and Chief Financial Officer



In the area of working capital, we have deployed lean manufacturing principles to reduce inventory and free up facilities. More than 1,000 people have completed lean training, and we now have over 150 plants actively engaged in this effort.

Relative to fixed capital, we are optimizing assets by outsourcing production where we can identify a more efficient supplier. While Emerson's Return on Total Capital is down slightly from recent highs due to the impact of major acquisitions, the 16.1 percent in 2000 is excellent relative to both our competitors and other industries. More important, we see opportunities to raise this metric to even higher levels.

We have spent a great deal of time evaluating Emerson's business models and how Internet-based technologies can be best utilized to improve them. E-business offers many opportunities to be more connected and efficient, both externally with customers and suppliers as well as internally, and programs are under way throughout the Company to realize these benefits.

We also are implementing common standards across the Company to align our data and networks, utilizing exciting applications such as companywide customer data warehouses to better understand our total interaction with customers.

Our Materials Information Network has been completed after three years of intense effort, and we now have the ability in a single database to evaluate all materials we purchase. This allows us to examine suppliers and components item by item and to aggregate our purchases with key suppliers who are willing to make long-term strategic commitments on our behalf. This knowledge also enables our engineers to leverage cost opportunities associated with the design of new products.



The new brand... reflects Emerson's continued progression and leadership in developing technology-driven solutions.

Brand and Marketing Initiatives

We dedicated the past year to evaluating the brand identity of the Company and its divisions through the eyes of our customers and employees worldwide.

Excellence. Being connected. Commitment. Forward looking.

Performance. Customer focused. These are the words that define Emerson today, a company at the forefront of technology and one of the world's best-managed organizations.

We are adopting "Emerson" as our name and introducing our first new brand image in more than 30 years. The new logo and brand architecture capture the energy and vision of the Company's future. The new brand does not signify a change in direction, but serves as a reflection of Emerson's continued progression and leadership in developing technology-driven solutions. Over the coming months, we will launch new brand platforms under this identity, focused on specific competencies such as Emerson Network Power.

Company Leadership

One of the most significant responsibilities of any board and chief executive is developing a process to identify new leadership to drive the Company forward. Emerson's board worked diligently in this area over the past four years, recently completing a seamless transition to an exceptional new leadership team.

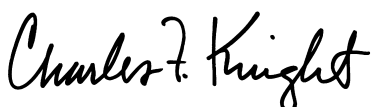
In October, David N. Farr was elected by the board to serve as the new chief executive officer, only our third CEO in 45 years. In addition, James G. Berges, president; Walter J. Galvin, executive vice president and chief financial officer; and Charles A. Peters, senior executive vice president and e-business leader, were named to a newly created Office of the Chief Executive. David, Jim, Walter, and Charlie will serve as the Company's executive leadership team, and each is also now a board member. These individuals, along with the six most senior operating executives, average less than 50 years of age and have a total of 216 years of experience with Emerson. Each has a unique set of skills and experience that will help ensure our ability to deliver value for our stockholders.

Charles F. Knight, who served as chief executive officer since 1973, will continue to serve as chairman, providing counsel to this new team.

We also recognize the substantial contributions made by two departing executives. Robert W. Staley retired in February after 25 years as a senior executive in a number of vital capacities at Emerson, including chairman of Asia-Pacific. In November, Albert E. Suter, chief administrative officer, retired from the board. In more than 21 years in senior management, he has been particularly instrumental in the development of our profit planning process. These outstanding executives have served Emerson stockholders well over many years, and we wish them every good fortune.

I have been privileged to serve as CEO of Emerson over the past 27 years. Our success during this period has been the result of the outstanding efforts of our directors, managers, and tens of thousands of individuals whose dedication has made Emerson the truly great Company it is today. I am deeply thankful for all they have done, and I look forward to continuing to work with David and his team as they lead the organization to new achievements.

While we hope this letter communicates the extraordinary level of activity within Emerson, we also hope it conveys just how much opportunity lies ahead. Emerson is as well-positioned for continued growth and success as it has ever been. We are poised to capitalize on these opportunities, to the benefit of our employees and stockholders, in the coming years.



Charles F. Knight
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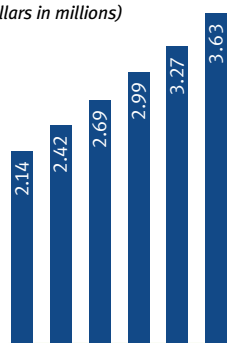


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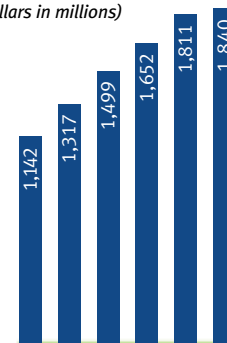


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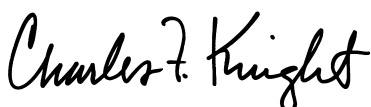
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Charles F. Knight
Chairman



David N. Farr
Chief Executive Officer

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Providing Reliable



Network Power

The global proliferation of wireless, wireline and broadband technology is reshaping communications and commerce. Highly reliable power is the engine behind this new 24x7 networked economy. Billions of dollars are invested each year in reliable power solutions because seconds of downtime can mean customers lost forever. Having anticipated this growth opportunity, Emerson is uniquely positioned in this space, leveraging its historical core capabilities with strategic acquisitions to create world-leading reliable power solutions for customers such as Intira.



Powering Communications Networks for Telefonica Peru

Protecting Grid to Chip

For telecom providers, Web-hosting centers and Internet-based firms, uninterrupted service is not just an ideal, it is the entry point for doing business. From inbound power products to uninterruptible power systems to embedded power supplies that run the data and transmission equipment to the connectivity products that complete the network, Emerson delivers end-to-end solutions to meet the needs of the networked economy today, and satisfy its potential tomorrow.

Enabling Fiber-Optic Deployment for McLeod



To better focus on its core telecommunications business, Telefonica in Peru relies on Emerson to manage its entire network power infrastructure to support this region. Emerson maintains over 2,000 individual sites, with services ranging from utility power procurement to new equipment deployment to ongoing maintenance and repair.

Underpinning the networked economy is a connectivity infrastructure to enable and ensure reliable data and voice transfer every step of the way. Emerson's fiber-optic conduit, such as that used by McLeod in Denver, Colorado, provides customers a high-quality environment for their networks, delivered when and where needed to support rapid deployment.

Delivering Innovative Cus



tomor Solutions

Efficiency, predictability and control are key challenges for companies processing a wide range of products for everyday life, among them oil and gas, chemicals, pharmaceuticals, and food and beverages. These are complex operations demanding complex solutions, and companies in these industries seek partners who can provide tailored applications to meet specific challenges. Emerson delivers these solutions through a combination of advanced technology, engineering and industry know-how to apply the technology, and comprehensive ongoing service to support such applications as offshore production platforms for Shell and others.



Emerson's PlantWeb process automation technology, which combines the leading-edge DeltaV control system with intelligent field devices and innovative software, enables customers to realize new levels of efficiency in their operations. An ARCO/PetroEcuador joint venture harnessed this technology to increase daily transport of oil through a 498-kilometer pipeline by over 11 percent.



Transporting 390,000 Barrels of Oil a Day for ARCO/PetroEcuador

Leveraging Companywide Strengths

From valves that predict their own maintenance needs to PlantWeb architecture that runs entire operations with advanced software constantly seeking to optimize output, Emerson provides the infrastructure and solutions to transform a process automation application from the costly and complex to the efficient and simple. Emerson's unmatched capability to couple superior products with exceptional engineering and services has redefined the process market and the standard by which its suppliers are measured.

Tapping Undersea Oil and Gas Reserves for ExxonMobil



When ExxonMobil needed leading-edge process automation technology, and the engineering and project management capability to apply this technology for an offshore extraction and processing project near Angola, it turned to Emerson. By managing the complete implementation, Emerson is ensuring an optimal solution, at a faster pace than would be possible with multiple suppliers.

NEW COPELAND PLANT IN CHINA WILL PROVIDE A HALF MILLION SCROLL COMPRESSORS PER YEAR

Creating Powerful Enabling



Technology

There is an enormous global appetite for new technologies that can both raise the bar beyond existing expectations and create entirely new capabilities. This appetite exists even in those regions where older technology has not yet become established. Whether the result is faster, better, more economical or more reliable, new technology creates heightened value for the customer, generating tremendous rewards for those who deliver. Emerson's technology investment, nearly \$600 million in fiscal 2000, creates multiple avenues for capitalizing on these opportunities, including the introduction of scroll compressors into Southeast Asia.

Creating Global Markets

From the electrification of vehicle steering, braking and drive systems to electronic sensors that recognize when a critical mechanical component is nearing the end of its life cycle and automatically call for service, Emerson innovations are creating entirely new growth opportunities. The Company's sustained investment in engineering and development will continue to produce such achievements. In fiscal 2000, these investments enabled new products to reach 36 percent of total sales.

Ensuring Reliable Power Generation for Exodus



Web-hosting centers, such as an Exodus site in San Francisco, require sophisticated on-site power systems to ensure 24x7 operation, particularly when faced with an unstable electricity supply, such as periods of foul weather or peak demand. Emerson's alternators for generator sets and transfer switches that shift from the grid to local power generation form the foundation of these highly reliable systems.





Driving Next-Generation Vehicles for Peugeot



Emerson's advanced motor technology opens up entirely new opportunities for growth, including displacement of existing older technologies in major global markets. Working with electric and hybrid vehicle manufacturers, such as Peugeot in France, Emerson is creating advanced drive systems to enable and commercialize more efficient and environmentally friendly transportation.

Contributing to Customer



Success

Companies that are able to uniquely align with customers create value that extends well beyond the product or service being delivered. The ability to provide special capabilities, such as brand strength, engineering expertise, or proprietary technology, helps form exceptional relationships. As bonds become widely and deeply established, they create the potential for sustainable market leadership and greater benefit for each party. Emerson continues to build distinct relationships based on these capabilities with industry leaders worldwide, including a tool brand partnership with The Home Depot.

