



EMERSON

2001 Annual Report

When the stakes are high, customers need a partner who can deliver...



Complete Services & Solutions



Innovative Technologies



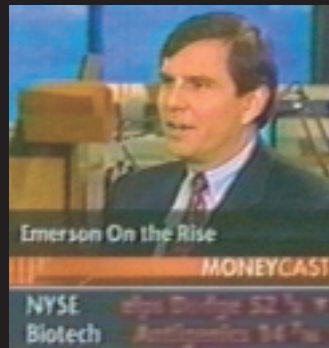
Global Support Locally

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Emerson's brand architecture is designed to communicate to customers the nature of Emerson's total solution capabilities. The Company's brand platforms align Emerson's businesses more closely with customers on their terms in their markets. Emerson is beginning to more aggressively communicate its capabilities through business media, marketing materials, advertising, trade shows and the Internet, so customers know when they come to Emerson, they can consider it solved.



EMERSON. CONSIDER IT SOLVED.™



Dear Investors and Employees,

Fiscal 2001 was among the most challenging years in Emerson's long history. Not since the early 1960s have so many sectors been simultaneously impacted by such a sudden economic downturn. While our business and geographic diversity have historically helped buffer economic swings, the breadth of this downturn has been exceptional.

We responded to this environment in several ways. First, we accelerated cost-cutting and restructuring, investing in actions such as facility consolidations and product line rationalizations to improve Emerson's long-term cost structure. Second, we maintained investments in our industry-leading, technology-based products and services, which drive over half of Emerson's total sales. This commitment will help increase our lead over competitors who cannot keep up during tough times. And finally, we continued repositioning into faster-growth areas worldwide through acquisitions and divestitures. As a result of these investment decisions, we ended Emerson's record 43 years of consecutive earnings increases. We are proud of the record, but the actions necessary to maintain it were not in our shareholders' long-term interest.

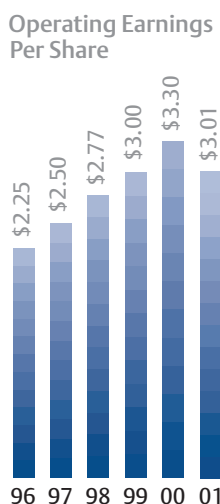
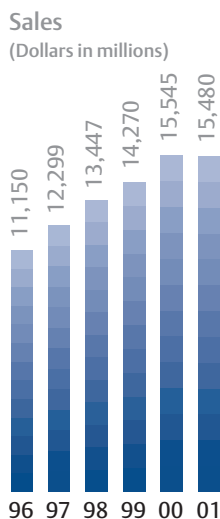
Despite the economic challenges, Emerson achieved solid financial results in fiscal 2001. Sales were flat versus fiscal 2000, at \$15.5 billion. Net earnings were \$1.0 billion, or \$2.40 per share. Operating earnings and operating earnings per share, which exclude \$377 million in charges for the aggressive rationalization of our operations,

were \$1.3 billion and \$3.01, respectively. Operating cash flow was \$1.7 billion and free cash flow increased to \$1.2 billion. I applaud the efforts of our entire organization for delivering these results in a tough economic environment.

ACCELERATING GROWTH

One of our fundamental objectives in increasing shareholder value is to deliver sustainable, double-digit earnings growth. Key to this objective is to accelerate the Company's underlying sales growth. We've made significant progress in this area, although much of our success is masked in the current global economy. Through investments in internal growth initiatives and repositioning, Emerson's businesses have excellent technology platforms, global reach, and solutions and services capabilities from which to grow.

In the process business, Emerson is the only company with a scalable, intelligent process automation architecture that is commercially available. We call our technology PlantWeb®, and since its launch in 1998 it has been selected over legacy process automation systems on more than 2,000 occasions. Virtually all major customers in the oil and gas, refinery, chemical, pharmaceutical and other process industries have embraced PlantWeb. We also created a Performance Solutions organization to deliver complete project solutions – from upfront engineering and program management through ongoing service. This powerful combination was a major contributor to the nearly 10 percent underlying growth this business achieved in 2001.



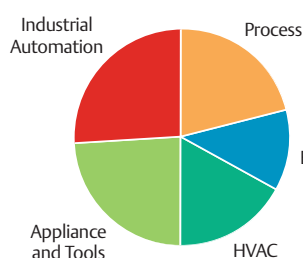
More than 22,000 Emerson employees reside in Asia, supporting sales of approximately \$1.7 billion ... While this is a strong presence, we clearly have substantial opportunities to grow.

In HVAC, sales of Copeland Scroll® compressors approached \$900 million in 2001, representing more than 35 percent of this segment's sales. Scroll technology is more reliable and efficient and quieter than traditional compressors. Anticipated increases in U.S. energy efficiency standards within the next five years, growing use of air conditioning (A/C) and refrigeration in Asia, and new Scroll applications – such as our recently launched unit for large commercial A/C installations – present continued growth prospects.

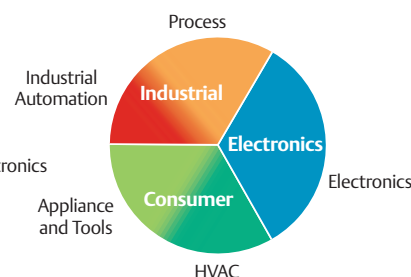
Our electronics and telecommunications business has assembled comprehensive product, geographic and customer positions in the market for computing and communications power conversion and connectivity solutions. This business has been affected recently by the sharp decline in these markets, but we are confident that it will be an important growth area over the long term. We are taking advantage of the downturn to accelerate creation of a single globally integrated Network Power business, and to emerge a stronger leader. The recent purchase of Avansys Power – the largest private acquisition in China by a foreign company – supports our global integration and extends our leadership.

Avansys Power also creates opportunities for other Emerson operations, elevating our total presence in Asia. This region is important because it contains more than 50 percent of the world's population and more than 25 percent of world Gross Domestic Product. More than 22,000 Emerson employees reside in Asia, supporting sales of approximately \$1.7 billion, including Avansys. While this is a strong presence, we clearly have substantial opportunities to grow.

1998 BUSINESS MIX



FUTURE BUSINESS MIX



As Avansys illustrates, we continue to use acquisitions and divestitures to reposition Emerson into faster-growth markets. Since 1998, Emerson has announced divestitures of 11 slower-growing, noncore operations with annual sales of approximately \$1.5 billion.

Five-Year Performance

Years ended September 30

(Dollars in millions, except per-share amounts)

	1996	2001	5-Year CAGR
Sales	\$11,150	\$15,480	7%
Operating Profit	\$1,793	\$2,419	6%
Percent of Sales	16.1%	15.6%	
Operating Earnings	\$1,019	\$1,292	5%
Operating Earnings Per Share	\$2.25	\$3.01	6%
Operating Earnings Per Share Excluding Goodwill	\$2.42	\$3.36	7%
Net Earnings	\$1,019	\$1,032	–
Earnings Per Share	\$2.25	\$2.40	1%
Dividends Per Share	\$0.98	\$1.53	9%
Free Cash Flow	\$804	\$1,154	8%
Return on Total Capital	16.4%	13.8%	
Return on Equity	19.9%	20.2%	

2001 operating profit, operating earnings and earnings per share, return on total capital and return on equity amounts exclude pretax incremental repositioning charges totaling \$377 million (\$260 million after-tax, or \$0.61 per share).

One-Year Performance

Years ended September 30

(Dollars in millions, except per-share amounts)

	2000	2001	Percent Change
Sales	\$15,545	\$15,480	–
Operating Profit	\$2,541	\$2,419	(5%)
Percent of Sales	16.3%	15.6%	
Operating Earnings	\$1,422	\$1,292	(9%)
Operating Earnings Per Share	\$3.30	\$3.01	(9%)
Operating Earnings Per Share Excluding Goodwill	\$3.63	\$3.36	(7%)
Net Earnings	\$1,422	\$1,032	(27%)
Earnings Per Share	\$3.30	\$2.40	(27%)
Dividends Per Share	\$1.43	\$1.53	7%
Free Cash Flow	\$1,148	\$1,154	1%
Return on Total Capital	16.1%	13.8%	
Return on Equity	22.6%	20.2%	

Our most successful contributors are balancing the benefits of division autonomy with the need to leverage Emerson's global scale. Teamwork and speed will be hallmarks of our achievements.

We anticipate additional divestitures in the next few years totaling from \$500 million to \$1 billion of sales, as well as acquisitions to support higher growth. Each of our five business segments will remain important, but the segment weighting will continue to shift as consumer, industrial and electronics sales become more balanced.

As we interact with customers globally and provide more cross-divisional solutions, the Emerson brand has become a valuable asset in communicating our capabilities. Over the past year, we established a series of brand platforms, such as Emerson Process Management, Emerson Network Power and Emerson Climate Technologies, uniting the capabilities of complementary divisions under the Emerson name. We continue to increase communications in support of these brand platforms.

OPERATIONAL EXCELLENCE

Emerson has long been recognized for delivering strong profitability and high-quality earnings, measured by free cash flow as a percent of net earnings. We are driving further improvement in these areas, to continue to grow cash flow faster than earnings and to expand reported operating margins.

