2002 Annual Report

EMERSON

CONSIDER IT SOLVED

Emerson... For a world

EMERSON

Emerson innovation and technology surround us: from household and commercial comfort and convenience in air conditioning, smarter appliances and storage systems to the intricate processes producing food, medicine and fuel... to the power that protects vital phone, computer, and business systems... to the tools we use to keep the water running... to the motors that run just about everything else.

Emerson provides customers with leading-edge technology solutions to help make their business better. Whether it's smart, people-friendly applications that cut complexity and streamline the job or brilliant systems that revolutionize whole industries, each Emerson business provides customers with a distinct competitive edge. That advantage is made even more powerful by leveraging our capabilities through our core brands and customer-focused platforms that reach and serve global markets.

EMERSON PROCESS MANAGEMENT

Baxter Healthcare Corporation selected Emerson's digital process automation platform to improve quality and efficiency at multiple sites for critical pharmaceutical production.

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EMERSON CLIMATE TECHNOLOGIES

Tesco, UK's largest supermarket chain, called on Emerson's retail monitoring services to help ensure food quality and improve energy efficiency in its stores.

8

EMERSON NETWORK POWER

Emerson's reliable power technology will protect a new, high-tech, 32-story office building – and Lehman Brothers European office – in London's prestigious Canary Wharf business district.

10

in Action.

EMERSON STORAGE SOLUTIONS

New features introduced to www.closetmaid.com allowed customers to use interactive online design tools to answer questions and organize household storage.

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EMERSON APPLIANCE SOLUTIONS

In Asia, Emerson's growing design, engineering, and manufacturing resources, combined with its best-in-class appliance technology, are meeting the needs of large customers like Whirlpool, Maytag and Haier.

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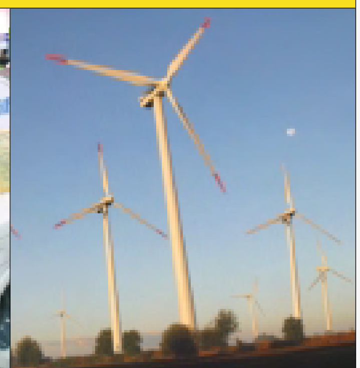

EMERSON INDUSTRIAL AUTOMATION

Emerson is supplying the world's leading windmill manufacturer with more than 3,000 wind turbine generators, helping deliver electricity to the national grid for 28 different countries.

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EMERSON
Process Management

EMERSON
Climate Technologies

EMERSON
Network Power

EMERSON
Storage Solutions

EMERSON
Professional Tools

EMERSON
Appliance Solutions

EMERSON
Motor Technologies

EMERSON
Industrial Automation

Strengthening our techn

Dear Stockholders,

The ability to respond quickly and effectively to a business cycle downturn while continuing to invest in the future has always set Emerson apart, and this year was no exception. In 2002 we took steps that strengthened the global leadership of our businesses, positioned the company for strong growth, and enhanced our solid financial position.

This year's economy was characterized by reductions in capital expenditures and business investment around the world, leading to reduced demand and overcapacity in many of the industries Emerson serves. We responded aggressively by restructuring, closing and consolidating facilities and exiting some product lines as we improved productivity and our underlying cost position. Through this restructuring process, we positioned the company for profitable growth when the economy rebounds.

Despite the economic challenges, we also invested in our leadership positions in major market segments as well as in key regions of the world. We maintained our commitment to new technologies and new product development. We enhanced the company's engineering capabilities, particularly in Asia-Pacific and Eastern Europe. And we continued to strengthen our financial position and further improve cash flow. These actions have resulted in Emerson's outdistancing the competition.

Financial and Operational Highlights

Sales in 2002 were $13.8 billion, down from $15.5 billion the prior year. Earnings, excluding the non-cash accounting change related to the adoption of FAS 142 for goodwill, were $1.1 billion, or $2.52 per share for the year. This compares to operating earnings of $1.3 billion, or $3.01 per share, the year before, excluding the pretax $377 million year-end incremental rationalization charge. Reported earnings for 2002 were $122 million, or $0.29 per share, while reported net earnings for 2001 were $1.0 billion, or $2.40 per share.

A highlight for the year was cash flow performance and a strong focus on improving operating capital efficiency. Operating cash flow for the year increased 6 percent to $1.8 billion despite lower sales volume, and free cash flow increased 24 percent to a record $1.4 billion, representing over 135 percent of earnings. This is the second consecutive year that free cash flow has exceeded earnings, demonstrating the company's focus on improving working capital performance and conservative capital spending.

Average trade working capital as a percent of sales decreased from 23.5 percent in 2001 to 22.8 percent in 2002, an improvement of $450 million. Our goal is to drive this below 20 percent to further enhance cash flow and return on capital.

Throughout 2002, we continued to reposition Emerson into the mix of businesses that will provide maximum, long-term shareholder value. This process includes divesting companies that are no longer core or strategic as well as acquiring companies with good growth potential. Over the past three years, we have sold companies with about $1.2 billion in revenues, including divestitures of approximately $300 million in 2002.

Returns well exceed the cost of capital today, and while that is good performance in the current environment, we intend to drive return on total capital back to historic levels. We plan to improve margins, cash flow, and capital utilization in part by strengthening core manufacturing and technology competencies and moving less strategic activities to outside sources. This approach, in conjunction with expanding lean manufacturing initiatives, allows us to significantly reduce capital spending while maintaining strategic investments.

ology Leadership...

Office of the Chief Executive: Edward L. Monser, Chief Operating Officer; Walter J. Galvin, Executive Vice President and Chief Financial Officer; David N. Farr, Chief Executive Officer; James G. Berges, President; Charles A. Peters, Senior Executive Vice President

Investing in Leading Business and Technology Platforms

Emerson's long-time focus on technology leadership continues to be a key differentiator across our businesses. We lead the industries we serve with breakthrough innovation and technology such as PlantWeb® digital architecture for the process industries; Copeland Scroll® compressors for air-conditioning and refrigeration markets; reliable power systems for computing and communications; and variable-speed motors used in applications ranging from home appliances to industrial manufacturing equipment.

In 2002, Emerson again strengthened its technology, global reach, and solutions and service capabilities. Nowhere is this more apparent than in our Climate Technology business, where Scroll compressor sales reached nearly $900 million. With the introduction of high-volume Scroll technology in the early 1990s, Emerson perfected a better way to compress gas and changed the game in the air-conditioning and refrigeration industries through increased energy efficiency and reliability, and quieter, more environmentally friendly operation. We are the leader in this business, and in 2002 we again led the market by introducing digital Scroll technology in Asian residential and U.S. commercial air-conditioning and refrigeration markets. This new technology offers infinite capacity modulation and increased efficiency and comfort, from high-rise apartments to computer rooms and telecommunication facilities.

Emerson Climate Technology is also at the forefront in developing remote refrigeration and air-conditioning monitoring systems, which are improving energy efficiency and reducing costs for the world's top supermarket, convenience, and drugstore chains. Capabilities like this enabled us to sign major contracts with domestic and international supermarket chains in 2002 and helped extend our position in services and solutions in the commercial refrigeration market.

And positioning the com

Five-Year Performance

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

	1997	2002	5-Year CAGR
Sales	$12,299	$13,824	2.4%
Operating Profit	$1,982	$1,902	(0.8%)
Percent of Sales	16.1%	13.8%	
Earnings (before accounting change)	$1,122	$1,060	(1.1%)
EPS (before accounting change)	$2.50	$2.52	0.2%
Dividends Per Share	$1.08	$1.55	7.5%
Free Cash Flow	$923	$1,434	9.2%
Return on Total Capital	16.8%	12.0%	
Return on Equity	20.8%	17.9%	

One-Year Performance

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

	2001	2002	Percent Change
Sales	$15,480	$13,824	(10.7%)
Operating Profit	$2,419	$1,902	(21.4%)
Percent of Sales	15.6%	13.8%	
Operating Earnings	$1,292	$1,060	(18.0%)
Operating Earnings Per Share	$3.01	$2.52	(16.3%)
Earnings (before accounting change)	$1,032	$1,060	2.7%
EPS (before accounting change)	$2.40	$2.52	5.0%
Dividends Per Share	$1.53	$1.55	1.3%
Free Cash Flow	$1,154	$1,434	24.3%
Return on Total Capital	11.5%	12.0%	
Return on Equity	16.5%	17.9%	

2002 operating earnings and earnings per share, return on total capital and return on equity amounts exclude the $938 million cumulative effect of a change in accounting principle ($2.23 per share). 2002 earnings and earnings per share including the change were $122 million and $0.29, respectively. 2001 operating profit, operating earnings and earnings per share exclude pretax incremental repositioning charges totaling $377 million ($260 million after-tax, or $0.61 per share).

In Process Management, PlantWeb is driving next-generation technologies across industries that produce such essential items as food, fuel, chemicals and medicine. Emerson has created the most comprehensive portfolio of technologically superior field devices, one-of-a-kind automation system software, and an award-winning field-based architecture. PlantWeb enables our customers to monitor and diagnose their plant operations, contributing to increased uptime, lower maintenance costs, greater throughput and improved quality.

We have coupled this advantage with our consulting, engineering, and optimization service expertise. This innovative process technology is delivering solid and measurable business results for our customers, which is why we are winning – with nearly 3,000 project wins to date. Our Process Management development engineers continue to focus on new technologies to increase our leadership edge in products, systems, and solutions, as we drive to deliver more value to customers.