For A World In Action

From virtual marketing organizations that provide Emerson's complete appliance industry offering via one point of contact to on-site merchandising experts who assist tool retailers in optimizing their product offering for maximum sell-through, Emerson continuously finds new ways to deliver increased value. Leveraging its new brand architecture, the Company will continue to enhance its relationships and provide distinct new benefits for ever-changing customer needs.

Providing Storage Solutions for Quality-Conscious Consumers



Emerson provides a complete selection of storage solutions for applications ranging from home closets to healthcare facilities to contractor job sites. The Company's unparalleled product breadth and reputation for quality make Emerson the go-to source for discerning customers, from professionals to the do-it-yourself market.

For generations, appliance innovations have made daily living more efficient and more pleasant. Emerson has long played a key role in these advancements. Working side by side with industry leaders, the Company's innovation is embedded in such high-technology appliances as Maytag's new Accellis™ 5X Range. Emerson will continue to identify and support new opportunities, such as development of the Internet-wired home.



Applying Engineering and Innovation for Maytag

Unleashing Untapped





Efficiencies

As the dust continues to settle, it is becoming increasingly clear that e-business opportunities are best captured by companies that can combine global presence, brand leadership, customer relationships, and other established strengths with the latest in Internet-enabling technologies. Emerson embodies this tenet, and is garnering widespread recognition in the process. Across the Company, Emerson is streamlining its supply chain, strengthening customer bonds, finding more efficient sourcing models, building innovative ways to improve productivity, and seizing new product and channel opportunities.

Financial Review

Emerson achieved another record year in 2000, which represented the Company's 43rd consecutive year of increased earnings and earnings per share, and the 44th consecutive year of increased dividends per share.

Results of Operations

Net Sales

Sales for 2000 were a record \$15.5 billion, an increase of \$1,275 million, or 8.9 percent, from 1999. The strong sales growth was driven by robust demand for network power and connectivity products and services, the continued success of other major growth initiatives, and the contribution of acquisitions. This growth was achieved despite divestitures, and the impact of a stronger U.S. dollar that reduced reported sales by more than 2 percent. Underlying sales grew over 7 percent excluding acquisitions, divestitures and currency exchange. All businesses reported sales increases. U.S. sales increased approximately \$1,094 million, or 13 percent, while international sales increased approximately \$181 million, or 3 percent. Underlying sales growth was led by robust demand in the Electronics and Telecommunications business worldwide, while the Heating, Ventilating and Air Conditioning (HVAC) business achieved a very strong performance internationally. New product sales, from products introduced in the past five years, increased approximately \$614 million, to a record \$5.6 billion, representing 36 percent of sales, a 10 point increase in the past five years. The Company continued to reposition into faster-growth markets, divesting three slower-growth operations with combined sales of approximately \$600 million, and acquiring three strategic businesses. Acquisitions completed throughout 2000 had annualized sales of over \$1 billion.

In 1999, sales were \$14.3 billion, up \$822 million, or 6.1 percent, from 1998. The solid sales increase reflected modest underlying sales growth and the contribution of acquisitions. All businesses reported sales increases. U.S. sales increased approximately \$455 million, or 6 percent, while international sales increased approximately \$368 million, or 7 percent. Underlying sales growth was led by strong growth in both the HVAC business and the Electronics and Telecommunications business. New product sales, from products introduced in the past five years, increased approximately \$570 million, or 13 percent, to \$5.0 billion, representing 35 percent of sales.

International Sales

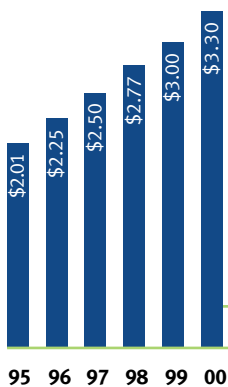
International sales, including U.S. exports, increased over 3 percent to a record \$5.9 billion in 2000, representing 38 percent of the Company's total sales. U.S. exports increased 9 percent to \$1.0 billion. Sales by non-U.S. subsidiaries were \$5.0 billion in 2000, up 3 percent from 1999. International subsidiary sales increased 8 percent excluding acquisitions, divestitures and the unfavorable impact of currency translation of approximately \$320 million. Strong growth in Canada, Asia and Latin America and moderate growth in Europe was dampened by the impact of currency exchange.

In 1999, international sales increased approximately 7 percent to \$5.7 billion, representing 40 percent of the Company's total sales. Underlying growth in Europe, Asia and other regions more than offset the impact of weakness in Latin America. Sales by non-U.S. subsidiaries were \$4.8 billion in 1999, up 9 percent from 1998. U.S. exports decreased 1 percent to \$960 million, primarily reflecting weakness in Latin America and Japan. International subsidiary sales increased approximately 2 percent excluding acquisitions and divestitures.

Business Segment Sales – 2000 vs. 1999

The Process Control business achieved a 5 percent sales increase to \$3.0 billion in 2000. This increase was driven by the Daniel Industries, Inc. acquisition and customers embracing PlantWeb technology, partially offset by difficult market conditions, particularly in Asia and Europe, and the impact of currency exchange. Underlying sales for the year decreased slightly but turned positive in the fourth quarter, the first organic sales improvement since the process markets began to cycle down in 1998. Project quotation activity has improved for several months, which provides confidence that the recent market improvement can continue. Sales of the Industrial Automation business were \$3.4 billion in 2000, up 4 percent, negatively impacted by the stronger U.S. dollar. Solid underlying improvement in Europe and other

Earnings Per Share



Diluted earnings per share increased 10 percent, representing the Company's 43rd consecutive year of increased earnings per share.

international regions, the late-1999 acquisitions of Kato and MagneTek's alternator operations, and stabilization in U.S. capital goods markets drove the improvement. These results exclude the impact of the F.G. Wilson and Krautkramer divestitures.

The Electronics and Telecommunications business achieved outstanding performance, with sales increasing 65 percent, to \$3.3 billion. The increase was the result of underlying growth of nearly 30 percent, reflecting strong worldwide demand for reliable power and networking products, and two strategic acquisitions in 2000 - Jordan Telecommunication Products, Inc. and Ericsson Energy Systems. All product and service areas increased sharply, with particular strength in large UPS and precision air conditioning systems for web-hosting centers, and DC/DC embedded modules for applications such as next-generation routers and telecom switching. Entering fiscal 2001, these operations will represent the Company's largest segment.

Sales of the HVAC business were \$2.5 billion in 2000, a 5 percent increase from 1999, dampened slightly by unfavorable currency exchange. Europe, Asia and Latin America all achieved very strong underlying sales growth, primarily due to improved market conditions and continued penetration of Copeland's scroll compressor technology. The Appliance and Tools business sales rose 7 percent to \$3.4 billion, driven by very strong underlying growth in the tools operations. These results exclude the impact of the Vermont American divestiture. Tools sales through the rapidly growing home centers channel increased in 2000, particularly the successful relationship with The Home Depot, which capitalizes on the RIDGID-branded line of professional quality tools. Underlying appliance-related sales were relatively flat for the year, due in part to distribution issues faced by some key customers.

Business Segment Sales – 1999 vs. 1998

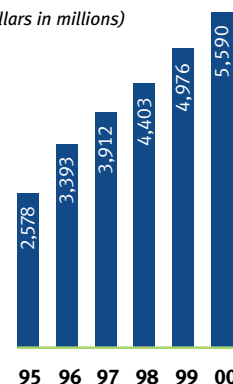
The Process Control business increased sales 7 percent to \$2.9 billion in 1999. This solid sales increase was driven by the strong growth of the PlantWeb initiative, and the Westinghouse Process Control and Daniel Industries acquisitions. Underlying sales decreased, reflecting the impact of weak oil prices on U.S. and Asian demand for process-related equipment, which more than offset modest growth in Europe. Sales of the Industrial Automation business were \$3.3 billion in 1999. Despite widespread softness in end markets, the Industrial Automation business realized a small increase in sales due to the contribution of acquisitions. The global weakness in capital spending, largely due to weak oil pricing earlier in 1999, has had a substantial impact on this business. These results exclude the impact of the F.G. Wilson and Krautkramer divestitures.

The Electronics and Telecommunications business increased sales 35 percent to \$2.0 billion in 1999. This outstanding performance, particularly in the United States and Europe, was achieved due to rapid growth in power protection and environmental equipment, as well as in the service business that monitors and maintains this equipment. This business also benefited from a significant recovery in the market for power supply products, driven by recovery in Asia and robust growth in the computing and telecommunications infrastructure. The increase in the Electronics and Telecommunications business sales was also aided by the 1998 acquisitions of Nortel's Advanced Power Systems operations and Hiross environmental systems in Europe.

Sales of the HVAC business were \$2.4 billion in 1999, an increase of 11 percent from 1998. Underlying sales of the HVAC business increased substantially, driven by a dramatic recovery in residential and light commercial construction in China, a warm summer in the United States, and continued market adoption of scroll technology. Sales of the Appliance and Tools business were \$3.1 billion in 1999, compared with \$3.0 billion in 1998. Underlying sales of the Appliance and Tools business grew slightly, with the results varying by geography and product area. In the United States, strong construction activity drove growth in several consumer-related areas, while European sales declined due to weakness in appliance products. These results exclude the impact of the Vermont American divestiture. During 1999, this business also made substantial gains in home centers, such as The Home Depot and Lowe's, which are experiencing dramatic growth. Also in 1999, the Company contributed its Louisville Ladder operations into a joint venture with Group Imsa SA of Mexico and obtained an equity interest in the venture.

New Product Sales

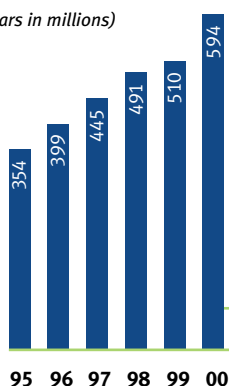
(Dollars in millions)



Sales of new products increased 12 percent in 2000 and represented 36 percent of sales.

Engineering & Development Investment

(Dollars in millions)



Emerson's commitment to technology is reflected in its increasing investment in engineering and development.

Total Costs and Expenses

Cost of sales for 2000 was \$10.0 billion, an increase of 8.9 percent, due primarily to increased sales volume. In 1999, cost of sales was \$9.2 billion, compared with \$8.6 billion in 1998, an increase of 7.0 percent. Cost of sales as a percent of net sales was 64.4 percent in 2000 and 1999, and 63.9 percent in 1998. Gross profit margins have remained at high levels as a result of the Company's ongoing commitment to cost reduction and containment efforts and productivity improvement programs, offset by the effect of recent acquisitions.