Working capital improvement will be a primary driver of cash flow growth. We continue to deploy lean manufacturing techniques designed to reduce customer lead times and inventory levels. This will also help reduce capital spending. New facilities are being designed to operate lean from the start, and existing operations that have converted have shown significant improvements. In receivables and payables, we are utilizing e-business technologies to aggregate and optimize transactions.

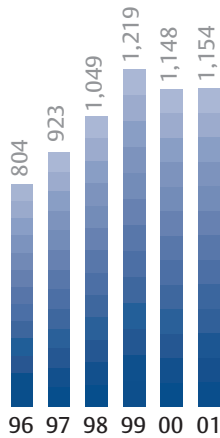
I believe e-business is the most powerful source of productivity improvement that Emerson has seen in many years. Applications that centralize

and improve companywide costs create step-change opportunities to improve reported profit margins. Across the Company, we purchase annually more than \$5 billion in material, and with our Intranet-based Material Information Network, Emerson is aggregating and sourcing common parts. In addition, our divisions annually spend another \$5 billion in support costs such as SG&A, travel, logistics, and information technology infrastructure. E-business enables us to become a single purchaser in support as well, and only a few percent savings in either category can generate over a full point of margin improvement. We are tracking e-business programs as part of our quarterly and long-term profit planning efforts to ensure we capture these savings.

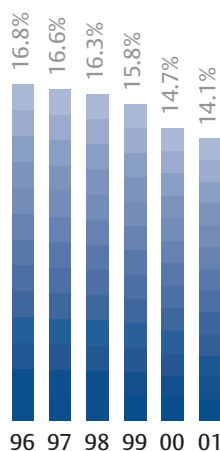
Balancing Emerson's strong divisional and business autonomy with centralization is not always easy. But done properly, it can provide growth and profit opportunities that were previously unachievable. Our brand strategy of aligning divisions under customer platforms, our success in delivering solutions from multiple operations, and our early gains in e-business show that this balance can achieve great things.

Another important area for value creation is Return On Total Capital (ROTC). For the first time in many years, Emerson's ROTC declined to less than 14 percent, driven by the economic downturn and aggressive acquisitions, which initially dilute the overall company metric. Although still well above our cost of capital, we plan to return this measure to high-teen levels through improvements to working capital and profitability, as well as reductions in assets through lower capital spending and increased outsourcing. A recent decision to outsource crankshaft manufacturing at one of our Copeland Scroll facilities freed enough capacity to increase output by more than 70 percent within the existing plant walls.

Free Cash Flow
(Dollars in millions)



Operating Working
Capital as a Percent
of Sales





COMPANY LEADERSHIP

Our actions over the past year have strengthened Emerson and position us for a stronger rebound when the economy improves. I am energized by the opportunities ahead, and our leadership team is committed to converting these opportunities into increased growth and shareholder value. As always, our people are the key to delivering this future, and they are rising to the challenge. Our most successful contributors are balancing the benefits of division autonomy with the need to leverage Emerson's global scale. Teamwork and speed will be hallmarks of our achievements.

In October 2001, we expanded our executive team by naming Edward L. Monser as chief operating officer. Ed is a long-time leader in our process business, most recently as president of the Rosemount division. He joins the Office of the Chief Executive (OCE), which includes President James G. Berges, Executive Vice President and Chief Financial Officer Walter J. Galvin, and Senior Executive Vice President Charles A. Peters.

We deeply appreciate the continuing counsel of Chairman Charles F. Knight, whose nearly three

decades of experience as CEO are invaluable to the OCE and the entire management team. Chuck and I have an excellent working relationship, and I am delighted he has agreed to my request to remain as chairman for up to two years. His comments about the board are on page 36.

In February, Joseph A. Frates will retire from the board after more than three decades of distinguished service to three Emerson CEOs. We thank Joe for his exemplary leadership and his many great contributions to Emerson.

The board members have been extremely supportive of our efforts in 2001, and their contribution is appreciated. I look forward to working with them as we lead Emerson to continued success.

As always, we also thank our shareholders and employees for their continuing support.

On behalf of the Office of the Chief Executive,

David N. Farr
Chief Executive Officer

Office of the Chief Executive

Charles A. Peters
Senior Executive Vice President

Walter J. Galvin
Executive Vice President and
Chief Financial Officer

David N. Farr
Chief Executive Officer

James G. Berges
President

Edward L. Monser
Chief Operating Officer

Around the world, every day, decisions are being considered that can mean the difference between failure and success. Emerson's customers operate in high-stakes environments – petrochemical facilities and computing centers, factory floors and grocery stores, communications networks and where we live and work – and they require partners who can help ensure success.

When the



PARTNERING WITH SINCOR TO OPTIMIZE PETROLEUM PRODUCTION IN VENEZUELA

Emerson Process Management is teaming with SINCOR, a consortium that includes Total-Fina-Elf, Statoil, and PDVSA, Venezuela's state-owned oil company, to extract and refine oil from fields in the Orinoco Belt. Emerson teams from Venezuela, the United States and France are working with SINCOR engineers to apply Emerson's PlantWeb architecture, which includes intelligent field devices with AMS predictive maintenance software, and achieve maximum processing efficiency. PlantWeb technology, combined with Emerson's project engineering expertise, will help SINCOR realize a 40 percent reduction in startup costs and reach output of 180,000 barrels a day at this location.



stakes are high

Emerson. Consider It Solved.





Combining long-standing product and technology leadership with industry expertise, Emerson is uniquely positioned to deliver comprehensive solutions and support to customers in a wide range of critical applications.



PROTECTING CRITICAL COMMUNICATIONS SYSTEMS FOR TELEFONICA IN SPAIN

Telefonica, one of the world's leading telecommunications companies, provides all data and communications links for Bolsa de Madrid, the Spanish stock exchange. Telefonica depends on Emerson Network Power to provide the reliable power behind this critical network with an infrastructure that includes power systems, switching, and specially designed hardware and software. Emerson also ensures systemwide reliability with ongoing Web-based remote site monitoring and on-call customer support. From power components to climate and power systems, Emerson Network Power offers end-to-end reliable power solutions for today's networked economy.



USING CLIMATE TECHNOLOGY TO PROTECT FOOD QUALITY AT RALPHS

For decades, Emerson has been the leader in compressors, valves, motors, and other products for refrigeration systems in the supermarket industry. Now, Emerson Retail Services, a part of Emerson Climate Technologies, is combining that product know-how with new measurement and communications technology to offer a proprietary remote refrigeration monitoring service to supermarket chains like Ralphs, a division of Kroger. This innovative service provides 24/7 surveillance of equipment and temperatures, providing instant notification of problems via the Internet or phone lines to Emerson's control center. Monitoring technicians can then quickly dispatch assistance, protecting consumers and avoiding spoilage costs.





More than half of Emerson's sales are driven by technology-based products and services, which are key to long-term growth. Through Engineering and Development investment of nearly \$600 million annually, Emerson continues to drive innovation and sustain its leadership.



ENABLING OPTIMUM PERFORMANCE FOR BP CHEMICALS

Through its portfolio of technologically superior field devices, process automation architecture, and wide-ranging industry expertise, Emerson Process Management enables true plant optimization for world-leading companies such as BP Chemicals. With the industry-leading PlantWeb digital plant architecture, BP Chemicals is automating its new \$100 million facility in Ohio to control costs, improve production, and realize greater system reliability when producing 1,4-butanediol (BDO), a chemical compound used in specialized fibers, plastics, and adhesives. Emerson's PlantWeb technology is leading the way to provide higher reliability with less complexity across all process industries.



DISCOVERING NEW WAYS TO “ELECTRIFY” CATERPILLAR EQUIPMENT

Companies around the world are discovering the benefits of applying Emerson's advanced motor technology for new applications. With Caterpillar Inc., the world leader in off-highway equipment and engines, Emerson is proving the benefits of replacing traditional diesel-powered components with new electronic systems driven by Emerson's starter/generator technology. With more than 600 patents and \$100 million invested, Emerson Motor Technologies is creating smaller, more efficient motors to replace traditional electromechanical systems, in applications ranging from off-highway equipment to passenger vehicles and laundry products.





Emerson's international sales now exceed \$6 billion annually. Asia will play an important role in our continued growth. With more than 22,000 employees and sales of approximately \$1.7 billion in the Asia-Pacific region, Emerson has the products and presence to capitalize on this opportunity.



PROVIDING COMMUNICATIONS POWER INFRASTRUCTURE IN CHINA

The acquisition of Avansys, the power conversion division of Huawei Technologies and one of China's finest companies, creates expanded opportunities for growth as Emerson participates in the fast-growing China market. It is an important next step in sustaining Emerson's global leadership in powering the networked economy. Avansys immediately adds significant geographic presence and major customer relationships to Emerson's global Network Power business and offers in China the world's largest potential market for telecom growth. Further, Avansys provides Emerson with an outstanding engineering and manufacturing infrastructure that can be leveraged by our businesses worldwide.



DELIVERING QUIET, EFFICIENT COOLING SOLUTIONS IN KOREA

A growing number of buildings worldwide feature air conditioners equipped with Copeland Digital Scroll compressors, a technology that enables variable cooling capability for a more evenly regulated environment. A three-tower, 75-story condominium complex in Seoul contains more than 1,800 Samsung units, each powered by Digital Scroll technology. Sales of Scroll compressors, a technology pioneered by Copeland, totaled nearly \$900 million in 2001. Increasing U.S. energy efficiency standards, continued global expansion and new applications such as Digital Scroll are expected to drive continued strong growth for Emerson Climate Technologies.