Despite the industry downturn in 2002, the underlying fundamentals of Emerson's electronics and telecommunications segment are solid for long-term growth and profitability. We continue to serve major, global marquee customers with the latest reliable power, climate and connectivity technologies, and customers are rewarding us with an increased portion of their purchases because of our long-term commitment and financial strength. We made a significant investment in this business in October 2001, when we acquired Avansys, the power business of Huawei Technologies in China. This key acquisition not only provides access to the growth of the Chinese market – it also helps Emerson reduce total costs and accelerate new product development in this important business.

Global Emerson

We are a leader among manufacturers in managing information technology, a capability that increases our ability to operate globally at a faster rate with reduced costs and better customer service. *Information Week* recently recognized this leadership when it ranked Emerson 50th on its Top 500 – up from 247th

pany for Growth...

just two years ago. Initiatives in e-Business are expected to provide $400 million in savings over the next five years and lower costs through increased productivity; streamlined logistics; and enhancements in areas such as engineering, information technology, and accounts payable. Information technology enables us to preserve the independence and autonomy of our divisions, yet leverages the global power of Emerson's infrastructure.

We are further maximizing global customer reach through the Emerson brand. This brand platform enables us to leverage the strength of our products, market and technology positions, global span, and service capabilities. Today, customers find it easier than ever to get complete solutions from one company – Emerson.

We continue to build our sales and manufacturing presence around the world, with a particular focus on Asia-Pacific, Eastern Europe and India. We have built exceptional capabilities in Asia, a region well suited to Emerson products and pivotal to the growth of many businesses. More than 22,000 of our people are located in Asia, and our sales in the region in 2002 reached $1.6 billion compared with only $400 million in 1990.

As a result of these investments, we are well positioned to serve our traditional global customers in process control, network power, climate control, and the appliance and motor businesses from Asia, and we continue to penetrate local Asian markets. Emerson will continue to utilize Asian engineering centers, manufacturing facilities, sales support operations such as customer call centers, and other resources to meet customers' needs. Our global sales, service and manufacturing presence, e-Business strategy, and the strength of our brand are increasingly important in building business in international markets.

Organizational Strength

We continue to benefit from one of our greatest strengths – the integrity of Emerson's people. Emerson's leadership continuity has been well recognized, and our management team has again done an excellent job in the current environment. We are committed to assuring strong management through our organizational planning process and executive leadership development. An investment in Emerson is an investment in world-class people.

Stockholders can be equally assured of the integrity of our financial reporting. Emerson's corporate governance program and ethics standards are an integral part of our management process; we will not compromise honesty, trust or integrity.

We are also proud of the role Emerson people play in the communities where they live and work. In 2002, Emerson and its Charitable Trust donated nearly $20 million to important initiatives in education, health and human services, arts and culture, civic organizations and youth programs. Our people contributed significantly, too, giving time, energy and personal funds.

I would like to thank our management team and our employees, whose contributions continually strengthen Emerson. I also thank Emerson's chairman, Chuck Knight, and the board for their guidance and confidence in our team, and their support as we reposition the company for long-term growth and profitability. Larry Browning and Dick Loynd are retiring from the board in February after serving for 34 years and 16 years, respectively. We are grateful for their many contributions on behalf of our stockholders. John Menzer, CEO of Wal-Mart International, joined the board in November and we look forward to his contributions.

Worldwide economic uncertainty continues as we enter 2003. In this environment, we expect to generate solid earnings and cash flow. Aggressive restructuring and strategic investments have made us a stronger competitor and prepared us for the future.

On behalf of the Office of Chief Executive,

David N Farr

David N. Farr
Chief Executive Officer

When absolute Precisi

Emerson supports Baxter in delivering critical therapies for life-threatening conditions

When Baxter Healthcare Corporation was looking for a leading-edge process automation platform to upgrade a facility that makes a popular surgical anesthetic, the company turned to Emerson Process Management. Emerson's leading digital process technology offered precise, advanced and reliable control for operations – improving quality and efficiency while meeting high regulatory standards. Based on Emerson's proven capabilities, Baxter subsequently selected Emerson as its automation partner for two biopharmaceutical production facilities, as well as two new, state-of-the-art vaccine production facilities currently under construction in Europe.

on really counts...

Emerson Process Management leads a digital revolution for process companies seeking to optimize operations and improve performance

The key to success in today's manufacturing environment is creating the power to predict with accurate and dependable information. That is why companies – such as Shell Deer Park Refining Company and its refinery automation program, and IDEC Pharmaceuticals and its new, biotech manufacturing facility – turn to Emerson Process Management. Emerson offers the industry's leading system technology: the most comprehensive combination of intelligent field devices, innovative performance software, and unparalleled consulting and engineering expertise. Emerson's PlantWeb digital plant architecture delivers precise information and provides managers with the ability to predict the plant's condition and to make critical decisions. The result: significant improvement in productivity and operational efficiencies saving customers critical time and money. That's why five years after its introduction, nearly 3,000 installations worldwide – from petrochemicals, refining and pulp & paper, to life sciences, power and food & beverage – have automated their plants using PlantWeb technology.

When safety, comfort and

Emerson helps Tesco boost energy efficiency at supermarkets in the UK

When Tesco PLC wanted to ensure food quality and reduce energy costs, the largest food retailer in the United Kingdom passed up two local providers of energy-related services. Instead, the company selected Emerson Climate Technologies because it offered the only comprehensive solution along with a proven record of delivering energy savings and protection for major supermarket chains. Emerson divisions are collaborating to install Internet-based energy and equipment monitoring technology at more than 500 Tesco supermarkets. Nearly all of these stores will complete Emerson's E-Commissioning™ process that includes an audit and tune-up of all mechanical systems for potential energy savings. Emerson can help a typical supermarket reduce energy usage by nearly 10 percent, and currently monitors over 3,000 sites worldwide.

Efficiency are vital...

Emerson Climate Technologies meets higher efficiency standards and serves growing global demand for climate control and energy services

Higher U.S. efficiency standards in 2006 favor the expanded use of Emerson's Copeland Scroll compressors as the technology of choice for home air-conditioning systems. Businesses also need the efficiency and comfort Emerson provides. Lennox's decision in 2002 to exclusively use Copeland Scroll compressor technology throughout its commercial line points to continued growth opportunities for commercial applications. The Asian market, particularly China, also offers significant growth opportunities for Emerson's climate control products. Energy management and site monitoring services are growing businesses for Emerson. With more than 4,000 store locations purchasing energy management services, Emerson has become the leading provider of remote monitoring services for the supermarket industry – helping our customers better manage energy costs and safeguard food quality.

When Reliable power

Emerson Network Power capabilities demonstrated in London contract win

Emerson's reputation as a global provider of reliable power solutions is reaching new heights in London's prestigious Canary Wharf business district. Liebert Hiross Ltd. and ASCO Power Technologies jointly engineered their unique product capabilities to win a major contract for reliable power in a state-of-the-art, 32-story office building targeted for completion next year. Designed specifically for the new Heron Quays office building, the sophisticated power system will protect telecommunications and data networks integrated into the high-rise's one million square feet of office space. This building will be the European headquarters for global investment banking firm Lehman Brothers.

is the only option...

Emerson Network Power strengthens global leadership with new customers and expanded services

Emerson Network Power continued to demonstrate its global leadership position, despite lower sales in a down market in 2002. Early in the year, Emerson purchased Avansys, China's leading network power provider. This acquisition expands Emerson's geographic presence and strengthens our participation in growing internet and telecom markets in Asia. Emerson also is providing global power solutions for a range of applications – from protecting the U.S. Navy's Intranet to providing the backup power for critical data systems of the world's leading banks and retailers. Emerson continued to register a significant number of design wins at key computing and communications equipment OEMs by expanding its offering of industry-leading, board-mounted DC to DC power conversion modules.

When Order makes life better

ClosetMaid creates customer-friendly online design experience

New, easy-to-use features added to www.closetmaid.com in 2002 gave consumers more ways to select products and configure closet designs suiting their individual organizing needs. People simply wanting advice can communicate online with ClosetMaid's team of professional design consultants, or they can obtain complete design options that include a customized shopping list. Surveys show a boost in retail buying when customers access the online Professional Design Service. This helped drive double-digit growth for ClosetMaid in 2002.

Emerson Storage Solutions responds to strong residential demand and expands its range of styles, options, and specialized products

Today's consumers are turning to Emerson's laminate, wire, and stainless steel shelving to address storage needs in any room of the house. Emerson Storage Solutions introduced a wide range of new products this past year – ranging from upscale bedroom closet systems to handy storage solutions for the garage. On the commercial side, Emerson benefited from demand for specialized storage and casework cart products for the growing healthcare, foodservice, and hospitality industries. A new line of fully modular, polymer-based work-space and storage components for healthcare and laboratory work areas is seeing strong acceptance. Companies such as McDonald's, Pizza Hut, Target, and Wal-Mart rely on Emerson Storage Solutions for their organization needs.

and Innovation is expected...

Emerson Appliance Solutions offers customers leading-edge product and system technology

Emerson Appliance Solutions collaborated with leading water heater manufacturers to develop and introduce new technology that will be the first to meet government gas safety standards which take effect in 2004. Also in 2002, Emerson Appliance Solutions businesses combined to provide customers complete solutions in laundry, cooking and other household appliance technology. Emerson strengthened its global position in this market by winning strategic supply agreements with industry leaders such as Whirlpool, Maytag, Electrolux, Merloni and Bosch Siemens.