Selling, general and administrative (SG&A) expenses were \$3.0 billion, \$2.8 billion and \$2.7 billion in 2000, 1999 and 1998, respectively. As a percent of net sales, SG&A expenses were 19.2 percent, 19.4 percent and 19.9 percent in 2000, 1999 and 1998, respectively. The decrease in SG&A as a percent of net sales was primarily the result of volume leverage on sales growth, partially offset by new product development and other revenue growth programs. The Company continued its commitment to technology investment by increasing engineering and development expense 16 percent to a record \$594 million in 2000, compared with \$510 million in 1999 and \$491 million in 1998.

Interest expense increased to \$288 million in 2000 from \$190 million in 1999, primarily reflecting an increase in average borrowings due to acquisitions and higher interest rates. In 1999, interest expense increased from \$152 million in 1998, reflecting higher average borrowings resulting from acquisitions and share repurchases.

Other deductions, net, including amortization of intangibles, were \$75 million in 2000, compared with \$95 million and \$100 million in 1999 and 1998, respectively. Fiscal 2000 included a gain of \$80 million from the disposition of the Company's interest in the Krautkramer non-destructive testing business and a gain of approximately \$37 million due to the disposition of the Company's interest in Vermont American. Fiscal 1999 included a gain of \$64 million from the disposition of the Company's interest in F.G. Wilson. These gains were substantially offset by other non-recurring items. See note 3 for additional information.

Income Before Income Taxes

Income before income taxes increased \$157 million, or 7.8 percent, to \$2.2 billion in 2000, reflecting a strong sales increase, programs to generate improvement in underlying margins and the negative impact of currency translation. Earnings before interest and income taxes in the Process Control business were \$274 million in 2000, a decrease from 1999, reflecting weak demand in the process markets and a stronger U.S. dollar. The Industrial Automation business earnings increased \$27 million to \$465 million in 2000, due to moderate sales growth and acquisitions, partially offset by currency exchange. Earnings of the Electronics and Telecommunications business increased \$221 million, or 95 percent, to \$454 million in 2000, due to robust sales growth and acquisitions. Earnings of the HVAC business increased \$21 million, or 6 percent, to \$382 million in 2000, driven by very strong sales growth in international markets. The Appliance and Tools business earnings increased to \$562 million, or \$17 million, in 2000, reflecting increased sales volumes in the tools operations. See note 12 for additional information by business segment and geographic area.

Income before income taxes increased \$97 million, or 5.1 percent, to \$2.0 billion in 1999, reflecting increased sales and improvement in underlying margins, partially offset by increased interest expense. The base company (excluding acquisitions and divestitures) realized an outstanding performance in 1999, increasing underlying operating margins approximately 0.5 points. This improvement was offset by the acquisition of businesses with lower margins. Earnings before interest and income taxes in the Process Control business were \$313 million in 1999, a decrease from 1998, reflecting weak demand associated with lower oil prices and higher expenditures for cost reduction efforts and productivity improvement programs. The Industrial Automation business earnings increased \$18 million to \$438 million in 1999, driven by cost containment measures that mitigated the impact of a challenging economic environment. Earnings of the Electronics and Telecommunications business increased \$92 million, or 65 percent, to \$233 million in 1999, due to strong sales growth and the acquisition of the Advanced Power Systems

business. Earnings of the HVAC business increased \$45 million, or 14 percent, to \$361 million in 1999, reflecting strong sales growth in both U.S. and international markets. The Appliance and Tools business earnings increased \$24 million to \$545 million in 1999, reflecting varying results by geography and product area.

Income Taxes

Income taxes were \$756 million, \$707 million and \$695 million in 2000, 1999 and 1998, respectively. The effective income tax rate was 34.7 percent in 2000, compared with 35.0 percent in 1999 and 36.1 percent in 1998, reflecting ongoing global tax planning strategies and the impact of acquisitions and divestitures.

Net Earnings and Return on Equity

Net earnings for 2000 were a record \$1.4 billion, up 8.3 percent from \$1.3 billion in 1999. Net earnings as a percent of sales was 9.2 percent in 2000 and 1999. Diluted earnings per common share were a record \$3.30 in 2000, up 10.0 percent from \$3.00 in 1999. Earnings per share excluding goodwill amortization, a metric that management believes is more indicative of cash operating performance, were \$3.63 in 2000, up 11.0 percent from \$3.27 in the prior year. Emerson achieved a return on average stockholders' equity of 22.6 percent in 2000 and 21.9 percent in 1999 and 1998. Net earnings for 1999 were up 6.9 percent from \$1.2 billion in 1998. Diluted earnings per common share in 1999 were up 8.3 percent from \$2.77 in 1998. Earnings per share excluding goodwill amortization in 1999 were up 9.4 percent from \$2.99 in the prior year.

Financial Position, Capital Resources and Liquidity

The Company continues to generate substantial cash from operations and remains in a strong financial position with resources available for reinvestment in existing businesses, strategic acquisitions and managing the capital structure on a short- and long-term basis.

Cash Flow

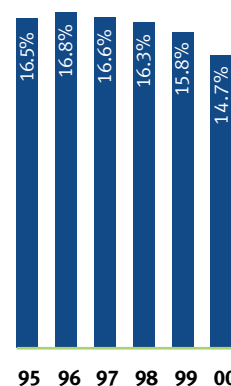
Emerson generated operating cash flow of \$1.8 billion in 2000, up 1.6 percent from the prior year. Operating cash flow in 1999 increased 9.6 percent compared with \$1.7 billion in 1998. Success with lean manufacturing efforts to decrease inventory and a program to improve the receivable collection cycle resulted in a reduction of average operating working capital as a percentage of sales, a measure of working capital efficiency. In 2000, this measure improved to 14.7 percent compared with 15.8 percent and 16.3 percent in 1999 and 1998, respectively.

The growth in cash flow was negatively impacted by divestitures, taxes paid on the related gains, and the inclusion of fast-growing acquisitions and associated working capital not included in the prior year. Underlying cash flow improved 7 percent in 2000 and can be analyzed as follows (dollars in millions):

	2000	1999	Change
Underlying cash flow	\$ 1,884.6	1,755.8	7.3 %
Acquisitions/Divestitures	(44.8)	54.7	
Total cash flow	\$ 1,839.8	1,810.5	1.6 %

Capital expenditures were \$692 million, \$592 million and \$603 million in 2000, 1999 and 1998, respectively. These expenditures increase the Company's global capacity to leverage opportunities within the heating, ventilating and air conditioning and network power and connectivity markets, as well as improve manufacturing productivity in a number of businesses. Cash paid in connection with Emerson's purchase acquisitions was \$1,972 million, \$1,202 million and \$573 million in 2000, 1999 and 1998, respectively.

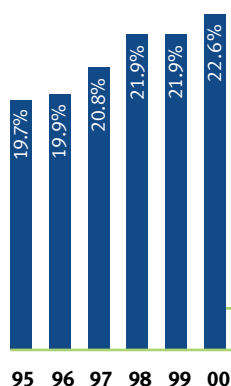
Operating Working Capital as a Percent of Sales



Average operating working capital has improved from 17 percent of sales in 1995 to 15 percent in 2000.

Dividends were a record \$613 million (\$1.43 per share, up 10 percent) in 2000, compared with \$566 million (\$1.30 per share) in 1999 and \$521 million (\$1.18 per share) in 1998. In November 2000, the Board of Directors voted to increase the quarterly cash dividend 7 percent to an annualized rate of \$1.53 per share. Success with repositioning and internal initiatives to increase underlying growth has created significant new investment opportunities, and over time, the Company intends to moderate the dividend payout ratio toward a range of 40-45 percent of prior year earnings, providing greater flexibility to pursue these opportunities. The cash dividend will continue to be supplemented with the share repurchase program. The repurchase program, initiated in fiscal 1997, authorizes the repurchase of up to 40 million shares of the Company's outstanding common stock, with nearly 30 million shares repurchased through September 30, 2000. The pace of repurchase has slowed with repositioning, and this program is anticipated to extend into 2002 or 2003. Net purchases of treasury stock totaled \$376 million and \$324 million in 2000 and 1999, respectively.

Return on Equity



Return on equity increased to 22.6 percent in 2000.

Leverage/Capitalization

Total debt increased to \$4.6 billion in 2000, from \$3.3 billion in 1999 and \$2.6 billion in 1998, reflecting the impact of acquisitions and the Company's share repurchase program. The total debt-to-capital ratio was 41.8 percent at year-end 2000, compared with 34.6 percent in 1999 and 30.8 percent in 1998. At September 30, 2000, net debt (total debt less cash and equivalents and short-term investments) was 40.2 percent of net capital, compared with 32.7 percent in 1999 and 29.0 percent in 1998. The Company's interest coverage ratio (income before income taxes and interest expense divided by interest expense) was 8.6 times in 2000, compared with 11.7 times in 1999 and 13.7 times in 1998, as a result of higher average borrowings and interest rates in 2000, partially offset by increased earnings. See notes 3, 4 and 5 for additional information.

At year-end 2000, the Company and its subsidiaries maintained lines of credit amounting to \$3 billion to support commercial paper and had available non-U.S. bank credit facilities of \$560 million to support non-U.S. operations. Lines of credit totaling \$1.5 billion are effective until 2005, with the remainder through June 2001. These lines of credit and bank credit facilities assure the availability of funds at prevailing interest rates. In addition, as of September 30, 2000, the Company could issue up to \$500 million of additional debt securities under its shelf registration with the Securities and Exchange Commission.

Financial Instruments

The Company is exposed to market risk related to changes in interest rates and European and other foreign currency exchange rates, and selectively uses derivative financial instruments, including forwards, swaps and purchased options, to manage these risks. The Company does not hold derivatives for trading purposes. The value of market risk sensitive derivative and other financial instruments is subject to change as a result of movements in market rates and prices. Sensitivity analysis is one technique used to evaluate these impacts. Based on a hypothetical ten-percent increase in interest rates or ten-percent weakening in the U.S. dollar across all currencies, the potential losses in future earnings, fair value and cash flows are immaterial. This method has limitations; for example, a weaker U.S. dollar would benefit future earnings through favorable translation of non-U.S. operating results. See notes 1, 4, 5 and 6.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement, as amended, requires the recognition of all derivatives at fair value in the balance sheet and establishes new hedge accounting rules. The adoption of the statement in 2001 is not expected to have a material effect on the Company's operating results or financial condition.