Financial Review

Results of Operations

Net Sales

Sales for 2001 were \$15.5 billion, a decrease of \$65 million, or 0.4 percent, from 2000. Strong sales growth in the Process Control business from PlantWeb and solutions activities was negated by weakness in the Industrial Automation; Heating, Ventilating, and Air Conditioning (HVAC); and Appliance and Tools businesses. In addition, robust gains in the Electronics and Telecommunications business in the first half of 2001 reversed in the second half. Sales also were impacted by divestitures and a stronger U.S. dollar, with each reducing reported sales by more than 2 percent. Underlying sales realized slight growth excluding acquisitions, divestitures and the unfavorable impact from currency. U.S. sales decreased by approximately \$360 million, or 4 percent, while international sales increased approximately \$295 million, or 5 percent. New product sales, from products introduced in the past five years, were \$5.4 billion, representing 35 percent of sales.

In 2000, sales were \$15.5 billion, up \$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. Excluding the impact of divestitures, 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 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.

International Sales

International sales, including U.S. exports, increased 5 percent, to a record \$6.2 billion in 2001, representing 40 percent of the Company's total sales. U.S. exports were in line with a year ago, at \$1.0 billion. Sales by non-U.S. subsidiaries were \$5.3 billion in 2001, up 7 percent from 2000. International subsidiary sales increased 8 percent excluding acquisitions, divestitures and the unfavorable impact of currency translation of approximately \$310 million. Very strong growth in Asia and Latin America and moderate growth in Europe was slightly offset by the impact of currency exchange.

In 2000, international sales increased over 3 percent to \$5.9 billion, 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.

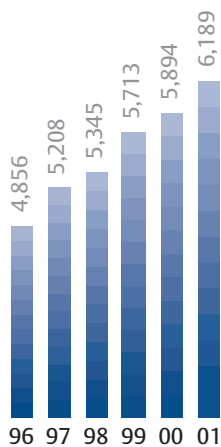
Business Segment Sales – 2001 vs. 2000

The Process Control business sales increased 8 percent to \$3.3 billion in 2001, reflecting continued high customer demand for PlantWeb technology and strong growth in the solutions and services areas. These capabilities have dramatically increased the Company's end-market opportunity, and the uniqueness of Emerson's offerings has allowed the Company to firmly establish a leading position. The Company's product strength in control systems, valve and measurement devices also played a key role in the growth, as general maintenance and repair spending returned to more normalized levels after a challenging 2000 and 1999. Very strong growth in the United States and Asia and moderate growth in Europe were dampened by the impact of currency exchange.

Sales of the Industrial Automation business declined 7 percent to \$3.0 billion in 2001, due to a modest decline in underlying sales, unfavorable currency exchange and the Krautkramer and Sweco divestitures. U.S. capital goods markets showed considerable weakness, while underlying European sales increased moderately and Asian sales grew modestly versus 2000.

The Electronics and Telecommunications business reported a 9 percent increase in sales, to \$3.6 billion in 2001, due to the acquisitions of Jordan Telecommunication Products, Inc. and Ericsson Energy Systems in 2000. Underlying sales increased modestly, excluding the impact of acquisitions, divestitures and currency exchange. After a 30 percent underlying increase in the first half of 2001, sales declined over 20 percent in the second half. Fiber-optic and embedded power products were the first to be impacted by the overall downturn in computing and communications markets, and systems sales declined as the year progressed. U.S. sales declined slightly, partially offsetting very strong growth in Europe, Asia and Latin America, with all regions slowing dramatically in the second half of the year.

International
Destination Sales
(Dollars in millions)



International destination sales increased to a record \$6.2 billion in 2001.

Sales of the HVAC business declined 2 percent from the prior year to \$2.4 billion, primarily due to lower U.S. demand for air conditioning and refrigeration products at the residential, commercial and industrial levels. Underlying sales decreased slightly, excluding the unfavorable impact from currency exchange, with very strong gains in Asia and solid gains in Europe more than offset by a moderate decline in U.S. sales, which comprise approximately 65 percent of sales in this business. New growth opportunities for scroll compressor technology continue to develop, with Copeland Scroll sales reaching nearly \$900 million in 2001.

The Appliance and Tools business reported \$3.5 billion in sales in 2001, an 8 percent decrease from 2000. This decline is primarily the result of the Vermont American divestiture in fiscal 2000, the weak U.S. capital goods environment and a challenging appliances market. Underlying tools sales were flat versus 2000. A moderate overall decline in underlying sales was due to softness in both domestic and international markets.

Business Segment Sales – 2000 vs. 1999

The Process Control business achieved a 5 percent sales increase to \$3.1 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.

Sales of the Industrial Automation business were \$3.2 billion in 2000, down 7 percent. Solid underlying improvement in Europe and other international regions, the late-1999 acquisitions of Kato and MagneTek's alternator operations, and stabilization in U.S. capital goods markets were negatively impacted by the stronger U.S. dollar and the F.G. Wilson and Krautkramer divestitures.

The Electronics and Telecommunications business achieved outstanding performance, with sales increasing 59 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 and Ericsson. 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.

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.

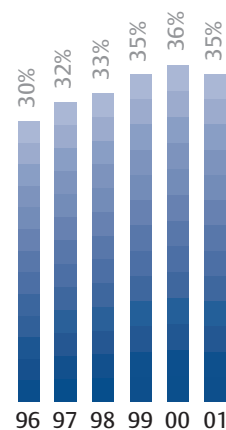
Sales of the Appliance and Tools business increased 1 percent to \$3.8 billion. Very strong underlying growth in the tools operations was offset by the impact of the Vermont American divestiture and unfavorable currency exchange. Tools sales through the rapidly growing home centers channel increased 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.

Acquisitions, Divestitures and Repositioning

The Company continued to reposition into faster-growth markets, acquiring several businesses, divesting two slower-growth businesses and contributing another business into a joint venture in 2001. Subsequent to year-end, the Company agreed to exchange its ENI semiconductor equipment division for an equity interest in MKS Instruments, Inc. of 12 million common shares. The Company also announced the divestiture of its Chromalox industrial heating solutions business. These five divested businesses had combined annualized sales of approximately \$500 million. Additionally, in the first quarter of 2002, the Company acquired Avansys Power Co., Ltd., a provider of network power products to the telecommunications industry in China, for approximately \$750 million in cash. The 2001 divestitures and the final F.G. Wilson proceeds resulted in total gains of \$187 million in 2001, which were offset by ongoing costs incurred for the rationalization of operations and other items.

To accelerate cost reductions and better position the Company for the global economic environment, in the fourth quarter of 2001, the Company recognized a pretax incremental repositioning charge of \$377 million (\$260 million after-tax, or \$0.61 per share). Cost of sales, selling, general and administrative expenses and other deductions, net include charges of \$89 million, \$51 million and \$237 million, respectively. The charge was primarily non-cash and was mainly associated with the planned disposition of facilities, exiting the manufacturing of non-strategic product lines and the writedown of inventory. See note 3 for additional information.

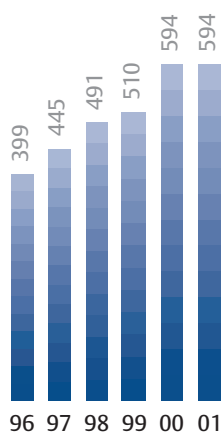
New Product Sales
as a Percent of Sales



Emerson continues to expand market opportunities, with new products representing 35 percent of sales in 2001.

Engineering and Development Investment

(Dollars in millions)



Emerson's commitment to technology is reflected in the sustained investment in engineering and development.

Total Costs and Expenses

Cost of sales was \$10.1 billion in 2001, an increase of 1.0 percent. In 2000, cost of sales was \$10.0 billion, compared with \$9.2 billion in 1999. Cost of sales as a percent of net sales was 65.4 percent in 2001 and 64.4 percent in 2000 and 1999. Despite slowing business conditions, the impact of recent acquisitions and the repositioning charge, gross profit margins have remained at high levels as a result of a disciplined ongoing focus on cost reductions, including the companywide intranet-based consolidation of material purchases and other e-business activities, which continue to drive solid margins.

Selling, general and administrative (SG&A) expenses were \$3.1 billion, \$3.0 billion and \$2.8 billion in 2001, 2000 and 1999, respectively. As a percent of net sales, SG&A expenses were 19.9 percent, 19.2 percent and 19.4 percent in 2001, 2000 and 1999, respectively. The increase in SG&A as a percent of net sales in 2001 was primarily due to the impact of recent acquisitions and the effect of the repositioning charge. The Company continued its commitment to technology investment with engineering and development expense of \$594 million in 2001 and 2000, and \$510 million in 1999.

Interest expense increased to \$304 million in 2001 from \$288 million in the prior year. In 2000, interest expense increased from \$190 million in 1999. These increases primarily reflect higher average borrowings resulting from acquisitions and share repurchases.

Other deductions, net, including amortization of intangibles, were \$386 million in 2001, compared with \$75 million and \$95 million in 2000 and 1999, respectively. The increase in 2001 was primarily due to the repositioning charge discussed above. Fiscal 2001 included a gain of \$60 million from the disposition of the Sweco specialty separation business and a gain of \$55 million from the disposition of the Xomox valve business. Also in 2001, the Company and Crane Co. formed a joint venture combining Emerson's Commercial Cam Co. subsidiary and Crane Co.'s Ferguson Company division, which resulted in a gain of \$24 million. 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 offset by costs incurred for the rationalization of operations and other items.