High demand in China propels growth of Appliance business

Emerson has a long-established China presence. With an eye on the future, the design and engineering resources of Emerson Appliance Solutions are focused in this region of rapid growth, low cost supply and high quality engineering talent. Technology centers in Qingdao and Shenzhen, China, lean manufacturing initiatives and advanced supply chain management make it possible to provide companies such as Emerson Appliance Solutions' largest customer, Whirlpool, and China-based Haier, with best-in-class appliance technology.

When advanced Techn

LEROY SOMER powers windmill farms around the world

When industry calls for environmentally friendly power, Emerson Industrial Automation leads the way, generating turbine power from the wind. Emerson is supplying the world's leading windmill manufacturer with more than 3,000 wind turbine generators helping deliver electricity to the national grid for 28 different countries, including the United States, Germany, Spain, Canada, Italy and the United Kingdom. These high-performance, flexible, and easily maintained wind systems provide power for as little as pennies to the kilowatt of electricity. This superior overall design is expected to be generating as much as 70,000 megawatts of power worldwide by 2010, with 10 to 20 percent of that supply powering offshore locations.

ology is in demand...

Emerson Industrial Automation expands industry leadership with advances in manufacturing technology and web-based customer solutions

Emerson Industrial Automation continues to outpace its competitors with innovative technologies that perform at the source – the manufacturing line – and deliver quality to the final product. Whether it’s a plastic-joined toy or a semiconductor wafer, Emerson technology enables manufacturers to produce smarter, faster and better. For example, the Control Techniques division has launched the Unidrive SP™, a revolutionary, high-performance drive package that is setting the standard for accuracy and flexibility in tight-tolerance manufacturing, process control, and machine control applications. From on-the-line to online, Emerson Industrial Automation also is expanding levels of customer reach by integrating new e-business strategies. Now, more than a third of all Emerson Power Transmission orders are entered online, and Web-enabled customer solution centers distribute proactive, targeted e-mailing and promotions.

Financial Review

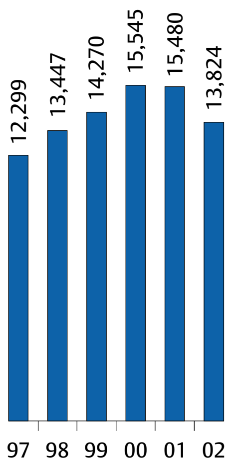
Results of Operations

Net Sales

Sales for 2002 were $13.8 billion, a decrease of $1.7 billion, or 10.7 percent, from 2001. The sharp decline in the telecommunications industry and continued weakness in the European and U.S. industrial goods markets negatively affected reported results. Sales benefited from acquisitions and a weaker U.S. dollar, which were offset by the impact of divestitures. Underlying sales (which exclude acquisitions, divestitures and currency) decreased 11 percent from the prior year, with U.S. sales down $1 billion, or 12 percent, and an international sales decline of $667 million, or 11 percent, driven by weakness in all major geographic regions. Underlying sales of the Electronics and Telecommunications business declined 38 percent while the Industrial Automation business declined 11 percent. A modest underlying increase in the Process Control business was more than offset by modest sales declines in both the Heating, Ventilating, and Air Conditioning (HVAC) and the Appliance and Tools businesses, reflecting the challenging economic environment. New product sales, from products introduced in the past five years, were $4.5 billion, representing 33 percent of sales.

In 2001, sales were $15.5 billion, down $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, 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 were $5.4 billion, representing 35 percent of sales.

Sales
(Dollars in millions)



Emerson achieved sales of $13.8 billion in 2002, despite the challenging economic environment.

International Sales

International destination sales, including U.S. exports, decreased 7 percent, to $5.8 billion in 2002, representing 42 percent of the Company's total sales. U.S. exports were down 6 percent from a year ago, at $946 million. International subsidiary sales, including shipments to the United States, were $5.0 billion in 2002, down 6 percent from 2001. All major geographic regions showed significant declines for the year, except Asia, which includes the impact of the Avansys acquisition. Emerson continues to expand in Asia, particularly in China, to capitalize on the market opportunities and further improve the Company's cost position. Excluding acquisitions, divestitures and the favorable impact of currency translation of approximately $45 million, international subsidiary sales decreased 11 percent from the prior year.

In 2001, international sales increased 5 percent, to a record $6.2 billion, representing 40 percent of the Company's total sales. U.S. exports were in line with 2000 at $1.0 billion. Sales by non-U.S. subsidiaries were $5.3 billion in 2001, up 7 percent from the prior year. Underlying international subsidiary sales increased 8 percent over 2000, 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 were slightly offset by the impact of currency exchange.

Business Segment Sales - 2002 vs. 2001

The Process Control business achieved sales of $3.4 billion in 2002, in line with the strong prior-year performance, a result of strong gains in the systems and solutions businesses despite the persistently challenging economy and the impact of the Xomox and Daniel Valve divestitures. Offsetting the strong growth in systems and solutions was an overall reduction in general maintenance and repair activity affecting the measurement and control device business, due to the broad reduction in capital spending. Underlying sales excluding the impact of acquisitions, divestitures and a favorable impact from currency exchange improved modestly compared to the prior year. Very strong growth in Latin America and moderate growth in Europe were partially offset by declines in the United States and Canada. Nearly $290 million in major projects were won during the year, signaling the acceptance of PlantWeb, Delta V, and solutions and engineering services in the market. Recent project activity has been strong, with nearly a third of these wins occurring in the last three months.

Sales of the Industrial Automation business fell to $2.5 billion in 2002 from $3.0 billion last year, as a result of underlying sales declines and the 2002 divestiture of the Chromalox industrial heating solutions business as well as the Sweco divestiture and the contribution of Camco into a joint venture in 2001. Underlying sales declined 11 percent from the prior year, reflecting the reduction in capital expenditures and excess capacity across the industrial sector in the United States and Europe. Although this segment experienced the greatest impact of reduced industrial spending, the business has recently shown signs of stabilizing at lower operating levels.

In the Electronics and Telecommunications business, sales fell 31 percent during the year to $2.5 billion. Excluding acquisitions, divestitures and currency exchange, underlying sales declined 38 percent from 2001 with significant sales declines in all geographic regions. Restructuring actions were taken during this demand reduction to improve profitability and expand international presence for future market share gains. Emerson acquired Avansys, the power business of Huawei Technologies in China, which was renamed Emerson Network Power China. This key acquisition provides access to the China market and a base for low-cost manufacturing and engineering resources, which will help drive sales growth, reduce costs and expand product development.

Sales of the HVAC business were $2.4 billion, down 2 percent from 2001. Softness in the first quarter from customers reducing inventory levels was partially offset by an improvement in the fourth quarter due to an upturn in U.S. residential air conditioning orders from the late summer heat. A modest decline in underlying sales resulted from declines in all major geographic regions versus the prior year. Emerson is rapidly developing a strong position as a provider of services and solutions to the commercial refrigeration market, as evidenced by agreements to provide energy efficiency and site monitoring services to Tesco PLC, the largest food retailer in the United Kingdom, and A & P food stores. Copeland Scroll compressor sales continued to grow during the year, reflecting new product platforms that expand our served market. Recent U.S. legislation to raise residential energy efficiency ratings and to phase-out chlorine refrigerants will stimulate increased market penetration and accelerated growth rates.

The Appliance and Tools business sales decreased 2 percent to $3.4 billion in 2002. Underlying sales declined modestly, with strong sales growth in the housing-related consumer businesses offset by broad declines in the commercial and industrial tools and motor businesses. Residential storage achieved very strong sales growth during the year, reflecting expanded customer offerings, innovative Web-enabled design and support services, and favorable market conditions.

Business Segment Sales - 2001 vs. 2000

The Process Control business achieved an 8 percent sales increase to $3.4 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. 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.

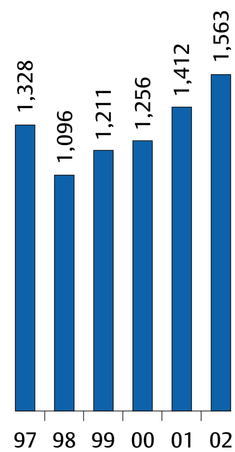
Sales of the HVAC business declined 2 percent from the prior year to $2.4 billion, primarily due to lower U.S. demand for air conditioning and refrigeration products at the residential, commercial and industrial levels. Underlying sales decreased slightly, excluding the unfavorable impact from currency 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.

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 decline in underlying sales was due to softness in both domestic and international markets.

Acquisitions, Divestitures and Repositioning

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 Company also divested the Chromalox industrial heating solutions business and the Daniel Valve business. Also in 2002, Emerson exchanged its ENI semiconductor equipment division for an equity interest in MKS Instruments, Inc. of 12 million common shares.

Asia Sales
(Dollars in millions)



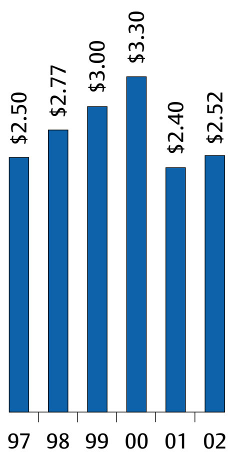
Emerson continues to expand in Asia, particularly in China, capitalizing on market opportunities and improving its cost position.