Consolidated Statements of Earnings

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions except per share amounts)

	2000	1999	1998
Net sales	\$ 15,544.8	14,269.5	13,447.2
Costs and expenses:			
Cost of sales	10,016.0	9,193.8	8,595.6
Selling, general and administrative expenses	2,987.9	2,770.2	2,676.7
Interest expense	287.6	189.7	151.7
Other deductions, net	75.0	94.9	99.7
Total costs and expenses	13,366.5	12,248.6	11,523.7
Income before income taxes	2,178.3	2,020.9	1,923.5
Income taxes	755.9	707.3	694.9
Net earnings	\$ 1,422.4	1,313.6	1,228.6
Basic earnings per common share	\$ 3.33	3.03	2.80
Diluted earnings per common share	\$ 3.30	3.00	2.77

See accompanying notes to consolidated financial statements.

Diluted earnings per common share, excluding goodwill amortization	\$ 3.63	3.27	2.99
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Consolidated Balance Sheets

Emerson Electric Co. and Subsidiaries

September 30
(Dollars in millions except per share amounts)

Assets

	2000	1999
Current assets		
Cash and equivalents	\$ 280.8	266.1
Receivables, less allowances of \$58.5 in 2000 and \$60.5 in 1999	2,705.6	2,516.3
Inventories:		
Finished products	861.8	871.5
Raw materials and work in process	1,190.9	1,049.6
Total inventories	2,052.7	1,921.1
Other current assets	443.6	420.9
Total current assets	5,482.7	5,124.4
Property, plant and equipment		
Land	174.9	216.5
Buildings	1,261.9	1,287.1
Machinery and equipment	4,558.1	4,497.2
Construction in progress	416.7	377.0
	6,411.6	6,377.8
Less accumulated depreciation	3,168.2	3,223.4
Property, plant and equipment, net	3,243.4	3,154.4
Other assets		
Goodwill, less accumulated amortization of \$852.2 in 2000 and \$714.4 in 1999	5,320.0	4,263.0
Other	1,118.2	1,081.7
Total other assets	6,438.2	5,344.7
	\$ 15,164.3	13,623.5

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	<u>2000</u>	<u>1999</u>
Current liabilities		
Short-term borrowings and current maturities of long-term debt	\$ 2,352.7	1,953.7
Accounts payable	1,210.6	1,068.8
Accrued expenses	1,390.6	1,304.8
Income taxes	264.9	263.1
Total current liabilities	<u>5,218.8</u>	<u>4,590.4</u>
Long-term debt	<u>2,247.7</u>	<u>1,317.1</u>
Other liabilities	<u>1,295.0</u>	<u>1,535.5</u>
Stockholders' equity		
Preferred stock of \$2.50 par value per share. Authorized 5,400,000 shares; issued - none	—	—
Common stock of \$.50 par value per share. Authorized 1,200,000,000 shares; issued 476,677,006 shares in 2000 and 1999	238.3	238.3
Additional paid-in capital	53.0	23.9
Retained earnings	8,612.9	7,803.7
Accumulated other nonstockholder changes in equity	(578.6)	(271.6)
	<u>8,325.6</u>	<u>7,794.3</u>
Less cost of common stock in treasury, 49,200,165 shares in 2000 and 43,632,708 shares in 1999	1,922.8	1,613.8
Total stockholders' equity	<u>6,402.8</u>	<u>6,180.5</u>
	<u>\$ 15,164.3</u>	<u>13,623.5</u>

Consolidated Statements of Stockholders' Equity

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions except per share amounts)

	2000	1999	1998
Common stock	\$ 238.3	238.3	238.3
Additional paid-in capital			
Beginning balance	23.9	27.9	3.3
Stock plans	31.5	(3.5)	(43.4)
Treasury stock issued for acquisitions and other	(2.4)	(.5)	68.0
Ending balance	53.0	23.9	27.9
Retained earnings			
Beginning balance	7,803.7	7,056.5	6,348.9
Net earnings	1,422.4	1,313.6	1,228.6
Cash dividends (per share: 2000, \$1.43; 1999, \$1.30; 1998, \$1.18)	(613.2)	(566.4)	(521.0)
Ending balance	8,612.9	7,803.7	7,056.5
Accumulated other nonstockholder changes in equity			
Beginning balance	(271.6)	(236.2)	(205.9)
Translation adjustments	(307.0)	(35.4)	(30.3)
Ending balance	(578.6)	(271.6)	(236.2)
Treasury stock			
Beginning balance	(1,613.8)	(1,283.2)	(963.9)
Acquired	(353.8)	(361.2)	(498.4)
Issued under stock plans	36.9	27.9	108.5
Issued for acquisitions and other	7.9	2.7	70.6
Ending balance	(1,922.8)	(1,613.8)	(1,283.2)
Total stockholders' equity	\$ 6,402.8	6,180.5	5,803.3
Nonstockholder changes in equity (Net earnings and Translation adjustments)	\$ 1,115.4	1,278.2	1,198.3

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions)

	2000	1999	1998
Operating activities			
Net earnings	\$ 1,422.4	1,313.6	1,228.6
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	678.5	637.5	562.5
Changes in operating working capital	(104.9)	35.7	(81.0)
Gains on divestitures, pension funding and other	(156.2)	(176.3)	(58.5)
Net cash provided by operating activities	1,839.8	1,810.5	1,651.6
Investing activities			
Capital expenditures	(692.0)	(591.6)	(602.6)
Purchases of businesses, net of cash and equivalents acquired	(1,971.8)	(1,202.0)	(572.9)
Divestitures of businesses and other, net	168.6	215.5	76.2
Net cash used in investing activities	(2,495.2)	(1,578.1)	(1,099.3)
Financing activities			
Net increase in short-term borrowings	514.6	503.5	145.4
Proceeds from long-term debt	1,197.8	470.9	452.0
Principal payments on long-term debt	(18.4)	(257.0)	(132.5)
Net purchases of treasury stock	(376.2)	(323.7)	(499.4)
Dividends paid	(613.2)	(566.4)	(521.0)
Net cash provided by (used in) financing activities	704.6	(172.7)	(555.5)
Effect of exchange rate changes on cash and equivalents	(34.5)	(3.3)	(8.2)
Increase (decrease) in cash and equivalents	14.7	56.4	(11.4)
Beginning cash and equivalents	266.1	209.7	221.1
Ending cash and equivalents	\$ 280.8	266.1	209.7
Changes in operating working capital			
Receivables	\$ (235.5)	(23.1)	(76.1)
Inventories	(167.0)	69.0	(27.7)
Other current assets	(12.8)	(12.2)	19.7
Accounts payable	194.6	(25.4)	.9
Accrued expenses	66.1	(31.5)	(2.8)
Income taxes	49.7	58.9	5.0
	\$ (104.9)	35.7	(81.0)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Emerson Electric Co. and Subsidiaries

(Dollars in millions except per share amounts)

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled affiliates. All significant intercompany transactions, profits and balances are eliminated in consolidation. Other investments of 20 to 50 percent are accounted for by the equity method. Investments of less than 20 percent are carried at cost.

Foreign Currency Translation

The functional currency of nearly all of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from the translation of financial statements are reflected as a separate component of stockholders' equity.

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. The majority of inventory values are based upon standard costs which approximate average costs, while the remainder are principally valued on a first-in, first-out basis. Standard costs are revised at the beginning of the fiscal year, and variances incurred during the year are allocated between inventories and cost of sales.

Property, Plant and Equipment

The Company records investments in land, buildings, and machinery and equipment at cost. Depreciation is computed principally using the straight-line method over estimated service lives. Service lives for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment.

Goodwill

Assets and liabilities related to business combinations accounted for as purchase transactions are recorded at their respective fair values. Goodwill is amortized on a straight-line basis to other deductions over the periods estimated to be benefited, not exceeding 40 years. Long-lived assets are reviewed for impairment whenever events and changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values.

Revenue Recognition

The Company recognizes nearly all of its revenues through the sale of manufactured products as shipped.

Financial Instruments

The net amount to be paid or received under interest rate swap agreements is accrued over the life of the agreement as a separate component of interest expense. Gains and losses on purchased currency option and forward exchange contracts that qualify for deferral accounting are recognized in income with the underlying hedged transactions; otherwise, the contracts are recorded in the balance sheet, and changes in fair value are recognized immediately in other deductions, net. Currency fluctuations on non-U.S. dollar obligations that have been designated as hedges of non-U.S. net asset exposures are included in accumulated other nonstockholder changes in equity.

Income Taxes

No provision is made for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries (approximately \$1,433 at September 30, 2000), primarily because retention of a significant portion of these earnings is considered essential for continuing operations. In those cases in which distributions have been made, additional income taxes, if any, have been minimal due to available foreign tax credits.

Nonstockholder Changes in Equity

Nonstockholder changes in equity are comprised of net earnings and foreign currency translation adjustments.

Financial Statement Presentation

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Weighted Average Common Shares

Basic earnings per common share consider only the weighted average of common shares outstanding while diluted earnings per common share consider the dilutive effects of stock options, incentive shares and convertible securities. Reconciliations of weighted average common shares for basic earnings per common share and diluted earnings per common share follow (shares in millions):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Basic	<u>427.4</u>	433.8	439.2
Dilutive shares	<u>4.0</u>	4.6	4.9
Diluted	<u>431.4</u>	<u>438.4</u>	<u>444.1</u>

(3) Acquisitions and Divestitures

Cash paid in connection with the Company's purchase acquisitions follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Fair value of assets acquired	<u>\$ 2,141.7</u>	1,475.7	947.0
Less liabilities assumed	<u>169.9</u>	271.4	214.5
Less notes and common stock issued to sellers	<u>—</u>	2.3	159.6
Cash paid (net of cash and equivalents acquired)	<u>\$ 1,971.8</u>	<u>1,202.0</u>	<u>572.9</u>

During the second quarter of 2000, the Company acquired Jordan Telecommunication Products, Inc. (renamed Emerson Telecommunication Products) for approximately \$985. Emerson Telecom is a global provider of fiber optic conduit systems, custom cables and connectors for wireline, wireless and data communications equipment, CATV components, power protection systems, and cellular site structures. In the third quarter of 2000, the Company acquired Ericsson Energy Systems (renamed Emerson Energy Systems), a global provider of power supplies, power systems, switching equipment, climate control and energy management systems, and site monitoring services to the telecommunications industry, for approximately \$725. In addition, the Company acquired Knaack, a manufacturer of professional tool storage equipment, and other smaller businesses. The companies acquired in 2000 had annualized sales of approximately \$1,160.