Income Before Income Taxes

Income before income taxes decreased \$590 million, or 27.1 percent, to \$1.6 billion in 2001. These results were led by a sharp decline in second-half sales, reflecting an unprecedented decline in customer demand for network power products in the Electronics and Telecommunications business, and rationalization and other charges. The following discussions of segment earnings exclude the incremental repositioning charges. Earnings before interest and income taxes in the Process Control business were \$360 million in 2001, a 28 percent increase from 2000, reflecting broad strength across virtually all areas of the business and rationalization of the cost structure completed over the past two years. The Industrial Automation business earnings were \$400 million in 2001, a decrease of 14 percent from 2000, due to the steep downturn in industrial capital goods spending, divestitures and a stronger U.S. dollar. Earnings of the Electronics and Telecommunications business were \$359 million in 2001, a decrease from 2000, reflecting the deleverage impact on profits resulting from the declining sales volume and higher costs for the rationalization of operations. Earnings of the HVAC business decreased \$35 million, or 9 percent, to \$347 million in 2001, due to lower U.S. demand for air conditioning and refrigeration products in all markets. The Appliance and Tools business earnings decreased to \$503 million, or 13 percent, from 2000, primarily due to decreases in volume and the Vermont American divestiture. See note 12 for additional information by business segment and geographic area.

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 \$281 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 were \$466 million in 2000, in line with 1999, due to moderate sales growth and acquisitions, offset by divestitures and currency exchange. Earnings of the Electronics and Telecommunications business increased \$213 million, or 91 percent, to \$447 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 decreased \$7 million, to \$581 million, with increased underlying sales volume in the tools operations offset by the Vermont American divestiture.

Income Taxes

Income taxes were \$557 million, \$756 million and \$707 million in 2001, 2000 and 1999, respectively. The effective tax rate was 35.1 percent in 2001, compared with 34.7 percent in 2000 and 35.0 percent in 1999, reflecting the net effect of ongoing global tax planning strategies and the impact of acquisitions and divestitures.

Net Earnings and Return on Equity

Net earnings for 2001 were \$1.0 billion, down 27.5 percent from \$1.4 billion in 2000. Net earnings as a percent of sales was 6.7 percent in 2001 and 9.2 percent in 2000. Diluted earnings per common share were \$2.40 in 2001, down 27.3 percent from \$3.30 in 2000. Excluding the repositioning charge, earnings were \$1.3 billion and earnings per share were \$3.01 in 2001, both down 9 percent from 2000. Earnings per share excluding the charge and goodwill amortization were \$3.36 in 2001, down 7 percent from \$3.63 in 2000. Return on average stockholders' equity was 16.5 percent, 22.6 percent and 21.9 percent in 2001, 2000 and 1999, respectively. Net earnings for 2000 were up 8.3 percent from \$1.3 billion in 1999. Diluted earnings per common share in 2000 were up 10.0 percent from \$3.00 in 1999. Earnings per share excluding goodwill amortization in 2000 were up 11.0 percent from \$3.27 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 \$1.7 billion in 2001, down 7.2 percent from the prior year. Operating cash flow in 2000 increased 1.6 percent compared with 1999. Decreases in operating working capital as a percentage of sales have been offset by increased pension contributions. In 2001, average operating working capital as a percentage of sales was 14.1 percent compared with 14.7 percent and 15.8 percent in 2000 and 1999, respectively.

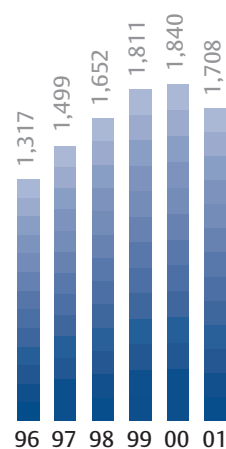
Free cash flow (operating cash flow less capital expenditures) increased in 2001, driven by a 20 percent decrease in capital spending. Capital expenditures were \$554 million, \$692 million and \$592 million in 2001, 2000 and 1999, respectively. The Company expects to again reduce capital spending in 2002. Cash paid in connection with Emerson's purchase acquisitions was \$200 million, \$1,972 million and \$1,202 million in 2001, 2000 and 1999, respectively.

Dividends were a record \$654 million (\$1.53 per share, up 7 percent) in 2001, compared with \$613 million (\$1.43 per share) in 2000, and \$566 million (\$1.30 per share) in 1999. In November 2001, the Board of Directors voted to increase the quarterly cash dividend to an annualized rate of \$1.55 per share and authorized an additional 40 million shares of the Company's outstanding common stock to be repurchased over approximately the next five years. Nearly all of the 40 million shares, previously authorized in November 1996, were repurchased by the end of 2001. Net purchases of treasury stock totaled \$534 million, \$376 million and \$324 million in 2001, 2000 and 1999, respectively.

Leverage/Capitalization

Total debt increased to \$4.7 billion in 2001, from \$4.6 billion in 2000 and \$3.3 billion in 1999, reflecting the impact of acquisitions and the Company's share repurchase program. The total debt-to-capital ratio was 43.5 percent at year-end 2001, compared with 41.8 percent in 2000 and 34.6 percent in 1999. At September 30, 2001, net debt (total debt less cash and equivalents and short-term investments) was 41.5 percent of net capital, compared with 40.2 percent of net capital in 2000 and 32.7 percent in 1999. The Company's interest coverage ratio (income before income taxes and interest expense divided by interest expense) was 6.2 times in 2001, compared with 8.6 times in 2000 and 11.7 times in 1999, primarily reflecting lower earnings and higher average borrowings resulting from acquisitions and share repurchases. See notes 3, 5 and 6 for additional information.

Operating Cash Flow
(Dollars in millions)



Emerson continued to generate substantial operating cash flow of \$1.7 billion in 2001.

At year-end 2001, 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 \$440 million to support non-U.S. operations. Lines of credit totaling \$1.5 billion are effective until 2005, with the remainder through April 2002. These lines of credit and bank credit facilities assure the availability of funds at prevailing interest rates. In addition, as of September 30, 2001, the Company could issue up to \$2 billion of additional debt securities under its shelf registration with the Securities and Exchange Commission. Subsequent to year-end, the Company issued \$250 million of 5.75%, 10-year notes and \$250 million of 5 ⁵/₁₆%, 12-year notes which were used to reduce commercial paper borrowings.

Financial Instruments

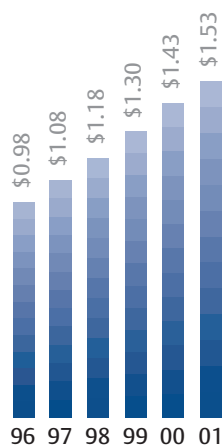
The Company is exposed to market risk related to changes in interest rates, copper and other commodity prices and European and other foreign currency exchange rates, and selectively uses derivative financial instruments, including forwards, swaps and purchased options, to manage these risks. The Company 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, ten-percent decrease in commodity prices 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 and lower commodity prices would benefit future earnings through lower cost of sales. See notes 1, 4, 5 and 6.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." FAS 142, which Emerson has the option to adopt in fiscal 2002 or 2003, requires, among other things, the discontinuance of goodwill amortization for business combinations before July 1, 2001, and completion of a transitional goodwill impairment test within six months from the date of adoption. The Company is in the process of reviewing the provisions of this statement and evaluating its impact on the financial statements. Goodwill amortization was \$164 million in 2001, and will be discontinued upon adoption.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the impairment or disposal of long-lived assets and the reporting of discontinued operations. The Company is in the process of reviewing the provisions of this statement, which must be adopted by 2003, to evaluate its impact on the financial statements.

Dividends Per Share



Dividends per share increased 7 percent in 2001, representing the 45th consecutive annual increase.