In 2001, 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. 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, in 2001. 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 notes 3 and 4 for additional information.

Total Costs and Expenses

Cost of sales was $9.0 billion in 2002, a decrease of 11 percent. In 2001, cost of sales was $10.1 billion, compared with $10.0 billion in 2000. Cost of sales as a percent of net sales was 65.1 percent in 2002, compared with 65.4 percent in 2001 and 64.4 percent in 2000. Despite continued market weakness, gross profit margins have remained at high levels, reflecting the benefits of the rationalization initiatives put into place and Emerson's continued focus on cost control through many e-business initiatives and material containment efforts.

Diluted Earnings Per Share



Diluted earnings per share increased 5.0 percent in 2002 before the accounting change.

Selling, general and administrative (SG&A) expenses were $2.9 billion, $3.1 billion and $3.0 billion in 2002, 2001 and 2000, respectively. As a percent of net sales, SG&A expenses were 21.1 percent, 19.9 percent and 19.2 percent in 2002, 2001 and 2000, respectively. The increase in SG&A as a percent of net sales in 2002 was primarily due to the lower sales volume. Engineering and development expense was $530 million in 2002, compared with $594 million in 2001 and 2000. Engineering and development as a percent of net sales was 3.8 percent in 2002, 2001 and 2000, reflecting Emerson's continuing investment in technology to improve the Company's competitive position.

Interest expense, net decreased to $233 million in 2002 from $286 million in the prior year, reflecting the impact of lower interest rates, which was partially offset by higher average borrowings due to acquisitions. In 2001, interest expense, net increased from $271 million in 2000, reflecting the impact of higher average borrowings resulting from acquisitions and share repurchases.

Other deductions, net, including amortization of intangibles, were $104 million in 2002, compared with $404 million and $92 million in 2001 and 2000, respectively (see note 4). In connection with the adoption of FAS 142 (see discussion below), the amortization of goodwill was discontinued beginning with fiscal 2002. Other deductions, net includes goodwill amortization of $164 million and $155 million in 2001 and 2000, respectively. Fiscal 2002 included gains of $85 million and $42 million from the divestitures of the Chromalox and Daniel Valve businesses, respectively, and a $93 million gain from the ENI transaction. The increase in 2001 over 2000 is primarily due to the 2001 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. Also included in other deductions, net were ongoing costs for the rationalization of operations of $207 million, $111 million and $78 million in 2002, 2001 and 2000, respectively. Higher levels of rationalization in 2002 related to cost structure improvements in response to the difficult economic environment.

Income Before Income Taxes and Cumulative Effect of Change in Accounting Principle

Income before income taxes and cumulative effect of change in accounting principle decreased $24 million from 2001, or 1 percent, to $1.6 billion in 2002. These results were primarily due to the continued market weaknesses affecting all of the Company's segments, and rationalization and other charges. For comparative purposes, the following discussions of segment earnings exclude the 2001 incremental repositioning charges and goodwill amortization for 2001. Earnings in the Process Control business of $387 million were down 7 percent in 2002 compared to the prior year, primarily reflecting the impact of divestitures. Aggressive restructuring actions in response to the sharp market decline have allowed the Electronics and Telecommunications business to remain profitable, with $119 million of earnings in 2002, a 71 percent decrease from the prior year. The underlying sales declines resulting from the steep downturn in industrial goods spending and the impact of divestitures led to a 31 percent decrease in Industrial Automation earnings to $297 million in 2002. Earnings decreases of 8 percent and 12 percent, respectively, in the HVAC and Appliance and Tools businesses were mainly driven by lower sales volume and higher rationalization costs for the year. See note 14 for additional information by business segment and geographic area.

In 2001, income before income taxes decreased $589 million from 2000, or 27 percent, to $1.6 billion. 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. For comparative purposes, the following discussions of segment earnings exclude the 2001 incremental repositioning charges and goodwill amortization for 2001 and 2000. Earnings before interest and income taxes in the Process Control business were $414 million in 2001, a 24 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 $428 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 $410 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 $361 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 $520 million, or 14 percent, from 2000, primarily due to decreases in volume and the Vermont American divestiture.

Income Taxes

Income taxes were $505 million, $557 million and $756 million in 2002, 2001 and 2000, respectively. The effective tax rate was 32.3 percent, compared with 35.1 percent in 2001 and 34.7 percent in 2000. The decrease in the effective tax rate in 2002 was primarily the result of discontinuing goodwill amortization upon the adoption of FAS 142 due to the non-deductible nature of goodwill and lower taxation of foreign earnings, partially offset by higher taxes associated with divestitures.

Cumulative Effect of Change in Accounting Principle

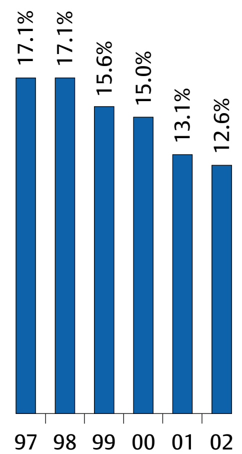
Effective October 1, 2001, Emerson adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The transitional goodwill impairment recognized upon adoption of FAS 142 is a required change in accounting principle, and the cumulative effect of adopting this standard resulted in a non-cash, after-tax decrease to 2002 net earnings and diluted earnings per common share of $938 million and $2.23, respectively. Also as a result of the adoption of this standard, goodwill is no longer subject to amortization, resulting in an increase to reported fiscal 2002 earnings of $0.35 per share. See note 5 for additional information.

Net Earnings and Return on Equity

Net earnings were $122 million and diluted earnings per common share were $0.29 for 2002. Return on average stockholders' equity was 17.9 percent (excluding the accounting change), 16.5 percent and 22.6 percent in 2002, 2001 and 2000, respectively.

The following discussion excludes the impact of the cumulative effect of accounting change of $938 million ($2.23 per share) in 2002. Earnings were $1.1 billion in 2002, down 18 percent from $1.3 billion in 2001, and diluted earnings per share were $2.52, down 16 percent from $3.01 in 2001, excluding the incremental repositioning charge. Earnings as a percent of sales were 7.7 percent in 2002, compared to 8.3 percent in 2001 and 9.2 percent in 2000. Excluding the 2001 incremental repositioning charge and goodwill amortization in 2001 and 2000, earnings were $1.1 billion in 2002, compared to $1.4 billion and $1.6 billion in 2001 and 2000, respectively. Excluding these items, diluted earnings per share were $2.52, $3.36 and $3.63 in 2002, 2001 and 2000, respectively.

Operating Working Capital as a Percent of Sales



Operating working capital as a percent of sales improved to 12.6 percent, reflecting efficient inventory management during the business downturn.

Financial Position, Capital Resources and Liquidity

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

Cash Flow

Emerson generated operating cash flow of $1.8 billion in 2002, a 6.5 percent increase over the prior year. Operating cash flow in 2001 decreased 7.2 percent compared with 2000. At September 30, 2002, operating working capital as a percentage of sales was 12.6 percent, compared with 13.1 percent and 15.0 percent in 2001 and 2000, respectively. Operating working capital improved primarily due to a reduction in inventory, reflecting the Company's ability to control inventory levels while operations slowed during the business downturn. Decreases in operating working capital as a percent of sales have been partially offset by pension contributions of $169 million, $174 million and $34 million in 2002, 2001 and 2000, respectively.

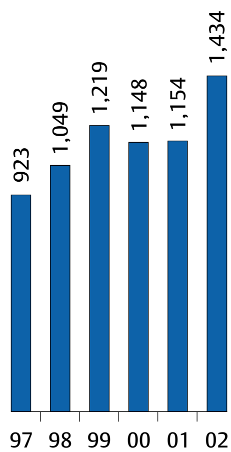
Free cash flow (operating cash flow less capital expenditures) increased to a record $1.4 billion in 2002, led by a 31 percent decrease in capital spending. Capital expenditures were $384 million, $554 million and $692 million in 2002, 2001 and 2000, respectively. In 2003, the Company is targeting capital spending of approximately 3 percent of net sales. Cash paid in connection with Emerson's acquisitions was $754 million, $200 million and $1,972 million in 2002, 2001 and 2000, respectively.

Dividends were $652 million ($1.55 per share, up 1.3 percent) in 2002, compared with $654 million ($1.53 per share) in 2001, and $613 million ($1.43 per share) in 2000. In November 2002, the Board of Directors voted to increase the quarterly cash dividend to an annualized rate of $1.57 per share. In fiscal 2002, the Company repurchased approximately 360,000 shares under the fiscal 1997 Board of Directors' authorization; 228,000 shares remain available for repurchase. Net purchases of treasury stock totaled $20 million, $534 million and $376 million in 2002, 2001 and 2000, respectively. In fiscal 2002, the Board of Directors authorized a share repurchase program for the repurchase of up to 40 million shares of the Company's outstanding common stock. No shares have been repurchased under this authorization.