During the third quarter of 2000, the Company received \$86 from the disposition of its interest in the Krautkramer non-destructive testing business resulting in a pretax gain of approximately \$80. The second half of 2000 included a gain of approximately \$37 due to the disposition of the Company's interest in Vermont American ("VA"). The Company also incurred costs for the rationalization of operations and other items that substantially offset these gains. Krautkramer, VA and another divestiture, BI Technologies, represent total annual 1999 sales of nearly \$600.

During the first quarter of 1999, the Company purchased the Westinghouse Process Control Division ("WPC") from CBS Corporation for approximately \$260. WPC is a supplier of process controls for the power generation, water and wastewater treatment industries. In addition, in the first and second quarters of 1999, the Company paid \$230 to acquire the remaining ownership interest in Astec (BSR) Plc. In the third quarter of 1999, the Company acquired Daniel Industries, Inc. through a cash tender offer of approximately \$435 plus assumed debt. Daniel is a provider of measurement and control products and services for the oil and gas industry. In addition, the Company acquired MagneTek's alternator operations; Kato Engineering, an alternator business; and a number of smaller businesses in 1999. The companies acquired in 1999 had annualized sales of approximately \$760.

During 1999, the Company received \$226 from the disposition of its interest in F.G. Wilson, resulting in a pretax gain of \$64 (\$30 net of income taxes). The Company also incurred costs for the rationalization of other operations that more than offset this gain. In addition, the Company will receive a percentage of future F.G. Wilson revenue and expects a maximum of \$100 by 2002, of which \$48 has been received through 2000. F.G. Wilson had sales of approximately \$410 in 1998.

During the first quarter of 1998, the Company purchased Computational Systems, Inc. ("CSI") for approximately \$160, primarily in common stock. CSI is a supplier of condition monitoring and diagnostic products and services for motors and other rotational equipment. During the fourth quarter of 1998, Astec (BSR) Plc, a subsidiary of Emerson, purchased the Advanced Power Systems ("APS") business from Northern Telecom Limited for approximately \$325. APS manufactures power conversion products for a wide variety of telecommunications applications. In addition, the Company purchased Plaset SpA, a European manufacturer of appliance drain pumps, and acquired a majority interest in Hiross, an Italian manufacturer of precision environmental control and site monitoring products. Several smaller businesses were also purchased in 1998. The companies acquired in 1998 had annualized sales of approximately \$775.

The results of operations of these businesses have been included in the Company's consolidated results of operations since the respective dates of acquisition and prior to the respective dates of divestiture.

(4) Short-term Borrowings and Lines of Credit

Short-term borrowings and current maturities of long-term debt are summarized as follows:

	2000	1999
Commercial paper	\$ 1,742.8	1,358.3
Payable to banks	74.6	83.6
Other	535.3	511.8
Total	\$ 2,352.7	1,953.7
Weighted average interest rate at year end	6.0%	5.2%

In 2000, the Company issued \$300 of floating rate, one-year notes with an effective interest rate of 6.7 percent at September 30, 2000. Additionally, the Company issued 13 billion Japanese yen of commercial paper and simultaneously entered into a ten-year interest rate swap which fixed the rate at 2.2 percent. In 1999, the Company issued \$250 of 5.125%, one-year notes that were simultaneously swapped to floating interest rates at a cost less than the Company's U.S. commercial paper, with an effective interest rate of 5.3 percent at September 30, 1999. In 1998, the Company entered into an interest rate agreement which capped the rate on \$250 of commercial paper at 6.0 percent through September 1999. In November 1997, the Company entered into a five-year interest rate swap which fixed the rate on \$250 of commercial paper at 6.1 percent. The Company had 151 million of British pound notes with interest rates of 6.8 and 5.3 percent at September 30, 2000 and 1999, respectively, swapped to \$256 at U.S. commercial paper rates.

The Company and its subsidiaries maintained lines of credit amounting to \$3,000 with various banks at September 30, 2000, to support commercial paper and to assure availability of funds at prevailing market interest rates. Lines of credit totaling \$1,500 are effective until 2005 with the remainder through June 2001. There were no borrowings against U.S. lines of credit in the last three years. The Company's non-U.S. subsidiaries maintained bank credit facilities in various currencies approximating \$600 (\$560 unused) at September 30, 2000. In some instances, borrowings against these credit facilities have been guaranteed by the Company to assure availability of funds at favorable interest rates. In addition, as of September 30, 2000, the Company could issue up to \$500 of additional debt securities under its shelf registration with the Securities and Exchange Commission.

(5) Long-term Debt

Long-term debt is summarized as follows:

	2000	1999
7 ⁷ / ₈ % notes due 2005	\$ 600.0	—
6.3% notes due 2006	250.0	250.0
5 ¹ / ₂ % notes due 2008	250.0	250.0
5% notes due 2008	175.0	175.0
5.85% notes due 2009	250.0	250.0
7 ¹ / ₈ % notes due 2010	500.0	—
Other	235.0	401.2
	2,260.0	1,326.2
Less current maturities	12.3	9.1
Total	\$ 2,247.7	1,317.1

In 2000, the Company issued \$600 of 7 ⁷/₈%, five-year notes, of which \$400 was swapped to floating U.S. commercial paper rates, with an effective interest rate of 7.0 percent at September 30, 2000. In 1999, the Company issued \$250 of 5.85%, ten-year notes that were simultaneously swapped to U.S. commercial paper rates, with effective interest rates of 6.7 and 5.4 percent at September 30, 2000 and 1999, respectively. The Company has the ability to refinance commercial paper on a long-term basis through its credit lines, of which \$254 with a weighted average interest rate of 5.6 percent was included in long-term debt, other at September 30, 1999.

Long-term debt maturing during each of the four years after 2001 is \$31, \$9, \$5 and \$603, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately \$273, \$185 and \$138 in 2000, 1999 and 1998, respectively.

(6) Financial Instruments

The Company selectively uses derivative financial instruments to manage interest costs and minimize currency exchange risk. The Company does not hold derivatives for trading purposes. No credit loss is anticipated as the counterparties to these agreements are major financial institutions with high credit ratings.

As part of its currency hedging strategy, the Company utilizes purchased option and forward exchange contracts to minimize the impact of currency fluctuations on transactions, cash flows and firm commitments. The Company and its subsidiaries had approximately \$430 and \$405 of contracts outstanding at September 30, 2000 and 1999, respectively. These contracts for the sale or purchase of European and other currencies generally mature within one year, and deferred gains and losses are not material.

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The fair values of derivative financial instruments were not material at September 30, 2000 and 1999, and the estimated fair value of each of the Company's other classes of financial instruments approximated the related carrying value at September 30, 2000 and 1999.

(7) Postretirement Plans

The Company sponsors unfunded postretirement benefit plans (primarily health care) for U.S. retirees and their dependents. Net postretirement plan expense for the years ended September 30, 2000, 1999 and 1998, follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost	\$ 5.3	4.5	4.1
Interest cost	21.8	21.6	20.2
Net amortization	(3.1)	(3.1)	(3.6)
Net postretirement plan expense	<u>\$ 24.0</u>	<u>23.0</u>	<u>20.7</u>

The reconciliations of the actuarial present value of accumulated postretirement benefit obligations follow:

	<u>2000</u>	<u>1999</u>
Benefit obligation, beginning	\$ 313.1	279.6
Service cost	5.3	4.5
Interest cost	21.8	21.6
Actuarial (gains) losses	(8.4)	9.3
Benefits paid	(25.9)	(22.2)
Acquisitions/divestitures and other	(1.1)	20.3
Benefit obligation, ending	<u>304.8</u>	<u>313.1</u>
Unrecognized net gain	19.4	16.8
Unrecognized prior service benefit	5.4	6.9
Postretirement benefit liability recognized in the balance sheet	<u>\$ 329.6</u>	<u>336.8</u>

The assumed discount rates used in measuring the obligations as of September 30, 2000 and 1999, were 7.75 percent and 7.5 percent, respectively. The assumed health care cost trend rate for 2001 was 7.0 percent, declining to 4.5 percent in the year 2006. The assumed health care cost trend rate for 2000 was 6.5 percent, declining to 4.5 percent in the year 2004. A one-percentage-point increase or decrease in the assumed health care cost trend rate for each year would increase or decrease the obligation as of September 30, 2000, and the 2000 postretirement plan expense by less than five percent.