Consolidated Statements of Earnings

Emerson Electric Co. and Subsidiaries

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales	<u>\$15,479.6</u>	<u>15,544.8</u>	<u>14,269.5</u>
Costs and expenses:			
Cost of sales	10,118.5	10,016.0	9,193.8
Selling, general and administrative expenses	3,081.9	2,987.9	2,770.2
Interest expense	304.3	287.6	189.7
Other deductions, net	<u>386.3</u>	<u>75.0</u>	<u>94.9</u>
Total costs and expenses	<u>13,891.0</u>	<u>13,366.5</u>	<u>12,248.6</u>
Income before income taxes	1,588.6	2,178.3	2,020.9
Income taxes	<u>556.8</u>	<u>755.9</u>	<u>707.3</u>
Net earnings	<u>\$ 1,031.8</u>	<u>1,422.4</u>	<u>1,313.6</u>
Basic earnings per common share	<u>\$ 2.43</u>	<u>3.33</u>	<u>3.03</u>
Diluted earnings per common share	<u>\$ 2.40</u>	<u>3.30</u>	<u>3.00</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Emerson Electric Co. and Subsidiaries

September 30
(Dollars in millions except per share amounts)

Assets

	2001	2000
Current assets		
Cash and equivalents	\$ 355.7	280.8
Receivables, less allowances of \$79.0 in 2001 and \$58.5 in 2000	2,551.2	2,705.6
Inventories:		
Finished products	722.8	861.8
Raw materials and work in process	1,174.0	1,190.9
Total inventories	1,896.8	2,052.7
Other current assets	516.4	443.6
Total current assets	5,320.1	5,482.7
Property, plant and equipment		
Land	172.0	174.9
Buildings	1,303.5	1,261.9
Machinery and equipment	4,821.2	4,558.1
Construction in progress	367.5	416.7
	6,664.2	6,411.6
Less accumulated depreciation	3,376.2	3,168.2
Property, plant and equipment, net	3,288.0	3,243.4
Other assets		
Goodwill, less accumulated amortization of \$922.2 in 2001 and \$852.2 in 2000	5,182.0	5,320.0
Other	1,256.3	1,118.2
Total other assets	6,438.3	6,438.2
	\$ 15,046.4	15,164.3

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	2001	2000
Current liabilities		
Short-term borrowings and current maturities of long-term debt	\$ 2,447.5	2,352.7
Accounts payable	1,127.5	1,210.6
Accrued expenses	1,619.4	1,390.6
Income taxes	184.7	264.9
Total current liabilities	5,379.1	5,218.8
Long-term debt	2,255.6	2,247.7
Other liabilities	1,297.7	1,295.0
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 2001 and 2000	238.3	238.3
Additional paid-in capital	30.9	53.0
Retained earnings	8,990.7	8,612.9
Accumulated other nonstockholder changes in equity	(741.3)	(578.6)
	8,518.6	8,325.6
Less cost of common stock in treasury, 57,051,435 shares in 2001 and 49,200,165 shares in 2000	2,404.6	1,922.8
Total stockholders' equity	6,114.0	6,402.8
	\$ 15,046.4	15,164.3

Consolidated Statements of Stockholders' Equity

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions except per share amounts)

	2001	2000	1999
Common stock	\$ 238.3	238.3	238.3
Additional paid-in capital			
Beginning balance	53.0	23.9	27.9
Stock plans and other	(22.1)	29.1	(4.0)
Ending balance	30.9	53.0	23.9
Retained earnings			
Beginning balance	8,612.9	7,803.7	7,056.5
Net earnings	1,031.8	1,422.4	1,313.6
Cash dividends (per share: 2001, \$1.53; 2000, \$1.43; 1999, \$1.30)	(654.0)	(613.2)	(566.4)
Ending balance	8,990.7	8,612.9	7,803.7
Accumulated other nonstockholder changes in equity			
Beginning balance	(578.6)	(271.6)	(236.2)
Translation adjustments	(100.5)	(307.0)	(35.4)
Cash flow hedges and other	(62.2)	—	—
Ending balance	(741.3)	(578.6)	(271.6)
Treasury stock			
Beginning balance	(1,922.8)	(1,613.8)	(1,283.2)
Acquired	(562.3)	(353.8)	(361.2)
Issued under stock plans and other	80.5	44.8	30.6
Ending balance	(2,404.6)	(1,922.8)	(1,613.8)
Total stockholders' equity	\$ 6,114.0	6,402.8	6,180.5
Nonstockholder changes in equity (Net earnings, Translation adjustments and Other)	\$ 869.1	1,115.4	1,278.2

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions)

	2001	2000	1999
Operating activities			
Net earnings	\$1,031.8	1,422.4	1,313.6
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	708.5	678.5	637.5
Changes in operating working capital	121.2	(104.9)	35.7
Gains on divestitures, pension funding and other	(153.8)	(156.2)	(176.3)
Net cash provided by operating activities	1,707.7	1,839.8	1,810.5
Investing activities			
Capital expenditures	(554.2)	(692.0)	(591.6)
Purchases of businesses, net of cash and equivalents acquired	(200.1)	(1,971.8)	(1,202.0)
Divestitures of businesses and other, net	206.6	168.6	215.5
Net cash used in investing activities	(547.7)	(2,495.2)	(1,578.1)
Financing activities			
Net increase in short-term borrowings	97.2	514.6	503.5
Proceeds from long-term debt	35.9	1,197.8	470.9
Principal payments on long-term debt	(25.2)	(18.4)	(257.0)
Net purchases of treasury stock	(533.7)	(376.2)	(323.7)
Dividends paid	(654.0)	(613.2)	(566.4)
Net cash (used in) provided by financing activities	(1,079.8)	704.6	(172.7)
Effect of exchange rate changes on cash and equivalents	(5.3)	(34.5)	(3.3)
Increase in cash and equivalents	74.9	14.7	56.4
Beginning cash and equivalents	280.8	266.1	209.7
Ending cash and equivalents	\$ 355.7	280.8	266.1
Changes in operating working capital			
Receivables	\$ 135.4	(235.5)	(23.1)
Inventories	99.4	(167.0)	69.0
Other current assets	(6.5)	(12.8)	(12.2)
Accounts payable	(76.6)	194.6	(25.4)
Accrued expenses	43.5	66.1	(31.5)
Income taxes	(74.0)	49.7	58.9
	\$ 121.2	(104.9)	35.7

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. The effect of resetting standards and operating variances incurred during each period 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. 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 based on fair value if expected future cash flows of the related assets are less than their carrying values.

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. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations." FAS 141 requires the purchase method of accounting, eliminates the pooling-of-interests method, and eliminates the amortization of goodwill for business combinations after June 30, 2001.

Revenue Recognition

The Company recognizes substantially all of its revenues through the sale of manufactured products and records the sale as products are shipped and title passes to the customer.

Financial Instruments

Effective October 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The adoption of FAS 133 did not have a material effect on the Company's financial statements. For derivative instruments designated as a cash flow hedge, the gain or loss on the derivative is deferred as a separate component of stockholders' equity until recognized in earnings with the underlying hedged item. For derivative instruments designated as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item are recognized immediately in earnings. 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 \$1,561 at September 30, 2001), 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 primarily comprised of net earnings and foreign currency translation adjustments. Accumulated translation adjustments were \$679 and \$579 at September 30, 2001 and 2000, respectively.

Financial Statement Presentation

The preparation of the financial statements in conformity with U.S. 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>2001</u>	<u>2000</u>	<u>1999</u>
Basic	<u>425.4</u>	427.4	433.8
Dilutive shares	<u>4.1</u>	4.0	4.6
Diluted	<u>429.5</u>	<u>431.4</u>	<u>438.4</u>

(3) Acquisitions, Divestitures and Repositioning

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Fair value of assets acquired	<u>\$ 243.3</u>	2,141.7	1,475.7
Less liabilities assumed	<u>43.2</u>	169.9	273.7
Cash paid (net of cash and equivalents acquired)	<u>\$ 200.1</u>	<u>1,971.8</u>	<u>1,202.0</u>

In 2001, the Company acquired Saab Marine Electronics AB, a manufacturer of radar level gauging equipment, and other smaller businesses. During the first quarter of 2001, the Company received \$75 from the divestiture of the Sweco specialty separation business resulting in a pretax gain of \$60. The Company sold its Xomox valve business for \$145 resulting in a pretax gain of \$55 in the third quarter of 2001. During the fourth quarter of 2001, the Company and Crane Co. formed a joint venture combining Emerson's Commercial Cam Co. subsidiary and Crane Co.'s Ferguson Company division. The transaction resulted in a pretax gain of approximately \$24, and the venture is accounted for by the equity method. These transactions and the final F.G. Wilson proceeds resulted in total gains of \$187 related to divestitures in 2001, which were offset by ongoing costs for the rationalization of operations and other items. In the first quarter of 2002, the Company acquired Avansys Power Co., Ltd., a provider of network power products to the telecommunications industry in China, for approximately \$750 in cash.

In the fourth quarter of 2001, the Company recognized a pretax incremental repositioning charge of \$377 (\$260 after-tax) for the consolidation and rationalization of operations of \$136, exiting the manufacturing of certain product lines of \$124, and the writedown of certain non-strategic investments and other costs of \$52. In addition, the charge includes the writedown of inventory to realizable value of \$65 associated with the rapid acceleration of sales growth in 2000 and subsequent sharp decline in mid-year 2001, particularly in the Electronics and Telecommunications business. These charges were in addition to the recurring costs of operations and ongoing cost reduction and productivity improvement programs. Cost of sales, selling, general and administrative expenses and other deductions, net include charges of \$89, \$51 and \$237, respectively.

Costs associated with the consolidation and rationalization of operations to improve the cost structure are primarily related to the Electronics and Telecommunications, Appliance and Tools and Process Control businesses, and include the writedown of fixed assets to liquidation value of \$62, impairment of intangibles of \$30, severance related costs of \$22, and lease termination and other costs of \$22. The costs to exit the manufacturing of certain product lines are principally in the Appliance and Tools business and include the writedown of fixed assets, investment and inventory related items of \$46, impairment of intangibles of \$23, and other obligations of \$55. In total, the charge relates to the exit from over twenty production and office facilities in the United States, Europe and Asia. The repositioning charge includes the elimination of approximately 2,900 positions, and an additional 1,100 positions will be provided for when announced in 2002, along with other period costs for shutdown and moving. See note 12 for the impact of the charges by business segment.

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.

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 during the third quarter of 2000. 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.

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), during 1999. The Company also incurred costs for the rationalization of other operations that more than offset this gain. In addition, the Company received a percentage of future F.G. Wilson revenue and received a total of \$98 during 2000 and 2001. F.G. Wilson had sales of approximately \$410 in 1998.