Leverage/Capitalization

Total debt decreased to $4.6 billion at the end of 2002. Total debt in 2001 increased to $4.7 billion from $4.6 billion in 2000, reflecting the impact of acquisitions. The total debt-to-capital ratio was 44.2 percent at year-end 2002, compared with 43.5 percent in 2001 and 41.8 percent in 2000. At September 30, 2002, net debt (total debt less cash and equivalents and short-term investments) was 42.0 percent of net capital, compared with 41.5 percent of net capital in 2001 and 40.2 percent of net capital in 2000. The cumulative effect of change in accounting principle in 2002 increased these ratios by almost 4 percentage points. The operating cash flow-to-debt ratio was 39.9 percent, 36.3 percent and 40.0 percent in 2002, 2001 and 2000, respectively. The Company's interest coverage ratio (income before income taxes and cumulative effect of change in accounting principle and interest expense, divided by interest expense) was 7.3 times in 2002, compared with 6.2 times in 2001 and 8.6 times in 2000. The increase in the interest coverage ratio from 2001 to 2002 primarily reflects lower interest rates, partially offset by higher average borrowings. See notes 3, 7 and 8 for additional information.

Free Cash Flow
(Dollars in millions)



Free cash flow increased to a record $1.4 billion in 2002, due to improved operating cash flow and lower capital spending.

At year-end 2002, the Company and its subsidiaries maintained lines of credit amounting to $3.1 billion to support short-term borrowings, and had uncommitted bank credit facilities to support non-U.S. operations for which approximately $300 million was unused at September 30, 2002. Lines of credit totaling $1.5 billion are effective until 2005, with the remainder effective until March 2003. These bank credit facilities and lines of credit facilitate funding at prevailing interest rates. In addition, as of September 30, 2002, the Company could issue up to $1.25 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 4.625%, 10-year notes from the shelf, 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, 6, 7 and 8.

Critical Accounting Policies

Preparation of the Company's financial statements requires management to make judgments, assumptions, and estimates regarding uncertainties that affect the reported amounts of assets, liabilities, stockholders' equity, revenues and expenses. Note 1 of the Notes to Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described below. Actual results in these areas could differ materially from management's estimates under different assumptions or conditions.

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 and collection is reasonably assured. In certain instances, revenue is recognized on the percentage-of-completion method, when services are rendered, or in accordance with SOP No. 97-2, "Software Revenue Recognition." Management believes that all relevant criteria and conditions are considered when recognizing sales.

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 each fiscal year. The effect of resetting standards and operating variances incurred during each period are allocated between inventories and cost of sales. Management regularly reviews inventory for obsolescence to determine whether a write-down is necessary. Various factors are considered in making this determination, including recent sales history and predicted trends, industry market conditions and general economic conditions. In 2002 and 2001, higher than average inventory obsolescence was incurred in connection with slowing business conditions. See notes 1 and 4.

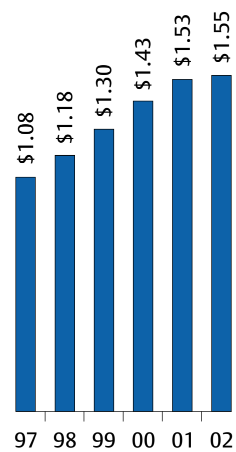
Long-lived Assets

Long-lived assets, which primarily include goodwill and property, plant and equipment, are reviewed for impairment whenever events and changes in business circumstances indicate the carrying value of the assets may not be recoverable. If the Company determines that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Fair value is generally measured based on a discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates of such cash flows and fair value could materially affect the evaluations. In 2002, the Company adopted FAS 142 and recorded a transitional impairment charge as a cumulative effect of change in accounting principle. See notes 1 and 5.

Retirement Plans

Retirement plan expense and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rate, rate of compensation increases and expected return on plan assets. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's retirement plan obligations and future expense. In 2002, the Company adjusted the expected long-term rate of return on plan assets to 9.0 percent, down from 10.5 percent, which increased retirement plan expense approximately $30 million. Pension expense in 2003 is expected to increase by approximately $20 million primarily due to amortization of differences between actual and expected returns on plan assets. If the equity markets continue recent trends, the Company could be required to record a material charge to accumulated other nonstockholder changes in equity. See note 9.

Dividends Per Share



Annual dividends increased to $1.55 per share in 2002, representing the 46th consecutive year of increases.

Income Taxes

Income tax expense and deferred tax assets and liabilities reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. No provision is made for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, 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. See note 12.

Accounting Standards

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. This statement, which must be adopted in 2003, is not expected to have a material impact on the financial statements.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities, and must be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is in the process of reviewing the provisions of this statement to evaluate its impact on the financial statements.

Beginning in fiscal 2003, the Company plans to adopt the accounting provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," for grants awarded after September 30, 2002. This standard requires stock awards be expensed (over the vesting period) based on the fair value of the award on the date of grant. Had compensation expense for stock options been determined in accordance with FAS 123, earnings per share would have been reduced approximately $0.04 in 2002. See note 13 for further discussion of FAS 123 and its impact.

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, 2002, 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. The Company's disclosure controls and procedures ensure that material information required to be disclosed is recorded, processed, summarized and communicated to management and reported within the required time periods.

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 independent Directors, is responsible for overseeing the Company's financial reporting process. 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 the quality and acceptability of the Company's financial reporting, internal controls, as well as non-audit-related 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.

David N. Farr
Chief Executive Officer

Walter J. Galvin
Executive Vice President and
Chief Financial Officer

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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" in the year ending September 30, 2002.

KPMG LLP

St. Louis, Missouri
November 4, 2002

Consolidated Statements of Earnings

Emerson Electric Co. and Subsidiaries

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

	2000	2001	2002
Net sales	$ 15,545	15,480	13,824
Costs and expenses:			
Cost of sales	10,016	10,119	9,000
Selling, general and administrative expenses	2,988	3,082	2,922
Interest expense, net	271	286	233
Other deductions, net	92	404	104
Total costs and expenses	13,367	13,891	12,259
Income before income taxes and cumulative effect of change in accounting principle	2,178	1,589	1,565
Income taxes	756	557	505
Earnings before cumulative effect of change in accounting principle	1,422	1,032	1,060
Cumulative effect of change in accounting principle, net of tax	–	–	(938)
Net earnings	$ 1,422	1,032	122
Basic earnings per common share:			
Before cumulative effect of change in accounting principle	$ 3.33	2.43	2.53
Cumulative effect of change in accounting principle	–	–	(2.24)
Basic earnings per common share	$ 3.33	2.43	0.29
Diluted earnings per common share:			
Before cumulative effect of change in accounting principle	$ 3.30	2.40	2.52
Cumulative effect of change in accounting principle	–	–	(2.23)
Diluted earnings per common share	$ 3.30	2.40	0.29

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	2002
Current assets		
Cash and equivalents	$ 356	381
Receivables, less allowances of $79 in 2001 and $90 in 2002	2,551	2,513
Inventories:		
Finished products	723	662
Raw materials and work in process	1,174	962
Total inventories	1,897	1,624
Other current assets	516	443
Total current assets	5,320	4,961
Property, plant and equipment		
Land	172	172
Buildings	1,303	1,318
Machinery and equipment	4,821	4,878
Construction in progress	368	281
	6,664	6,649
Less accumulated depreciation	3,376	3,533
Property, plant and equipment, net	3,288	3,116
Other assets		
Goodwill	5,182	4,910
Other	1,256	1,558
Total other assets	6,438	6,468
	$ 15,046	14,545

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	2001	2002
Current liabilities		
Short-term borrowings and current maturities of long-term debt	$ 2,447	1,560
Accounts payable	1,127	1,268
Accrued expenses	1,620	1,448
Income taxes	185	124
Total current liabilities	5,379	4,400
Long-term debt	2,256	2,990
Other liabilities	1,297	1,414
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 2002	238	238
Additional paid-in capital	31	52
Retained earnings	8,991	8,461
Accumulated other nonstockholder changes in equity	(741)	(647)
	8,519	8,104
Less cost of common stock in treasury, 57,051,435 shares in 2001 and 55,967,097 shares in 2002	2,405	2,363
Total stockholders' equity	6,114	5,741
	$ 15,046	14,545

Consolidated Statements of Stockholders' Equity

Emerson Electric Co. and Subsidiaries

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

	2000	2001	2002
Common stock	$ 238	238	238
Additional paid-in capital			
Beginning balance	24	53	31
Stock plans and other	29	(22)	21
Ending balance	53	31	52
Retained earnings			
Beginning balance	7,804	8,613	8,991
Net earnings	1,422	1,032	122
Cash dividends (per share: 2000, $1.43; 2001, $1.53; 2002, $1.55)	(613)	(654)	(652)
Ending balance	8,613	8,991	8,461
Accumulated other nonstockholder changes in equity			
Beginning balance	(271)	(578)	(741)
Translation adjustments	(307)	(101)	132
Cash flow hedges and other, net of tax benefit (2001, $38; 2002, $23)	–	(62)	(38)
Ending balance	(578)	(741)	(647)
Treasury stock			
Beginning balance	(1,614)	(1,923)	(2,405)
Acquired	(354)	(562)	(17)
Issued under stock plans and other	45	80	59
Ending balance	(1,923)	(2,405)	(2,363)
Total stockholders' equity	$ 6,403	6,114	5,741
Nonstockholder changes in equity (Net earnings, Translation adjustments and Other)	$ 1,115	869	216

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Emerson Electric Co. and Subsidiaries

Years ended September 30
(Dollars in millions)