(8) Retirement Plans

Retirement plan expense includes the following components:

	U.S. Plans			Non-U.S. Plans		
	2000	1999	1998	2000	1999	1998
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 42.2	38.6	33.2	11.7	9.1	7.9
Interest cost	118.5	112.5	106.1	19.2	16.9	16.4
Expected return on plan assets	(178.9)	(161.4)	(152.2)	(25.3)	(19.0)	(17.0)
Net amortization	(1.7)	1.6	(2.3)	—	.2	(.7)
Net periodic pension (income) expense	(19.9)	(8.7)	(15.2)	5.6	7.2	6.6
Defined contribution and multiemployer plans	60.7	59.4	54.6	11.1	8.5	9.4
Total retirement plan expense	\$ 40.8	50.7	39.4	16.7	15.7	16.0

The reconciliations of the actuarial present value of the projected benefit obligations and of the fair value of plan assets follow:

	U.S. Plans		Non-U.S. Plans	
	2000	1999	2000	1999
Benefit obligation, beginning	\$ 1,545.8	1,437.9	306.3	263.2
Service cost	42.2	38.6	11.7	8.0
Interest cost	118.5	112.5	19.2	15.2
Actuarial (gains) losses	(16.1)	(42.8)	(4.0)	25.1
Benefits paid	(81.9)	(63.5)	(12.4)	(11.1)
Acquisitions/divestitures, net	(45.7)	61.1	(12.3)	14.2
Foreign currency and other	3.4	2.0	(7.8)	(8.3)
Benefit obligation, ending	\$ 1,566.2	1,545.8	300.7	306.3
Fair value of plan assets, beginning	\$ 1,635.0	1,513.8	259.7	232.6
Actual return on plan assets	194.8	78.3	42.6	20.1
Employer contributions	23.6	75.5	8.0	6.4
Benefits paid	(81.9)	(63.5)	(12.4)	(11.1)
Acquisitions/divestitures, net	(46.9)	29.7	20.9	15.2
Foreign currency and other	1.3	1.2	(4.1)	(3.5)
Fair value of plan assets, ending	\$ 1,725.9	1,635.0	314.7	259.7
Plan assets in excess of (less than) benefit obligation	\$ 159.7	89.2	14.0	(46.6)
Unamortized transition amount	(14.7)	(22.0)	(2.2)	(1.6)
Unrecognized net loss (gain)	84.4	127.5	(29.3)	(10.8)
Unrecognized prior service costs	17.5	20.4	3.7	2.9
Adjustment for fourth quarter contributions	2.8	.6	.7	.5
Net pension asset (liability) recognized in the balance sheet	\$ 249.7	215.7	(13.1)	(55.6)
Weighted average assumptions:				
Discount rate	8.00%	7.75%	6.4%	6.1%
Expected return on plan assets	10.50%	10.50%	8.4%	8.5%
Rate of compensation increase	4.50%	4.25%	3.9%	3.3%

At September 30, 2000 and 1999, the pension assets recognized in the balance sheet were \$311.2 and \$271.3, and the pension liabilities recognized in the balance sheet were \$74.6 and \$111.2, respectively. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the retirement plans with accumulated benefit obligations in excess of plan assets were \$294.0, \$270.3 and \$174.8, respectively, as of September 30, 2000, and \$380.6, \$353.5 and \$208.6, respectively, as of September 30, 1999.

(9) Income Taxes

Income before income taxes consists of the following:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
United States	<u>\$ 1,614.9</u>	1,567.7	1,496.4
Non-U.S.	<u>563.4</u>	453.2	427.1
Income before income taxes	<u>\$ 2,178.3</u>	<u>2,020.9</u>	<u>1,923.5</u>

The principal components of income tax expense follow:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Federal:			
Current	<u>\$ 496.9</u>	417.3	453.4
Deferred	<u>29.9</u>	77.5	35.9
State and local	<u>49.7</u>	49.8	51.4
Non-U.S.	<u>179.4</u>	162.7	154.2
Income tax expense	<u>\$ 755.9</u>	<u>707.3</u>	<u>694.9</u>

The federal corporate statutory rate is reconciled to the Company's effective income tax rate as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Federal corporate statutory rate	<u>35.0%</u>	35.0%	35.0%
State and local taxes, less federal tax benefit	<u>1.4</u>	1.6	1.7
Foreign Sales Corporation benefit and other	<u>(1.7)</u>	(1.6)	(.6)
Effective income tax rate	<u>34.7%</u>	<u>35.0%</u>	<u>36.1%</u>

The principal components of deferred tax assets (liabilities) follow:

	<u>2000</u>	<u>1999</u>
Property, plant and equipment and intangibles	<u>\$ (354.7)</u>	(357.0)
Leveraged leases	<u>(169.7)</u>	(181.0)
Pension	<u>(105.7)</u>	(92.9)
Accrued liabilities	<u>226.4</u>	249.5
Postretirement and postemployment benefits	<u>142.0</u>	145.1
Employee compensation and benefits	<u>112.4</u>	109.1
Other	<u>89.3</u>	81.6
Total deferred tax assets (liabilities)	<u>\$ (60.0)</u>	<u>(45.6)</u>

At September 30, 2000 and 1999, respectively, net current deferred tax assets were \$284.3 and \$261.7, and net noncurrent deferred tax liabilities were \$344.3 and \$307.3. Total income taxes paid were approximately \$700, \$580 and \$665 in 2000, 1999 and 1998, respectively.

(10) Contingent Liabilities and Commitments

At September 30, 2000, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial position, nor were there any material commitments outside the normal course of business.

(11) Common Stock

The Company has various stock option plans that permit certain officers and employees to purchase common stock at specified prices. Options are granted at 100 percent of the market value of the Company's common stock on the date of grant, generally vest one-third each year and expire ten years from the date of grant. At September 30, 2000, approximately 2.7 million options were available for grant under these plans. Changes in the number of shares subject to option during 2000, 1999 and 1998, follow (shares in thousands):

	2000		1999		1998	
	Average Price	Shares	Average Price	Shares	Average Price	Shares
Beginning of year	\$ 45.48	8,504	\$ 39.02	6,608	\$ 34.77	6,698
Options granted	46.42	3,095	54.95	3,026	57.71	974
Assumed options of acquired company	—	—	34.02	71	26.08	330
Options exercised	30.54	(1,093)	29.29	(1,025)	25.91	(1,198)
Options canceled	51.96	(359)	55.25	(176)	45.23	(196)
End of year	47.15	10,147	45.48	8,504	39.02	6,608
Exercisable at year end		4,563		3,952		3,479

Summarized information regarding stock options outstanding and exercisable at September 30, 2000, follows (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable	
	Shares	Average Contractual Life	Average Price	Shares	Average Price
up to \$36	1,244	3.7 years	\$ 29.35	1,195	\$ 29.10
\$37 to 49	4,644	7.7	43.63	2,288	44.71
\$50 to 67	4,259	8.2	56.19	1,080	58.31
Total	10,147	7.4	47.15	4,563	43.84

The Company's Incentive Shares Plans authorize the distribution of common stock to key management personnel. At September 30, 2000, 1,158,941 shares are outstanding with restriction periods of three to ten years, including 80,000 shares issued in 2000. In addition, 2,248,074 rights to receive common shares have been awarded, including 83,090 shares awarded in 2000, which are contingent upon accomplishing certain objectives by 2001. At September 30, 2000, approximately 6 million shares remained available for award under these plans.

The Company applies Accounting Principles Board Opinion No. 25 in accounting for its stock plans. The compensation expense charged against income for the Company's incentive shares plans was immaterial. Had compensation expense for the Company's stock plans been determined in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," net earnings and diluted earnings per common share, respectively, would have been \$1,401 and \$3.25 per share in 2000, \$1,293 and \$2.95 per share in 1999, and \$1,215 and \$2.74 per share in 1998. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants: risk-free interest rate of 6.5 percent, 4.7 percent and 5.7 percent, dividend yield of 2.3 percent, 2.1 percent and 2.0 percent, expected volatility of 22 percent, 17 percent and 16 percent for 2000, 1999 and 1998, respectively, and expected life of five years for all years. The weighted average fair value of options granted was \$11.75, \$10.38 and \$12.01 for 2000, 1999 and 1998, respectively.

At September 30, 2000, 21,315,487 shares of common stock were reserved, including 21,015,696 shares for issuance under the Company's stock plans and 299,791 shares for conversion of the outstanding 8% convertible subordinated debentures at a price of \$13.49 per share. During 2000, 6,846,316 treasury shares were acquired, and 1,278,859 treasury shares were issued.

Approximately 1.2 million preferred shares are reserved for issuance under a Preferred Stock Purchase Rights Plan. Under certain conditions involving acquisition of or an offer for 20 percent or more of the Company's common stock, all holders of Rights, except an acquiring entity, would be entitled (i) to purchase, at an exercise price of \$260, common stock of the Company or an acquiring entity with a value twice the exercise price, or (ii) at the option of the Board, to exchange each Right for one share of common stock. The Rights remain in existence until November 1, 2008, unless earlier redeemed (at one-half cent per Right), exercised or exchanged under the terms of the plan.

(12) Business Segment Information

The Company is engaged principally in the worldwide design, manufacture and sale of a broad range of electrical, electromechanical and electronic products and systems. The divisions of the Company are primarily organized based on the nature of the products and services provided. The Process Control segment includes measurement and analytical instrumentation, valves, control systems, and factory automation software. The Industrial Automation segment includes integral horsepower industrial motors, variable-speed and index drives, mechanical power transmission equipment, predictive maintenance systems, ultrasonic welding and cleaning, solids separation, fluid control, destructive testing, and heating and lighting equipment. The Electronics and Telecommunications segment consists of uninterruptible power supplies, power conditioning equipment, environmental control systems, site monitoring systems, connectivity systems, and electrical switching equipment. The Heating, Ventilating and Air Conditioning (HVAC) segment consists of compressors, hermetic terminals, thermostats, and valves. The Appliance and Tools segment includes fractional horsepower motors, controls, and heating elements, as well as hand, plumbing and bench power tools, and disposers. Summarized information about the Company's operations by business segment and by geographic area follows:

Business Segments

(See note 3)

	Sales			Earnings			Total Assets		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Process Control	\$ 3,023	2,878	2,684	274	313	343	3,391	3,489	2,643
Industrial Automation	3,417	3,292	3,253	465	438	420	2,987	3,218	3,012
Electronics and Telecommunications ..	3,340	2,020	1,499	454	233	141	3,699	1,385	1,241
HVAC	2,500	2,385	2,149	382	361	316	1,840	1,819	1,698
Appliance and Tools	3,356	3,138	3,017	562	545	521	2,299	2,096	2,047
	<u>15,636</u>	<u>13,713</u>	<u>12,602</u>	<u>2,137</u>	<u>1,890</u>	<u>1,741</u>	<u>14,216</u>	<u>12,007</u>	<u>10,641</u>
Divested businesses	283	943	1,191	20	75	105	—	721	1,215
Differences in accounting methods				190	161	156			
Interest income, corporate and other ..				119	85	74	948	896	804
Sales eliminations/Interest expense ..	(374)	(386)	(346)	(288)	(190)	(152)			
Total	<u>\$ 15,545</u>	<u>14,270</u>	<u>13,447</u>	<u>2,178</u>	<u>2,021</u>	<u>1,924</u>	<u>15,164</u>	<u>13,624</u>	<u>12,660</u>

	Intersegment Sales			Depreciation and Amortization Expense			Capital Expenditures		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Process Control	\$ 5	4	2	173	166	147	97	78	83
Industrial Automation	14	29	25	144	142	128	95	98	114
Electronics and Telecommunications ..	12	11	16	97	52	28	116	49	36
HVAC	31	30	27	104	97	86	184	177	147
Appliance and Tools	312	312	275	134	126	115	174	141	144
Divested businesses	—	—	1	17	46	51	17	41	64
Corporate and other				9	9	8	9	8	15
Total	<u>\$ 374</u>	<u>386</u>	<u>346</u>	<u>678</u>	<u>638</u>	<u>563</u>	<u>692</u>	<u>592</u>	<u>603</u>

The primary income measure used for assessing performance and making operating decisions is earnings before interest and income taxes. Intersegment sales approximate market prices. Accounting method differences between segment reporting and the consolidated financial statements primarily include management fees allocated to segments based on a percentage of sales and the accounting for pension and other retirement plans. Corporate assets primarily include cash and equivalents, investments, pensions, deferred charges, and certain fixed assets. Divested businesses include F.G. Wilson, Krautkramer, VA and other smaller businesses.