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) Financial Instruments

The Company selectively uses derivative financial instruments to manage interest costs, commodity prices and 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.

To efficiently manage interest costs, the Company utilizes interest rate swaps as cash flow hedges of variable rate debt or fair value hedges of fixed rate debt. Also as part of its hedging strategy, the Company utilizes purchased option and forward exchange contracts and commodity swaps as cash flow hedges to minimize the impact of currency and commodity price fluctuations on transactions, cash flows and firm commitments. These contracts for the sale or purchase of European and other currencies and the purchase of copper and other commodities generally mature within one year, and gains and losses deferred in accumulated other nonstockholder changes in equity 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 estimated fair value of each of the Company's classes of financial instruments approximated the related carrying value at September 30, 2001 and 2000.

(5) Short-term Borrowings and Lines of Credit

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

	<u>2001</u>	<u>2000</u>
Commercial paper	\$ 2,112.0	1,742.8
Payable to banks	91.3	74.6
Other	244.2	535.3
Total	<u>\$ 2,447.5</u>	<u>2,352.7</u>
Weighted average interest rate at year end	<u>3.9%</u>	<u>6.0%</u>

In 2001, the Company entered into an interest rate swap agreement, which fixed the rate of \$250 of commercial paper at 6.0 percent through December 2010. 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 November 1996, 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 5.2 and 6.8 percent at September 30, 2001 and 2000, 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, 2001, 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 April 2002. 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 \$490 (\$440 unused) at September 30, 2001. 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, 2001, the Company could issue up to \$2,000 of additional debt securities under its shelf registration with the Securities and Exchange Commission.

(6) Long-term Debt

Long-term debt is summarized as follows:

	<u>2001</u>	<u>2000</u>
7 ⁷ / ₈ % notes due 2005	\$ 600.0	600.0
6.3% notes due 2006	250.0	250.0
5 ¹ / ₂ % notes due 2008	250.0	250.0
5% notes due 2009	175.0	175.0
5.85% notes due 2009	250.0	250.0
7 ¹ / ₈ % notes due 2010	500.0	500.0
Other	252.2	235.0
	<u>2,277.2</u>	<u>2,260.0</u>
Less current maturities	21.6	12.3
Total	<u>\$ 2,255.6</u>	<u>2,247.7</u>

In 2000, the Company issued \$600 of 7 ⁷/₈%, five-year notes that were simultaneously swapped to floating U.S. commercial paper rates. The Company terminated the swap in 2001, establishing an effective interest rate of 6.9 percent at September 30, 2001. In 1999, the Company issued \$250 of 5.85%, ten-year notes that were simultaneously swapped to U.S. commercial paper rates. The Company terminated the swap in 2001, establishing an effective interest rate of 5.7 percent at September 30, 2001.

Long-term debt maturing during each of the four years after 2002 is \$16, \$5, \$603 and \$252, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately \$274, \$273 and \$185 in 2001, 2000 and 1999, respectively.

(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, 2001, 2000 and 1999, follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Service cost	\$ 5.4	5.3	4.5
Interest cost	23.7	21.8	21.6
Net amortization	(2.1)	(3.1)	(3.1)
Net postretirement plan expense	<u>\$ 27.0</u>	<u>24.0</u>	<u>23.0</u>

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

	<u>2001</u>	<u>2000</u>
Benefit obligation, beginning	\$ 304.8	313.1
Service cost	5.4	5.3
Interest cost	23.7	21.8
Actuarial losses (gains)	21.4	(8.4)
Benefits paid	(28.4)	(25.9)
Acquisitions/divestitures and other	(3.2)	(1.1)
Benefit obligation, ending	323.7	304.8
Unrecognized net (loss) gain	(.8)	19.4
Unrecognized prior service benefit	3.7	5.4
Postretirement benefit liability recognized in the balance sheet	<u>\$ 326.6</u>	<u>329.6</u>

The assumed discount rates used in measuring the obligations as of September 30, 2001, 2000 and 1999, were 7.50 percent, 7.75 percent and 7.50 percent, respectively. The assumed health care cost trend rate for 2002 was 7.0 percent, declining to 4.5 percent in the year 2007. The assumed health care cost trend rate for 2001 was 7.0 percent, declining to 4.5 percent in the year 2006. 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, 2001, and the 2001 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		
	2001	2000	1999	2001	2000	1999
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 40.8	42.2	38.6	10.6	11.7	9.1
Interest cost	126.0	118.5	112.5	18.1	19.2	16.9
Expected return on plan assets	(186.1)	(178.9)	(161.4)	(23.8)	(25.3)	(19.0)
Net amortization	(.7)	(1.7)	1.6	(.6)	—	.2
Net periodic pension (income) expense	(20.0)	(19.9)	(8.7)	4.3	5.6	7.2
Defined contribution and multiemployer plans	63.8	60.7	59.4	14.6	11.1	8.5
Total retirement plan expense	\$ 43.8	40.8	50.7	18.9	16.7	15.7

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	
	2001	2000	2001	2000
Benefit obligation, beginning	\$ 1,566.2	1,545.8	300.7	306.3
Service cost	40.8	42.2	10.6	11.7
Interest cost	126.0	118.5	18.1	19.2
Actuarial losses (gains)	72.1	(16.1)	1.5	(4.0)
Benefits paid	(85.9)	(81.9)	(14.5)	(12.4)
Acquisitions/divestitures, net	(1.0)	(45.7)	(9.7)	(12.3)
Foreign currency and other	6.7	3.4	(2.1)	(7.8)
Benefit obligation, ending	\$ 1,724.9	1,566.2	304.6	300.7
Fair value of plan assets, beginning	\$ 1,725.9	1,635.0	314.7	259.7
Actual return on plan assets	(57.4)	194.8	(10.4)	42.6
Employer contributions	168.6	23.6	8.1	8.0
Benefits paid	(85.9)	(81.9)	(14.5)	(12.4)
Acquisitions/divestitures, net	—	(46.9)	(1.9)	20.9
Foreign currency and other	1.3	1.3	(2.6)	(4.1)
Fair value of plan assets, ending	\$ 1,752.5	1,725.9	293.4	314.7
Plan assets in excess of (less than) benefit obligation as of June 30	\$ 27.6	159.7	(11.2)	14.0
Unamortized transition amount	(7.5)	(14.7)	—	(2.2)
Unrecognized net loss (gain)	400.7	84.4	3.7	(29.3)
Unrecognized prior service costs	17.5	17.5	.4	3.7
Adjustment for fourth quarter contributions .....	.3	2.8	.9	.7
Net amount recognized in the balance sheet	\$ 438.6	249.7	(6.2)	(13.1)

	U.S. Plans			Non-U.S. Plans		
	2001	2000	1999	2001	2000	1999
Weighted average assumptions:						
Discount rate	7.75%	8.00%	7.75%	6.4%	6.4%	6.1%
Expected return on plan assets	10.50%	10.50%	10.50%	8.5%	8.4%	8.5%
Rate of compensation increase	4.25%	4.50%	4.25%	3.9%	3.9%	3.3%

At September 30, 2001 and 2000, the pension assets recognized in the balance sheet were \$519.1 and \$311.2, and the pension liabilities recognized in the balance sheet were \$132.9 and \$74.6, respectively; in addition, \$46.2 was recognized in accumulated other nonstockholder changes in equity in 2001. 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 \$329.4, \$306.5 and \$199.2, respectively, as of September 30, 2001, and \$294.0, \$270.3 and \$174.8, respectively, as of September 30, 2000.

(9) Income Taxes

Income before income taxes consists of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
United States	\$ 1,143.1	1,614.9	1,567.7
Non-U.S.	445.5	563.4	453.2
Income before income taxes	<u>\$ 1,588.6</u>	<u>2,178.3</u>	<u>2,020.9</u>

The principal components of income tax expense follow:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Federal:			
Current	\$ 426.9	496.9	417.3
Deferred	(33.8)	29.9	77.5
State and local	34.2	49.7	49.8
Non-U.S.	129.5	179.4	162.7
Income tax expense	<u>\$ 556.8</u>	<u>755.9</u>	<u>707.3</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local taxes, less federal tax benefit	1.4	1.4	1.6
Foreign Sales Corporation benefit and other	(1.3)	(1.7)	(1.6)
Effective income tax rate	<u>35.1%</u>	<u>34.7%</u>	<u>35.0%</u>

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

	<u>2001</u>	<u>2000</u>
Property, plant and equipment and intangibles	\$(337.8)	(354.7)
Leveraged leases	(157.4)	(169.7)
Pension	(146.9)	(105.7)
Accrued liabilities	241.5	226.4
Postretirement and postemployment benefits	127.8	142.0
Employee compensation and benefits	127.5	112.4
Other	177.9	89.3
Total deferred tax assets (liabilities)	<u>\$ 32.6</u>	<u>(60.0)</u>

At September 30, 2001 and 2000, respectively, net current deferred tax assets were \$394.5 and \$284.3, and net noncurrent deferred tax liabilities were \$361.9 and \$344.3. Total income taxes paid were approximately \$590, \$700 and \$580 in 2001, 2000 and 1999, respectively.