	2000	2001	2002
Operating activities			
Net earnings	$ 1,422	1,032	122
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	–	–	938
Depreciation and amortization	678	708	541
Changes in operating working capital	(105)	121	432
Gains on divestitures, pension funding and other	(155)	(153)	(215)
Net cash provided by operating activities	1,840	1,708	1,818
Investing activities			
Capital expenditures	(692)	(554)	(384)
Purchases of businesses, net of cash and equivalents acquired	(1,972)	(200)	(754)
Divestitures of businesses and other, net	169	206	257
Net cash used in investing activities	(2,495)	(548)	(881)
Financing activities			
Net increase (decrease) in short-term borrowings	515	97	(975)
Proceeds from long-term debt	1,198	36	751
Principal payments on long-term debt	(19)	(25)	(38)
Net purchases of treasury stock	(376)	(534)	(20)
Dividends paid	(613)	(654)	(652)
Net cash provided by (used in) financing activities	705	(1,080)	(934)
Effect of exchange rate changes on cash and equivalents	(35)	(5)	22
Increase in cash and equivalents	15	75	25
Beginning cash and equivalents	266	281	356
Ending cash and equivalents	$ 281	356	381
Changes in operating working capital			
Receivables	$ (236)	135	155
Inventories	(167)	99	265
Other current assets	(13)	(6)	12
Accounts payable	195	(77)	101
Accrued expenses	66	44	(72)
Income taxes	50	(74)	(29)
	$ (105)	121	432

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 in accumulated other nonstockholder changes in 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 each 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 and Intangible Assets

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. Assets and liabilities related to business combinations accounted for as purchase transactions are recorded at their respective fair values. Effective October 1, 2001, Emerson adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and therefore ceased amortizing goodwill as of that date. Prior to the adoption of FAS 142, goodwill was amortized on a straight-line basis to other deductions over the periods estimated to be benefited, not exceeding 40 years. Accumulated amortization was $922 as of September 30, 2001. The Company conducts a formal impairment test of goodwill on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

All of the Company's intangible assets (other than goodwill) are subject to amortization. Capitalized software is being amortized on a straight-line basis with a remaining weighted-average life of three years. Intellectual property consists primarily of patents which are being amortized on a straight-line basis with a remaining weighted-average life of four years.

Revenue Recognition

The Company recognizes nearly all of its revenues through the sale of manufactured products and records the sale as products are shipped and title passes to the customer and collection is reasonably assured.

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 each derivative instrument 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 each derivative instrument 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 on 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 $1,531 at September 30, 2002), 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 $547, pension adjustments were $29 and $59, and cash flow hedges were $33 and $41 at September 30, 2001 and 2002, 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):

	2000	2001	2002
Basic	427.4	425.4	418.9
Dilutive shares	4.0	4.1	2.0
Diluted	431.4	429.5	420.9

(3) Acquisitions and Divestitures

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

	2000	2001	2002
Fair value of assets acquired	$ 2,142	243	821
Less liabilities assumed	170	43	67
Cash paid (net of cash and equivalents acquired)	$ 1,972	200	754

During the first quarter of 2002, Emerson acquired Avansys Power Co., Ltd. (renamed Emerson Network Power China), a provider of network power products to the telecommunications industry in China, for $750 in cash (approximately $710 net of cash acquired), resulting in $624 of goodwill. Avansys and several other smaller businesses acquired during the year had annualized sales of approximately $270.

In the first quarter of 2002, Emerson received $165 from the divestiture of the Chromalox industrial heating solutions business, resulting in a pretax gain of $85. In the second quarter, Emerson exchanged its ENI semiconductor equipment business for an equity interest in MKS Instruments, Inc. of 12 million common shares, resulting in a pretax gain of approximately $93. During the third quarter, Emerson received $73 from the divestiture of the Daniel Valve business, resulting in a pretax gain of $42. Chromalox, ENI and Daniel Valve represent total annual 2001 sales of approximately $300.

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.

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"). Krautkramer, VA and another divestiture, BI Technologies, represent total annual 1999 sales of nearly $600.

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) Other Deductions, Net

Other deductions, net are summarized as follows:

	2000	2001	2002
Gains from divestitures of businesses	$ (191)	(187)	(231)
Amortization of intangibles	178	191	28
Rationalization of operations	78	111	207
Repositioning	–	237	–
Other	27	52	100
Total	$ 92	404	104

Rationalization of operations includes ongoing costs for start-up, shutdown and moving of facilities, asset writedowns, severance and other costs in connection with improving the cost structure of operations. Rationalization of operations by segment is summarized as follows:

	2000	2001	2002
Process Control	$ 39	25	27
Industrial Automation	12	20	33
Electronics & Telecommunications	13	39	71
HVAC	16	20	26
Appliance and Tools	23	21	49
Corporate	(25)	(14)	1
Total	$ 78	111	207

In addition, operations for 2002 were impacted by higher than average inventory obsolescence, unabsorbed overhead on inventory reductions and bad debts of $70. Rationalization of operations and these costs totaled $277 ($187 after-tax), while gains from divestitures of businesses were $231 ($135 after-tax) in 2002.

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, along with other period costs for shutdown and moving. Exit costs for severance and lease terminations utilized during 2002 were $19 and $14, respectively. The remaining balance of lease termination costs for vacated facilities of $18 will be utilized over the remaining terms of the applicable lease or when the leases are terminated. See Note 14 for the impact of the charges by business segment.

(5) Goodwill and Intangible Assets

Effective October 1, 2001, Emerson adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The statement requires, among other things, the discontinuation of goodwill amortization for business combinations before July 1, 2001, and completion of a transitional goodwill impairment test. Under the impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, a goodwill impairment is recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill. Fair value of reporting units were estimated using discounted cash flows and market multiples.

Emerson completed the transitional impairment test and recorded a non-cash, after-tax charge of $938 (net of $17 tax benefit), as a cumulative effect of a change in accounting principle. The primary factors resulting in the impairment charge were the change in the goodwill impairment criteria from an undiscounted to a discounted cash flow method and the sharp decline in the telecommunication and computing equipment markets. The after-tax charge by segment was Electronics and Telecommunications $831, Industrial Automation $59, and Process Control $48. As of the adoption date, the Company estimated that if the reporting units with an impairment charge were actually sold, earnings could have been further decreased up to $200 due to realization of currency translation. In addition, earnings could have been increased for the potential realization of unrecognized tax benefits upon sale in excess of $250.

For comparison purposes, supplemental net earnings and earnings per share for the years ended September 30, 2000 and 2001, excluding goodwill amortization of $155 ($141 net of tax) and $164 ($149 net of tax), respectively, are provided as follows:

	2000	2001
Net earnings, excluding goodwill amortization	$ 1,563	1,181
Earnings per share, excluding goodwill amortization:		
Basic	$ 3.66	2.78
Diluted	$ 3.63	2.75

(6) 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.

Notional transaction amounts and fair values for the Company's outstanding derivatives, by risk category and instrument type, as of September 30, 2001 and 2002, are summarized as follows. Fair values of the derivatives do not consider the offsetting underlying hedged item.

	2001		2002	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign currency:				
Forwards	$ 1,099	4	1,001	(14)
Options	$ 54	2	57	1
Interest rate swaps	$ 865	(61)	324	5
Commodity contracts	$ 218	(28)	156	(11)

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 long-term debt (including current maturities) exceeded the related carrying value by $296 at September 30, 2002. The carrying value of an equity investment in a publicly-traded company exceeded the related fair value by approximately $59 at September 30, 2002. The estimated fair value of each of the Company's other classes of financial instruments approximated the related carrying value at September 30, 2001 and 2002.

(7) Short-term Borrowings and Lines of Credit

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

	2001	2002
Commercial paper	$ 2,112	1,262
Payable to banks	91	56
Other	244	242
Total	$ 2,447	1,560
Weighted average interest rate at year end	3.9%	2.5%

In 2001, the Company entered into an interest rate swap agreement, which fixed the rate on $250 of commercial paper at 6.0 percent through December 2010. The Company terminated the swap in 2002. 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 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 and 149 million of British pound notes with interest rates of 5.2 percent and 4.4 percent, swapped to $256 and $217 at U.S. commercial paper rates at September 30, 2001 and 2002, respectively.

The Company and its subsidiaries maintained lines of credit amounting to $3,100 with various banks at September 30, 2002, to support short-term borrowings and to assure availability of funds at prevailing interest rates. Lines of credit totaling $1,500 are effective until 2005 with the remainder until March 2003. There were no borrowings against U.S. lines of credit in the last three years. The Company's subsidiaries maintained uncommitted bank credit facilities in various currencies for which approximately $300 was unused at September 30, 2002. In some instances, borrowings against these credit facilities have been guaranteed by the Company to facilitate funding at favorable interest rates. In addition, as of September 30, 2002, the Company could issue up to $1,250 of additional debt securities under its shelf registration with the Securities and Exchange Commission.

(8) Long-term Debt

Long-term debt is summarized as follows:

	2001	2002
7 7/8% notes due 2005	$ 600	600
6.3% notes due 2006	250	250
5 1/2% notes due 2008	250	250
5% notes due 2009	175	175
5.85% notes due 2009	250	250
7 1/8% notes due 2010	500	500
5.75% notes due 2012	–	250
5 5/8% notes due 2014	–	250
6% notes due 2032	–	250
Other	252	224
	2,277	2,999
Less current maturities	21	9
Total	$ 2,256	2,990

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. 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.