Geographic

	Sales by Destination			Property, Plant and Equipment		
	2000	1999	1998	2000	1999	1998
United States	\$ 9,651	8,557	8,102	2,394	2,312	2,120
Europe	3,026	3,064	2,869	467	527	627
Asia	1,256	1,211	1,096	229	205	169
Latin America	545	458	484	117	88	77
Other regions	1,067	980	896	36	22	19
Total	<u>\$ 15,545</u>	<u>14,270</u>	<u>13,447</u>	<u>3,243</u>	<u>3,154</u>	<u>3,012</u>

(13) Other Financial Data

Items reported in earnings during the years ended September 30, 2000, 1999 and 1998, include the following:

	2000	1999	1998
Depreciation and other amortization	\$ 523.5	508.1	459.4
Goodwill amortization	155.0	129.4	103.1
Research, new product development and product improvement costs ...	593.9	510.3	491.3
Rent expense	201.2	177.4	170.4
Interest revenue	16.3	16.1	25.1

Other assets, other are summarized as follows:

	2000	1999
Equity and other investments	\$ 227.0	235.1
Retirement plans	311.2	271.3
Leveraged leases	179.4	185.5
Other	400.6	389.8
Total	\$ 1,118.2	1,081.7

Other liabilities are summarized as follows:

	2000	1999
Minority interest	\$ 104.4	297.2
Postretirement plans, excluding current portion	311.3	313.1
Deferred income taxes	360.6	333.9
Other	518.7	591.3
Total	\$ 1,295.0	1,535.5

Accrued expenses include employee compensation of \$344.3 and \$316.8 at September 30, 2000 and 1999, respectively. The Company leases computers, transportation equipment and various other property under operating lease agreements. The minimum annual rentals under noncancelable long-term leases, exclusive of maintenance, taxes, insurance and other operating costs, will approximate \$99 in 2001 and decline substantially thereafter.

(14) Quarterly Financial Information (Unaudited)

Financial Results

	Net Sales		Gross Profit		Net Earnings	
	2000	1999	2000	1999	2000	1999
First Quarter	\$ 3,543.3	3,426.7	1,254.5	1,215.1	324.9	302.4
Second Quarter	3,894.7	3,588.7	1,380.4	1,278.9	352.8	325.9
Third Quarter	4,041.8	3,634.0	1,436.7	1,294.0	373.7	345.1
Fourth Quarter	4,065.0	3,620.1	1,457.2	1,287.7	371.0	340.2
Fiscal Year	\$ 15,544.8	14,269.5	5,528.8	5,075.7	1,422.4	1,313.6

	Basic Earnings per Common Share		Diluted Earnings per Common Share		Dividends per Common Share	
	2000	1999	2000	1999	2000	1999
First Quarter	\$.75	.69	.75	.69	.3575	.325
Second Quarter .....	.83	.75	.82	.74	.3575	.325
Third Quarter .....	.88	.80	.87	.79	.3575	.325
Fourth Quarter .....	.87	.79	.86	.78	.3575	.325
Fiscal Year	\$ 3.33	3.03	3.30	3.00	1.43	1.30

See Note 3 for information regarding non-recurring items and the Company's acquisition and divestiture activities.

Stock Prices

(per common share)	2000		1999	
	High	Low	High	Low
First Quarter	\$ 64 ³ / ₈	53 ¹ / ₁₆	66 ¹⁵ / ₁₆	58 ⁵ / ₁₆
Second Quarter	62 ¹¹ / ₁₆	40 ¹ / ₂	65	51 ⁷ / ₈
Third Quarter	65 ¹ / ₄	51 ¹ / ₈	71 ⁷ / ₁₆	51 ⁷ / ₁₆
Fourth Quarter	70 ³ / ₈	58 ¹ / ₈	65 ⁷ / ₈	59 ¹ / ₈
Fiscal Year	\$ 70 ³ / ₈	40 ¹ / ₂	71 ⁷ / ₁₆	51 ⁷ / ₁₆

Emerson Electric Co. common stock (symbol EMR) is listed on the New York Stock Exchange and Chicago Stock Exchange.

Report of Management

The Company's management is responsible for the integrity and accuracy of the financial statements. Management believes that the financial statements for the three years ended September 30, 2000, have been prepared in conformity with U.S. generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed.

In meeting its responsibility for the reliability of the financial statements, management relies on a system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The design of this system recognizes that errors or irregularities may occur and that estimates and judgments are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, which is composed solely of Directors who are not employees of the Company, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets with management and the internal auditors periodically to review the work of each and to monitor the discharge by each of its responsibilities. The Audit Committee also meets periodically with the independent auditors who have free access to the Audit Committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters, as well as management advisory services.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements. Their opinion is based on procedures which they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors.

Independent Auditors' Report

The Board of Directors and Stockholders
Emerson Electric Co.:

We have audited the accompanying consolidated balance sheets of Emerson Electric Co. and subsidiaries as of September 30, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2000. These consolidated financial statements are the responsibility of the Company'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 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 a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emerson Electric Co. and subsidiaries as of September 30, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

St. Louis, Missouri
November 6, 2000

Eleven-Year Summary

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions except per share amounts)

		2000	1999	1998
Summary of Operations	Net sales	\$ 15,544.8	14,269.5	13,447.2
	Gross profit	\$ 5,528.8	5,075.7	4,851.6
	Interest expense	\$ 287.6	189.7	151.7
	Income before income taxes	\$ 2,178.3	2,020.9	1,923.5
	Net earnings	\$ 1,422.4	1,313.6	1,228.6
	Percent of net sales	9.2%	9.2%	9.1%
	Return on average stockholders' equity	22.6%	21.9%	21.9%
Per Share of Common Stock	Basic earnings	\$ 3.33	3.03	2.80
	Diluted earnings	\$ 3.30	3.00	2.77
	Diluted earnings, excluding goodwill amortization	\$ 3.63	3.27	2.99
	Cash dividends	\$ 1.43	1.30	1.18
	Book value	\$ 14.98	14.27	13.24
Year-End Financial Position	Working capital	\$ 263.9	534.0	979.6
	Current ratio	1.1 to 1	1.1 to 1	1.2 to 1
	Property, plant and equipment, net	\$ 3,243.4	3,154.4	3,011.6
	Total assets	\$ 15,164.3	13,623.5	12,659.8
	Long-term debt	\$ 2,247.7	1,317.1	1,056.6
	Stockholders' equity	\$ 6,402.8	6,180.5	5,803.3
	Total debt to total capital	41.8%	34.6%	30.8%
	Net debt to net capital	40.2%	32.7%	29.0%
Other Data	Capital expenditures	\$ 692.0	591.6	602.6
	Depreciation	\$ 454.1	446.8	406.4
	Total taxes, including income taxes	\$ 1,195.9	1,125.5	1,092.6
	Salaries and wages	\$ 3,375.5	3,171.4	3,003.1
	Average number of employees	123,400	116,900	111,800
	Approximate number of stockholders at year end	35,000	36,300	37,200
	Average common shares – basic (in thousands)	427,379	433,801	439,193
	Average common shares – diluted (in thousands)	431,395	438,397	444,121

Note: All share and per share data reflect the 1997 two-for-one stock split.

1997	1996	1995	1994	1993	1992	1991	1990
12,298.6	11,149.9	10,012.9	8,607.2	8,173.8	7,706.0	7,427.0	7,573.4
4,433.0	3,984.9	3,532.5	3,054.2	2,884.0	2,651.4	2,585.5	2,571.6
120.9	126.9	110.6	88.5	119.2	91.0	113.4	116.5
1,783.6	1,609.0	1,424.9	1,237.8	1,112.0	1,043.9	1,003.1	989.0
1,121.9	1,018.5	907.7	788.5	708.1	662.9	631.9	613.2
9.1%	9.1%	9.1%	9.2%	8.7%	8.6%	8.5%	8.1%
20.8%	19.9%	19.7%	19.1%	18.5%	19.0%	20.2%	20.2%
2.52	2.27	2.03	1.76	1.57	1.48	1.41	1.37
2.50	2.25	2.01	1.75	1.56	1.47	1.40	1.37
2.69	2.42	2.14	1.85	1.67	1.55	1.48	1.44
1.08	.98	.89	.78	.72	.69	.66	.63
12.30	11.96	10.88	9.71	8.71	8.31	7.27	6.69
874.4	1,166.1	503.4	720.9	381.7	1,165.1	894.8	802.8
1.2 to 1	1.4 to 1	1.2 to 1	1.3 to 1	1.1 to 1	1.6 to 1	1.4 to 1	1.3 to 1
2,735.4	2,450.8	2,134.9	1,947.3	1,880.1	1,694.5	1,583.4	1,535.8
11,463.3	10,481.0	9,399.0	8,215.0	7,814.5	6,627.0	6,364.4	6,376.4
570.7	772.6	208.6	279.9	438.0	448.0	450.2	496.2
5,420.7	5,353.4	4,870.8	4,341.8	3,915.1	3,729.8	3,256.9	2,989.9
27.1%	24.5%	24.7%	21.7%	29.3%	19.1%	27.2%	32.1%
24.9%	22.9%	23.3%	20.0%	27.9%	17.7%	25.4%	30.5%
575.4	513.5	420.7	332.3	305.6	345.5	310.9	309.7
368.5	339.4	303.0	274.0	269.3	253.1	254.0	231.3
1,033.9	962.9	862.2	762.2	709.5	674.0	656.3	637.7
2,770.6	2,568.5	2,379.7	2,155.5	2,064.2	1,916.0	1,850.0	1,882.0
100,700	86,400	78,900	73,900	71,600	69,400	69,500	73,700
35,900	29,800	31,000	31,800	32,700	33,100	33,900	34,800
445,020	448,095	447,506	448,464	450,166	448,504	447,178	446,300
449,501	452,754	451,946	452,747	455,125	454,047	452,508	450,915

Board of Directors

J.G. Berges

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President

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St. Louis, Missouri
Former Vice Chairman,
Emerson Electric Co.