(10) Contingent Liabilities and Commitments

At September 30, 2001, 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 statements, 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, 2001, approximately 2.4 million options were available for grant under these plans. Changes in the number of shares subject to option during 2001, 2000 and 1999, follow (shares in thousands):

	2001		2000		1999	
	Average Price	Shares	Average Price	Shares	Average Price	Shares
Beginning of year	\$ 47.15	10,147	\$ 45.48	8,504	\$ 39.02	6,608
Options granted	67.27	451	46.42	3,095	54.95	3,026
Assumed options of acquired company ...	—	—	—	—	34.02	71
Options exercised	44.05	(1,219)	30.54	(1,093)	29.29	(1,025)
Options canceled	51.58	(291)	51.96	(359)	55.25	(176)
End of year	48.42	9,088	47.15	10,147	45.48	8,504
Exercisable at year end		4,625		4,563		3,952

Summarized information regarding stock options outstanding and exercisable at September 30, 2001, follows (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable	
	Shares	Average Contractual Life	Average Price	Shares	Average Price
up to \$41	894	2.9 years	\$ 29.92	894	\$ 29.92
\$42 to 47	4,010	6.9	43.51	1,790	44.69
\$48 to 74	4,184	7.4	57.12	1,941	56.72
Total	9,088	6.7	48.42	4,625	47.03

The Company's Incentive Shares Plans authorize the distribution of common stock to key management personnel. At September 30, 2001, 1,869,364 shares were outstanding with restriction periods of three to ten years, including 1,177,637 shares issued in 2001. In addition, 3,394,460 rights to receive common shares have been awarded, including 1,244,147 shares awarded in 2001, which are contingent upon accomplishing certain objectives by 2002. At September 30, 2001, approximately 3.6 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 \$1,012 and \$2.36 per share in 2001, \$1,401 and \$3.25 per share in 2000, and \$1,293 and \$2.95 per share in 1999. 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 5.7 percent, 6.5 percent and 4.7 percent, dividend yield of 2.3 percent, 2.3 percent and 2.1 percent, expected volatility of 25 percent, 22 percent and 17 percent for 2001, 2000 and 1999, respectively, and expected life of five years for all years. The weighted average fair value of options granted was \$12.03, \$11.75 and \$10.38 for 2001, 2000 and 1999, respectively.

At September 30, 2001, 18,536,064 shares of common stock were reserved, including 18,475,481 shares for issuance under the Company's stock plans and 60,583 shares for conversion of the outstanding 8% convertible subordinated debentures at a price of \$13.49 per share. During 2001, 10,118,900 treasury shares were acquired, and 2,267,630 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, 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 general and special purpose motors, controls, and heating elements, as well as hand, plumbing and bench power tools, and disposers.

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. Summarized information about the Company's operations by business segment and by geographic area follows:

Business Segments (See note 3)	Sales			Earnings			Total Assets		
	2001	2000	1999	2001(a)	2000	1999	2001	2000	1999
Process Control	\$ 3,348	3,100	2,942	360	281	316	3,453	3,446	3,537
Industrial Automation	3,006	3,237	3,464	400	466	466	2,696	2,823	3,082
Electronics and Telecommunications ..	3,590	3,289	2,072	359	447	234	3,303	3,643	1,462
HVAC	2,438	2,500	2,385	347	382	361	1,920	1,840	1,819
Appliance and Tools	3,500	3,811	3,795	503	581	588	2,357	2,464	2,828
	<u>15,882</u>	<u>15,937</u>	<u>14,658</u>	<u>1,969</u>	<u>2,157</u>	<u>1,965</u>	<u>13,729</u>	<u>14,216</u>	<u>12,728</u>
Differences in accounting methods ...				191	190	161			
Interest income, corporate and other ..				(267)	119	85	1,317	948	896
Sales eliminations/Interest expense ...	(402)	(392)	(388)	(304)	(288)	(190)			
Total	<u>\$ 15,480</u>	<u>15,545</u>	<u>14,270</u>	<u>1,589</u>	<u>2,178</u>	<u>2,021</u>	<u>15,046</u>	<u>15,164</u>	<u>13,624</u>

(a) Reported 2001 segment earnings exclude the incremental repositioning charge of \$377, which is included in corporate and other. The charges by segment were Process Control \$69, Industrial Automation \$22, Electronics and Telecommunications \$83, HVAC \$6, and Appliance and Tools \$163. Including the charges, 2001 segment earnings were Process Control \$291, Industrial Automation \$378, Electronics and Telecommunications \$276, HVAC \$341, and Appliance and Tools \$340.

	Intersegment Sales			Depreciation and Amortization Expense			Capital Expenditures		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Process Control	\$ 4	6	5	181	175	168	76	99	79
Industrial Automation	18	14	11	132	135	142	86	89	110
Electronics and Telecommunications ..	15	12	11	128	95	57	104	115	52
HVAC	31	31	30	110	104	97	144	184	177
Appliance and Tools	334	329	331	148	160	165	135	196	166
Corporate and other				9	9	9	9	9	8
Total	<u>\$ 402</u>	<u>392</u>	<u>388</u>	<u>708</u>	<u>678</u>	<u>638</u>	<u>554</u>	<u>692</u>	<u>592</u>

Geographic

	Sales by Destination			Property, Plant and Equipment		
	2001	2000	1999	2001	2000	1999
United States	\$ 9,291	9,651	8,557	2,355	2,394	2,312
Europe	3,087	3,026	3,064	492	467	527
Asia	1,412	1,256	1,211	255	229	205
Latin America	670	545	458	138	117	88
Other regions	1,020	1,067	980	48	36	22
Total	<u>\$15,480</u>	<u>15,545</u>	<u>14,270</u>	<u>3,288</u>	<u>3,243</u>	<u>3,154</u>

(13) Other Financial Data

Items reported in earnings during the years ended September 30, 2001, 2000 and 1999, include the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Depreciation and other amortization	\$ 544.4	523.5	508.1
Goodwill amortization	164.1	155.0	129.4
Research, new product development and product improvement costs ..	593.9	593.9	510.3
Rent expense	218.9	201.2	177.4
Interest revenue	18.0	16.3	16.1

Other assets, other are summarized as follows:

	<u>2001</u>	<u>2000</u>
Retirement plans	\$ 519.1	311.2
Equity and other investments	163.0	227.0
Leveraged leases	162.9	179.4
Other	411.3	400.6
Total	<u>\$1,256.3</u>	<u>1,118.2</u>

Other liabilities are summarized as follows:

	<u>2001</u>	<u>2000</u>
Deferred income taxes	\$ 382.7	360.6
Postretirement plans, excluding current portion	307.4	311.3
Minority interest	100.1	104.4
Other	507.5	518.7
Total	<u>\$1,297.7</u>	<u>1,295.0</u>

Accrued expenses include employee compensation of \$334.9 and \$344.3 at September 30, 2001 and 2000, 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 \$95 in 2002 and decline substantially thereafter.

(14) Quarterly Financial Information (Unaudited)

Financial Results

	Net Sales		Gross Profit		Net Earnings	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
First Quarter	\$ 3,919.5	3,543.3	1,388.0	1,254.5	357.4	324.9
Second Quarter	4,103.3	3,894.7	1,450.8	1,380.4	358.7	352.8
Third Quarter	3,904.9	4,041.8	1,364.6	1,436.7	330.4	373.7
Fourth Quarter	3,551.9	4,065.0	1,157.7	1,457.2	(14.7)	371.0
Fiscal Year	<u>\$15,479.6</u>	<u>15,544.8</u>	<u>5,361.1</u>	<u>5,528.8</u>	<u>1,031.8</u>	<u>1,422.4</u>

	Basic Earnings per Common Share		Diluted Earnings per Common Share		Dividends per Common Share	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
First Quarter	\$.84	.75	.83	.75	.3825	.3575
Second Quarter .....	.84	.83	.83	.82	.3825	.3575
Third Quarter .....	.77	.88	.77	.87	.3825	.3575
Fourth Quarter	(.03)	.87	(.03)	.86	.3825	.3575
Fiscal Year	<u>\$2.43</u>	<u>3.33</u>	<u>2.40</u>	<u>3.30</u>	<u>1.53</u>	<u>1.43</u>

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

Stock Prices

(per common share)	<u>2001</u>		<u>2000</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 78.81	62.25	64.38	53.06
Second Quarter	77.56	59.81	62.69	40.50
Third Quarter	71.60	60.00	65.25	51.13
Fourth Quarter	63.05	45.80	70.38	58.13
Fiscal Year	<u>\$ 78.81</u>	<u>45.80</u>	<u>70.38</u>	<u>40.50</u>

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, 2001, 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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

St. Louis, Missouri
November 5, 2001

Eleven-Year Summary

Emerson Electric Co. and Subsidiaries

Years ended September 30

(Dollars in millions except per share amounts)