Long-term debt maturing during each of the four years after 2003 is $4, $613, $252 and $1, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately $273, $274 and $283 in 2000, 2001 and 2002, respectively.

(9) Retirement Plans

Retirement plan expense includes the following components:

	U.S. Plans			Non-U.S. Plans		
	2000	2001	2002	2000	2001	2002
Defined benefit plans:						
Service cost (benefits earned during the period)	$ 42	41	41	12	11	9
Interest cost	119	126	134	19	18	16
Expected return on plan assets	(179)	(186)	(178)	(25)	(24)	(21)
Net amortization	(2)	(1)	9	–	(1)	–
Net periodic pension (income) expense	(20)	(20)	6	6	4	4
Defined contribution and multiemployer plans	61	64	58	11	15	18
Total retirement plan expense	$ 41	44	64	17	19	22

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	2002	2001	2002
Benefit obligation, beginning	$ 1,566	1,725	301	304
Service cost	41	41	11	9
Interest cost	126	134	18	16
Actuarial losses	72	63	1	8
Benefits paid	(86)	(93)	(15)	(15)
Acquisitions/divestitures, net	(1)	(2)	(10)	(1)
Foreign currency and other	7	3	(2)	21
Benefit obligation, ending	$ 1,725	1,871	304	342
Fair value of plan assets, beginning	$ 1,726	1,753	315	293
Actual return on plan assets	(57)	(119)	(10)	(24)
Employer contributions	169	161	8	9
Benefits paid	(86)	(93)	(15)	(15)
Acquisitions/divestitures, net	–	–	(2)	–
Foreign currency and other	1	1	(3)	16
Fair value of plan assets, ending	$ 1,753	1,703	293	279
Plan assets in excess of (less than) benefit obligation as of June 30	$ 28	(168)	(11)	(63)
Unamortized transition amount	(8)	(1)	–	–
Unrecognized net loss	401	748	4	66
Unrecognized prior service costs	17	14	–	(6)
Adjustment for fourth quarter contributions	–	–	1	–
Net amount recognized in the balance sheet	$ 438	593	(6)	(3)

	U.S. Plans			Non-U.S. Plans		
Weighted average assumptions:	2000	2001	2002	2000	2001	2002
Discount rate	8.00%	7.75%	7.25%	6.4%	6.4%	5.8%
Expected return on plan assets	10.50%	10.50%	9.00%	8.4%	8.5%	8.3%
Rate of compensation increase	4.50%	4.25%	3.75%	3.9%	3.9%	3.4%

At September 30, 2001 and 2002, the pension assets recognized in the balance sheet were $519 and $636, and the pension liabilities recognized in the balance sheet were $133 and $141, respectively; in addition, $46 and $95 were included in accumulated other nonstockholder changes in equity at September 30, 2001 and 2002, respectively. As of the plans' June 30 measurement date, 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, $307 and $199, respectively, for 2001, and $328, $312 and $210, respectively, for 2002. As of October 2002, the Company estimates that the accumulated benefit obligation for the primary defined benefit pension plans exceeded the fair value of plan assets by $180. If the equity markets continue the trend experienced subsequent to the measurement date, the Company estimates that a charge to accumulated other nonstockholder changes in equity of approximately $700 ($450 after-tax) could be required.

(10) Postretirement Plans

The Company sponsors unfunded postretirement benefit plans (primarily health care) for U.S. retirees and their dependents. Net postretirement plan expense for the years ended September 30, 2000, 2001 and 2002, follows:

	2000	2001	2002
Service cost	$ 5	5	6
Interest cost	22	24	26
Net amortization	(3)	(2)	–
Net postretirement plan expense	$ 24	27	32

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

	2001	2002
Benefit obligation, beginning	$ 305	324
Service cost	5	6
Interest cost	24	26
Actuarial losses	21	54
Benefits paid	(28)	(35)
Acquisitions/divestitures and other	(3)	2
Benefit obligation, ending	324	377
Unrecognized net loss	(1)	(53)
Unrecognized prior service benefit	4	2
Postretirement benefit liability recognized in the balance sheet	$ 327	326

The assumed discount rates used in measuring the obligations as of September 30, 2000, 2001 and 2002, were 7.75 percent, 7.50 percent and 7.00 percent, respectively. The assumed health care cost trend rate for 2003 was 9.0 percent, declining to 5.0 percent in the year 2011. The assumed health care cost trend rate for 2002 was 7.0 percent, declining to 4.5 percent in the year 2007. 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, 2002, and the 2002 postretirement plan expense by less than five percent.

(11) Contingent Liabilities and Commitments

At September 30, 2002, 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.

(12) Income Taxes

Income before income taxes consists of the following:

	2000	2001	2002
United States	$ 1,615	1,143	1,110
Non-U.S.	563	446	455
Income before income taxes	$ 2,178	1,589	1,565

The principal components of income tax expense follow:

	2000	2001	2002
Current:			
Federal	$ 497	429	198
State and local	47	33	7
Non-U.S.	199	172	108
Deferred:			
Federal	30	(36)	175
State and local	3	1	26
Non-U.S.	(20)	(42)	(9)
Income tax expense	$ 756	557	505

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

	2000	2001	2002
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local taxes, less federal tax benefit	1.4	1.4	1.4
Export benefit	(1.0)	(1.4)	(1.7)
Foreign rate differential	(.7)	(1.3)	(3.0)
Goodwill	1.6	2.3	–
Other	(1.6)	(.9)	.6
Effective income tax rate	34.7%	35.1%	32.3%

The principal items that gave rise to deferred tax assets (liabilities) follow:

	2001	2002
Property, plant and equipment	$ (229)	(270)
Leveraged leases	(157)	(144)
Pension	(147)	(193)
Intangibles	(109)	(128)
Accrued liabilities	241	249
Postretirement and postemployment benefits	128	131
Employee compensation and benefits	128	82
NOL and tax credit carryforwards	95	133
Valuation allowance	(30)	(80)
Other	113	99
Total deferred tax assets (liabilities)	$ 33	(121)

At September 30, 2001 and 2002, respectively, net current deferred tax assets were $395 and $325, and net noncurrent deferred tax liabilities were $362 and $446. Total income taxes paid were approximately $700, $590 and $320 in 2000, 2001 and 2002, respectively.

(13) Common Stock

The Company has various stock option plans that permit key 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, 2002, approximately 10.5 million options were available for grant under these plans. Changes in the number of shares subject to option during 2000, 2001 and 2002, follow (shares in thousands):

	2000		2001		2002	
	Average Price	Shares	Average Price	Shares	Average Price	Shares
Beginning of year	$ 45.48	8,504	$ 47.15	10,147	$ 48.42	9,088
Options granted	46.42	3,095	67.27	451	52.85	2,112
Options exercised	30.54	(1,093)	44.05	(1,219)	40.86	(591)
Options canceled	51.96	(359)	51.58	(291)	52.85	(196)
End of year	47.15	10,147	48.42	9,088	49.66	10,413
Exercisable at year end		4,563		4,625		6,016

Summarized information regarding stock options outstanding and exercisable at September 30, 2002, follows (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Shares	Average Contractual Life	Average Price	Shares	Average Price
up to $44	4,352	5.3 years	$ 41.36	2,981	$ 40.80
$45 to 54	3,885	8.0	52.62	1,250	52.37
$55 to 74	2,176	6.3	60.97	1,785	59.84
Total	10,413	6.5	49.66	6,016	48.85

The Company's Incentive Shares Plans authorize the distribution of common stock to key management personnel subject to certain conditions and restrictions. Upon accomplishment of the five-year performance objectives, 2,085,314 shares were distributed to participants in 2002, including 1,216,985 shares paid in cash; additionally, participants elected to defer 97,604 shares for future distribution. At September 30, 2002, 1,897,922 shares were outstanding with restriction periods of three to ten years, including 169,627 shares issued in 2002. In addition, 1,124,612 rights to receive common shares have been awarded, including 26,441 shares awarded in 2002, which are contingent upon accomplishing certain objectives by 2006. At September 30, 2002, approximately 3.5 million shares remained available for award under these plans. Compensation expense charged against income for the Company's Incentive Shares Plans was $43, $36 and $27 for 2000, 2001 and 2002, respectively.

The Company applies Accounting Principles Board Opinion No. 25 in accounting for its stock plans. Had compensation expense for the Company's stock plans been determined in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," net earnings and diluted earnings per common share, respectively, would have been $1,401 and $3.25 per share in 2000, $1,012 and $2.36 per share in 2001, and $1,043 and $2.48 per share ($105 and $0.25 per share including the cumulative effect of accounting change) in 2002. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants: risk-free interest rate of 6.5 percent, 5.7 percent and 4.2 percent, dividend yield of 2.3 percent, 2.3 percent and 2.9 percent, expected volatility of 22 percent, 25 percent and 25 percent for 2000, 2001 and 2002, respectively, and expected life of five years for all years. The weighted average fair value of options granted was $11.75, $12.03 and $11.03 for 2000, 2001 and 2002, respectively. The Company plans to adopt the accounting provisions of FAS 123 in fiscal 2003 for grants awarded after September 30, 2002.

At September 30, 2002, 25,704,892 shares of common stock were reserved, including 25,646,901 shares for issuance under the Company's stock plans and 57,991 shares for conversion of the outstanding 8% convertible subordinated debentures at a price of $13.49 per share. During 2002, 361,300 treasury shares were acquired and 1,445,638 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.