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St. Louis, Missouri
Chairman & President,
Anheuser-Busch
Companies, Inc.

D.N. Farr

St. Louis, Missouri
Chief Executive Officer

D.C. Farrell

St. Louis, Missouri, Retired
Chairman & Chief Executive
Officer, The May Department
Stores Company

J.A. Frates

Tulsa, Oklahoma
Private Investor

W.J. Galvin

St. Louis, Missouri
Executive Vice President &
Chief Financial Officer

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New York, New York
Partner, Davis Polk &
Wardwell

R.B. Horton

London, England
Former Chairman,
Railtrack Group plc

C.F. Knight

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Chairman of the Board

G.A. Lodge

Saddle Brook, New Jersey
President,
InnoCal Management, Inc.

V.R. Loucks, Jr.

Chicago, Illinois
Retired Chairman &
Chief Executive Officer,
Baxter International, Inc.

R.B. Loynd

Short Hills, New Jersey
Chairman of the Executive
Committee, Furniture Brands
International, Inc.

C.A. Peters

St. Louis, Missouri
Senior Executive Vice
President

R.L. Ridgway

Arlington, Virginia
Former Assistant Secretary
of State for
Europe & Canada

W.M. Van Cleve

St. Louis, Missouri
Partner, Bryan Cave LLP

E.E. Whitacre, Jr.

San Antonio, Texas
Chairman &
Chief Executive Officer,
SBC Communications, Inc.

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T.E. Bettcher

Executive Vice President

H.L. Lance

Executive Vice President

J.J. Lindemann

Executive Vice President

J-P.L. Montupet

Executive Vice President

P.J. Sly

Executive Vice President

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R.B. Loynd
R.L. Ridgway
W.M. Van Cleve

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D.C. Farrell
J.A. Frates
E.E. Whitacre, Jr.

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A.A. Busch III
D.C. Farrell
W.M. Van Cleve

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G.A. Lodge
V.R. Loucks, Jr.
E.E. Whitacre, Jr.

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L.L. Browning, Jr.
A.A. Busch III
C.F. Knight
R.B. Loynd

Public Policy Committee

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L.L. Browning, Jr.
J.A. Frates
R.B. Horton
R.L. Ridgway
W.M. Van Cleve

Management

Corporate Management

C.F. Knight Chairman	D.N. Farr Chief Executive Officer & Chief Operating Officer	J.G. Berges President
W.J. Galvin Executive Vice President & Chief Financial Officer	C.A. Peters Senior Executive Vice President	A.E. Suter Chief Administrative Officer

Operating Management

J.M. Berra Executive Vice President	T.E. Bettcher Executive Vice President	H. C. Bevis Group Vice President	E.C. Evans Group Vice President	E.K. Feeney Senior Vice President
C. Henry Group Vice President	H.L. Lance Executive Vice President	J.J. Lindemann Executive Vice President	J-P.L. Montupet Executive Vice President	P.K. Murphy Group Vice President
D.G. Perkins Group Vice President	R.J. Schul Group Vice President	P.J. Sly Executive Vice President	L.W. Solley Executive Vice President	

Corporate Officers

K. Button Bell Vice President & Chief Marketing Officer	J.R. Carius Vice President- Employee Relations & Chief Employment Counsel	G.D. Carmichael Vice President & Chief Information Officer	S.P. Cortinovis Vice President & President- Emerson Europe	R.M. Cox, Jr. Senior Vice President- Acquisitions & Development
F.J. Dellaquila Vice President	T.C. Derrick, Jr. Vice President- Labor Relations	B.N. Eckhardt Senior Vice President & Controller	L.A. Flavin Vice President- Audit	D.J. Green Vice President & Associate General Counsel
K.D. Hahn Vice President- Information Technology	J.A. Harmon Senior Vice President	C.G. Heath Vice President- Executive Compensation	L.E. Heikkila Vice President- Aviation	P.A. Hutchison Senior Vice President- Human Resources
R.E. Keefe Vice President- Manufacturing	C.T. Kelly Vice President- Human Resources	L.J. Kremer Vice President- Materials	H.J. Lamboley, Jr. Vice President- Environmental Affairs & Real Estate	R.D. Ledford Senior Vice President & Chief Technology Officer
R.M. Levy Vice President- Development	R.D. McDonald Vice President- Government Affairs	P.E. McKnight Vice President- Organization Planning	M.J. Molloy Vice President- Development	G.W. Monken Vice President- Corporate Sales
D.C. Moon Vice President- Tax	M.J. Proudfoot Vice President-International Business Development	D.J. Rabe Vice President & Treasurer	S.L. Rieves Vice President- Telecom Services	P.A. Roberts Vice President- Public Affairs
S.C. Roemer Vice President- Financial Planning	K.W. Rolls Vice President- Benefits	R.J. Schlueter Vice President- Accounting	R.T. Sharp Assistant Treasurer & Director-Investor Relations	A.K. Singh Vice President & President- Emerson Electric Asia-Pacific
J.D. Switzer Senior Vice President- Development	M.H. Train Vice President- Planning & International	J.K. Ver Hagen Senior Vice President	W.W. Withers Senior Vice President, Secretary & General Counsel	N. Yamanaka President- Emerson Japan

Stockholders' Information

Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m., Tuesday, February 6, 2001, in Emerson's World Headquarters Building, 8000 W. Florissant Ave., St. Louis, Missouri. Notice of the meeting, proxy statement and proxy were sent to stockholders with this annual report.

Registrar & Transfer Agent

ChaseMellon Shareholder Services
Attention: Emerson Electric Co.
P.O. Box 3338
South Hackensack, NJ 07606-1938
Toll Free Telephone: (888) 213-0970
Internet: <http://www.chasemellon.com>

Stockholder Inquiries

Inquiries regarding dividend payments, loss or non-receipt of a dividend check, stock transfers (including name changes, gifts and inheritances), lost stock certificates, Form 1099 information and address changes should be directed to the Registrar and Transfer Agent.

All other inquiries should be addressed to:
Investor Relations Department, Station 2197
Emerson Electric Co.
8000 W. Florissant Ave.
P.O. Box 4100
St. Louis, MO 63136-8506
Telephone: (314) 553-2197

10-K Report

A copy of the Company's 2000 Annual Report filed with the Securities and Exchange Commission on Form 10-K is available to stockholders without charge. To obtain a copy, please contact the Investor Relations Department.

Internet Access

Corporate news releases, Forms 10-K and 10-Q, the annual report and other information about the Company are available through Emerson's Web site on the Internet. It may be accessed as follows:
<http://www.emersonelectric.com>

Stockholder Services

Dividend Reinvestment Plan

Emerson offers stockholders of record a convenient Dividend Reinvestment Plan for purchasing additional shares of stock without paying brokerage commissions or other service fees. Participant dividends are automatically reinvested and participants can make supplemental cash payments to purchase additional shares. For further information and an authorization form, contact the Registrar and Transfer Agent.

Direct Deposit of Dividends

Stockholders may elect to have dividends electronically deposited into a checking or savings account at a bank, savings and loan institution or credit union. For details, contact the Registrar and Transfer Agent.

Low Cost Investment Plan

Investors may purchase their initial shares of Emerson stock through NAIC's Low Cost Investment Plan. For details contact:
National Association of Investors Corp. (NAIC)
711 W. Thirteen Mile Rd.
Madison Heights, MI 48071
Toll Free Telephone: (877) 275-6242 Ext. 331

Duplicate Mailings

When stockholders own shares in more than one account or when several stockholders live at the same address, they may receive multiple copies of the annual report. To eliminate multiple copies, write to the Registrar and Transfer Agent.

Environmental Programs

Information on Emerson's environmental programs may be obtained by contacting:
Environmental Affairs Department, Station 3800
Emerson Electric Co.
8000 W. Florissant Ave.
P.O. Box 4100
St. Louis, MO 63136-8506

Safe Harbor Statement

This Annual Report contains various forward-looking statements and includes assumptions concerning Emerson's operations, future results and prospects. These forward-looking statements are based on current expectations, are subject to risk and uncertainties and Emerson undertakes no obligation to update any such statement to reflect later developments. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Emerson provides the following cautionary statement identifying important economic, political and technological factors, among others, the absence of which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) continuation of the current and projected future business environment, including interest rates and capital and consumer spending; (ii) competitive factors and competitor responses to Emerson initiatives; (iii) successful development and market introductions of anticipated new products; (iv) stability of government laws and regulations, including taxes; (v) stable governments and business conditions in emerging economies; (vi) successful penetration of emerging economies; and (vii) continuation of the favorable environment to make acquisitions, domestic and foreign, including regulatory requirements and market values of candidates.



EMERSON

Emerson Appliance Solutions, Emerson Electronics and Telecommunications, Emerson Energy Systems, Emerson Industrial Automation, Emerson Motors, Emerson Network Power, Emerson Process Automation, Emerson Storage Solutions, Emerson Telecommunications Products, Emerson Tools, ASCO, Copeland, Copeland Scroll, DeltaV, Dura-Line, Fisher-Rosemount, In-Sink-Erator, Knaack, Leroy Somer, Liebert, Ovation, PlantWeb, Provox, Ridge Tool Company, RIDGID, Switched Reluctance Drives, Westinghouse Process Control, XOMOX and their related trademark designs and logotypes are service/trademarks and/or trade names of Emerson, its subsidiaries, affiliates, investments or joint ventures.

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