		2001	2000	1999
Summary of Operations	Net sales	\$15,479.6	15,544.8	14,269.5
	Gross profit	\$ 5,361.1	5,528.8	5,075.7
	Interest expense	\$ 304.3	287.6	189.7
	Income before income taxes	\$ 1,588.6	2,178.3	2,020.9
	Net earnings	\$ 1,031.8	1,422.4	1,313.6
	Percent of net sales	6.7%	9.2%	9.2%
	Return on average stockholders' equity	16.5%	22.6%	21.9%
Per Share of Common Stock	Basic earnings	\$ 2.43	3.33	3.03
	Diluted earnings	\$ 2.40	3.30	3.00
	Operating earnings	\$ 3.01 ⁽¹⁾	3.30	3.00
	Diluted earnings, excluding goodwill amortization	\$ 2.75	3.63	3.27
	Cash dividends	\$ 1.53	1.43	1.30
	Book value	\$ 14.57	14.98	14.27
Year-End Financial Position	Working capital	\$ (59.0)	263.9	534.0
	Current ratio	1.0 to 1	1.1 to 1	1.1 to 1
	Property, plant and equipment, net	\$ 3,288.0	3,243.4	3,154.4
	Total assets	\$15,046.4	15,164.3	13,623.5
	Long-term debt	\$ 2,255.6	2,247.7	1,317.1
	Stockholders' equity	\$ 6,114.0	6,402.8	6,180.5
	Total debt to total capital	43.5%	41.8%	34.6%
	Net debt to net capital	41.5%	40.2%	32.7%
Other Data	Capital expenditures	\$ 554.2	692.0	591.6
	Depreciation	\$ 462.1	454.1	446.8
	Total taxes, including income taxes	\$ 982.3	1,195.9	1,125.5
	Salaries and wages	\$ 3,389.4	3,375.5	3,171.4
	Average number of employees	124,500	123,400	116,900
	Approximate number of stockholders at year-end	33,700	35,000	36,300
	Average common shares – basic (in thousands)	425,438	427,379	433,801
	Average common shares – diluted (in thousands)	429,452	431,395	438,397

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

⁽¹⁾ Excludes a \$377 charge (\$260 after-tax, or \$0.61 per share) primarily for the disposition of facilities and exiting of product lines. Excluding the charge, pretax and net earnings were \$1,966 and \$1,292, respectively.

1998	1997	1996	1995	1994	1993	1992	1991
13,447.2	12,298.6	11,149.9	10,012.9	8,607.2	8,173.8	7,706.0	7,427.0
4,851.6	4,433.0	3,984.9	3,532.5	3,054.2	2,884.0	2,651.4	2,585.5
151.7	120.9	126.9	110.6	88.5	119.2	91.0	113.4
1,923.5	1,783.6	1,609.0	1,424.9	1,237.8	1,112.0	1,043.9	1,003.1
1,228.6	1,121.9	1,018.5	907.7	788.5	708.1	662.9	631.9
9.1%	9.1%	9.1%	9.1%	9.2%	8.7%	8.6%	8.5%
21.9%	20.8%	19.9%	19.7%	19.1%	18.5%	19.0%	20.2%
2.80	2.52	2.27	2.03	1.76	1.57	1.48	1.41
2.77	2.50	2.25	2.01	1.75	1.56	1.47	1.40
2.77	2.50	2.25	2.01	1.75	1.56	1.47	1.40
2.99	2.69	2.42	2.14	1.85	1.67	1.55	1.48
1.18	1.08	.98	.89	.78	.72	.69	.66
13.24	12.30	11.96	10.88	9.71	8.71	8.31	7.27
979.6	874.4	1,166.1	503.4	720.9	381.7	1,165.1	894.8
1.2 to 1	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
3,011.6	2,735.4	2,450.8	2,134.9	1,947.3	1,880.1	1,694.5	1,583.4
12,659.8	11,463.3	10,481.0	9,399.0	8,215.0	7,814.5	6,627.0	6,364.4
1,056.6	570.7	772.6	208.6	279.9	438.0	448.0	450.2
5,803.3	5,420.7	5,353.4	4,870.8	4,341.8	3,915.1	3,729.8	3,256.9
30.8%	27.1%	24.5%	24.7%	21.7%	29.3%	19.1%	27.2%
29.0%	24.9%	22.9%	23.3%	20.0%	27.9%	17.7%	25.4%
602.6	575.4	513.5	420.7	332.3	305.6	345.5	310.9
406.4	368.5	339.4	303.0	274.0	269.3	253.1	254.0
1,092.6	1,033.9	962.9	862.2	762.2	709.5	674.0	656.3
3,003.1	2,770.6	2,568.5	2,379.7	2,155.5	2,064.2	1,916.0	1,850.0
111,800	100,700	86,400	78,900	73,900	71,600	69,400	69,500
37,200	35,900	29,800	31,000	31,800	32,700	33,100	33,900
439,193	445,020	448,095	447,506	448,464	450,166	448,504	447,178
444,121	449,501	452,754	451,946	452,747	455,125	454,047	452,508

Message From the Chairman



Charles F. Knight

On behalf of the board of directors, we congratulate David and his team on their accomplishments during fiscal 2001. It has always been Emerson management's practice to work closely with the board on major issues, and that process continues. In a year of significant economic challenge, we strongly endorse the steps management has taken to position the Company for the recovery and for the long term. The board's broad experience and insight played a valuable role in the process.

We've recently added new expertise to the board in Arthur Golden, Carlos Fernandez and Joseph Prueher. Arthur is a long-time, valued adviser to Emerson, and Carlos provides excellent insight in marketing and Latin America. Joe's understanding of Asia will be especially valuable. Asia is a significant and fast-growing market, which will play an important role in Emerson's growth as our presence there continues to increase.

I want to thank Joe Frates for the contribution he has made as a board member to Emerson and three CEOs over 35 years. We will miss Joe's leadership, wisdom and counsel when he retires in February 2002. Over the next few years, additional board positions will change as retirements occur and we add new expertise in the areas important to Emerson's future.

Charles F. Knight

Board of Directors

J.G. Berges St. Louis, Missouri President	L.L. Browning, Jr. St. Louis, Missouri Former Vice Chairman, Emerson Electric Co.	A.A. Busch III 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
C. Fernandez G. Lomas de Chapultepec, Mexico Vice Chairman of the Board & Chief Executive Officer Grupo Modelo, S.A. de C.V.	J.A. Frates Tulsa, Oklahoma Private Investor	W.J. Galvin St. Louis, Missouri Executive Vice President & Chief Financial Officer	A.F. Golden New York, New York Partner, Davis Polk & Wardwell	R.B. Horton London, England Former Chairman, Railtrack Group plc
C.F. Knight St. Louis, Missouri 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
J.W. Prueher Virginia Beach, Virginia Admiral USN (Ret) Former U.S. Ambassador to People's Republic of China	R.L. Ridgway Arlington, Virginia Former Assistant Secretary of State for Europe & Canada	W.M. Van Cleve St. Louis, Missouri Senior Counsel, Bryan Cave LLP	E.E. Whitacre, Jr. San Antonio, Texas Chairman & Chief Executive Officer, SBC Communications, Inc.	

Advisory Directors

J.M. Berra Executive Vice President	T.E. Bettcher 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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Committees

Audit Committee A.A. Busch III, Chairman C. Fernandez G. A.F. Golden R.B. Loynd R.L. Ridgway W.M. Van Cleve	Compensation & Human Resources Committee V.R. Loucks, Jr., Chairman D.C. Farrell J.A. Frates E.E. Whitacre, Jr.	Executive Committee C.F. Knight, Chairman L.L. Browning, Jr. A.A. Busch III D.N. Farr D.C. Farrell W.M. Van Cleve	Finance Committee R.B. Horton, Chairman A.A. Busch III D.C. Farrell W.J. Galvin C.F. Knight G.A. Lodge V.R. Loucks, Jr. E.E. Whitacre, Jr.	Pension Committee G.A. Lodge, Chairman J.G. Berges L.L. Browning, Jr. A.A. Busch III C.F. Knight R.B. Loynd	Public Policy Committee E.E. Whitacre, Jr., Chairman L.L. Browning, Jr. J.A. Frates R.B. Horton C.A. Peters R.L. Ridgway W.M. Van Cleve
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Management

Senior Management

C.F. Knight Chairman	D.N. Farr Chief Executive Officer	J.G. Berges President		
W.J. Galvin Executive Vice President & Chief Financial Officer	E.L. Monser Chief Operating 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	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 Management

C.W. Ashmore Vice President- Profit Planning	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	R.M. Cox, Jr. Senior Vice President- Acquisitions & Development
F.J. Dellaquilla 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	D.J. Hollenkamp Vice President and General Manager- Emerson Transportation
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	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	P. Sen President- Emerson India	R.T. Sharp Assistant Treasurer & Director-Investor Relations
D.D. Sollberger Vice President- Procurement	J.D. Switzer Senior Vice President- Development	M.H. Train Vice President- Planning & International	W.W. Withers Senior Vice President, Secretary & General Counsel	P.K. Yam President- Emerson Greater China
N. Yamanaka President- Emerson Japan				

Stockholders' Information

Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m., Tuesday, February 5, 2002, 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

Mellon Investor Services
Attention: Emerson Electric Co.
P.O. Box 3338
South Hackensack, NJ 07606-1938
Toll Free Telephone: (888) 213-0970
Internet: <http://www.melloninvestor.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
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 2001 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.gotoemerson.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
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, Emerson Process Management, Emerson Network Power, Emerson Climate Technologies, Emerson Appliance Solutions, Emerson Industrial Automation, Emerson Motor Technologies, Emerson Professional Tools, Emerson Storage Solutions, Emerson Process Solutions, Computer Process Controls (CPC), Emerson Climate Technologies, PlantWeb, AVANSYS Power, Copeland Scroll, Copeland Digital Scroll 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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