(14) 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 predictive maintenance systems. The Industrial Automation segment includes integral horsepower industrial motors, variable-speed and index drives, mechanical power transmission equipment, 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 and controls, 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 Notes 3, 4 and 5)

	Sales			Earnings			Total Assets		
	2000	2001	2002	2000 (a)	2001 (a)(b)	2002	2000	2001	2002
Process Control	$ 3,156	3,398	3,396	280	358	387	3,575	3,573	3,506
Industrial Automation	3,181	2,956	2,500	467	402	297	2,685	2,567	2,354
Electronics & Telecommunications	3,289	3,590	2,465	447	359	119	3,643	3,303	2,878
HVAC	2,500	2,438	2,389	382	347	333	1,840	1,920	1,876
Appliance and Tools	3,811	3,500	3,437	581	503	456	2,473	2,366	2,393
	15,937	15,882	14,187	2,157	1,969	1,592	14,216	13,729	13,007
Differences in accounting methods				190	191	149			
Repositioning charge				–	(377)	–			
Corporate and other				102	92	57	948	1,317	1,538
Sales eliminations / Interest	(392)	(402)	(363)	(271)	(286)	(233)			
Total	$ 15,545	15,480	13,824	2,178	1,589	1,565	15,164	15,046	14,545

(a) In connection with the adoption of FAS 142, fiscal 2002 segment earnings exclude goodwill amortization. Fiscal 2000 segment earnings include goodwill amortization of $155 as follows: Process Control $53; Industrial Automation $27; Electronics and Telecommunications $40; HVAC $14; and Appliance and Tools $21. Fiscal 2001 segment earnings include goodwill amortization of $164 as follows: Process Control $56; Industrial Automation $26; Electronics and Telecommunications $51; HVAC $14; and Appliance and Tools $17.

(b) Reported 2001 segment earnings exclude the incremental repositioning charge of $377. 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 $289, Industrial Automation $380, Electronics and Telecommunications $276, HVAC $341, and Appliance and Tools $340.

	Intersegment Sales			Depreciation and Amortization Expense			Capital Expenditures		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Process Control	$ 6	4	3	182	188	124	100	77	76
Industrial Automation	14	18	12	128	125	93	88	85	67
Electronics & Telecommunications	12	15	14	95	128	81	115	104	33
HVAC	31	31	25	104	110	99	184	144	85
Appliance and Tools	329	334	309	160	148	134	196	135	105
Corporate and other				9	9	10	9	9	18
Total	$ 392	402	363	678	708	541	692	554	384

Changes in the goodwill balances since September 30, 2001, are primarily due to the transitional impairment charge and the addition of goodwill associated with the Avansys acquisition. Goodwill balances by business segment follow:

	2001	2002
Process Control	$ 1,626	1,591
Industrial Automation	831	788
Electronics & Telecommunications	1,805	1,590
HVAC	376	377
Appliance and Tools	544	564
Total	$ 5,182	4,910

Geographic

	Sales by Destination			Property, Plant and Equipment		
	2000	2001	2002	2000	2001	2002
United States	$ 9,651	9,291	8,073	2,394	2,355	2,162
Europe	3,026	3,087	2,766	467	492	489
Asia	1,256	1,412	1,563	229	255	280
Latin America	545	670	525	117	138	130
Other regions	1,067	1,020	897	36	48	55
Total	$ 15,545	15,480	13,824	3,243	3,288	3,116

(15) Other Financial Data

Items reported in earnings during the years ended September 30, 2000, 2001 and 2002, include the following:

	2000	2001	2002
Depreciation	$ 454	462	457
Goodwill amortization	155	164	–
Intangible asset amortization	69	82	84
Research, new product development and product improvement costs	594	594	530
Rent expense	201	219	216
Interest expense	288	304	250
Interest income	17	18	17

Other assets, other are summarized as follows:

	2001	2002
Retirement plans	$ 519	636
Equity and other investments	163	326
Leveraged leases	163	145
Capitalized software	146	147
Intellectual property	127	113
Other	138	191
Total	$ 1,256	1,558

Other liabilities are summarized as follows:

	2001	2002
Deferred income taxes	$ 383	514
Postretirement plans, excluding current portion	307	306
Minority interest	100	104
Other	507	490
Total	$ 1,297	1,414

Accrued expenses include employee compensation of $335 and $344 at September 30, 2001 and 2002, 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 $110 in 2003 and decline substantially thereafter.

(16) Quarterly Financial Information (Unaudited)

Financial Results	Net Sales		Gross Profit		Net Earnings	
	2001	2002	2001	2002	2001	2002
First Quarter	$ 3,920	3,295	1,388	1,170	357	255[2]
Second Quarter	4,103	3,421	1,451	1,189	359	275
Third Quarter	3,905	3,570	1,364	1,230	331	281
Fourth Quarter	3,552	3,538	1,158	1,235	(15)[1]	249
Fiscal Year	$ 15,480	13,824	5,361	4,824	1,032	1,060

	Basic Earnings per Common Share		Diluted Earnings per Common Share		Dividends per Common Share	
	2001	2002	2001	2002	2001	2002
First Quarter	$ .84	.61[2]	.83	.61[2]	.3825	.3875
Second Quarter	.84	.65	.83	.65	.3825	.3875
Third Quarter	.77	.68	.77	.67	.3825	.3875
Fourth Quarter	(.03)[1]	.59	(.03)[1]	.59	.3825	.3875
Fiscal Year	$ 2.43	2.53	2.40	2.52	1.53	1.55

(1) Fourth quarter and fiscal 2001 include a charge of $260 ($0.61 per share). See Note 4 for additional information.

(2) First quarter and fiscal 2002 exclude a cumulative effect of a change in accounting principle of $938 ($2.24 per basic share, or $2.23 per diluted share). Including the cumulative effect of a change in accounting principle, net earnings for the first quarter and fiscal 2002 were ($683), ($1.63) per basic share, or ($1.62) per diluted share, and $122, $0.29 per basic share, or $0.29 per diluted share, respectively. See Note 5 for additional information.

See Notes 3 and 4 for information regarding other non-recurring items and the Company's acquisition and divestiture activities.

Stock Prices (per common share)	2001		2002	
	High	Low	High	Low
First Quarter	$ 78.81	62.25	58.14	45.57
Second Quarter	77.56	59.81	65.51	52.00
Third Quarter	71.60	60.00	59.40	51.59
Fourth Quarter	63.05	45.80	54.15	43.20
Fiscal Year	$ 78.81	45.80	65.51	43.20

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

Eleven-Year Summary

Emerson Electric Co. and Subsidiaries

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

		1992	1993	1994
Summary of Operations	Net sales	$ 7,706	8,174	8,607
	Gross profit	$ 2,651	2,884	3,054
	Interest expense	$ 91	119	89
	Income before income taxes	$ 1,044	1,112	1,238
	Net earnings	$ 663	708	789
	Percent of net sales	8.6%	8.7%	9.2%
	Return on average stockholders' equity	19.0%	18.5%	19.1%
Per Share of Common Stock	Basic earnings	$ 1.48	1.57	1.76
	Diluted earnings	$ 1.47	1.56	1.75
	Operating earnings	$ 1.47	1.56	1.75
	Operating earnings, excluding goodwill amortization	$ 1.55	1.67	1.85
	Cash dividends	$ .69	.72	.78
	Book value	$ 8.31	8.71	9.71
Year-End Financial Position	Operating working capital	$ 1,519	1,464	1,531
	Percent of net sales	19.7%	17.9%	17.8%
	Property, plant and equipment, net	$ 1,695	1,880	1,947
	Total assets	$ 6,627	7,815	8,215
	Long-term debt	$ 448	438	280
	Stockholders' equity	$ 3,730	3,915	4,342
	Total debt to total capital	19.1%	29.3%	21.7%
	Net debt to net capital	17.7%	27.9%	20.0%
Other Data	Capital expenditures	$ 346	306	332
	Depreciation	$ 253	269	274
	Total taxes, including income taxes	$ 674	710	762
	Salaries and wages	$ 1,916	2,064	2,156
	Average number of employees	69,400	71,600	73,900
	Approximate number of stockholders at year end	33,100	32,700	31,800
	Average common shares – basic (in thousands)	448,504	450,166	448,464
	Average common shares – diluted (in thousands)	454,047	455,125	452,747

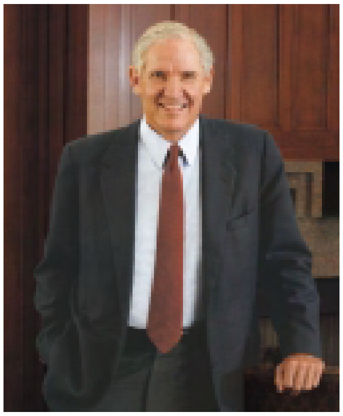
Note: All share and per share data reflect the 1997 two-for-one stock split.

(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.

(2) Excludes the $938 cumulative effect of a change in accounting principle ($2.23 per share).

1995	1996	1997	1998	1999	2000	2001	2002
10,013	11,150	12,299	13,447	14,270	15,545	15,480	**13,824**
3,533	3,985	4,433	4,852	5,076	5,529	5,361	**4,824**
111	127	121	152	190	288	304	**250**
1,425	1,609	1,784	1,924	2,021	2,178	1,589	**1,565**
908	1,019	1,122	1,229	1,314	1,422	1,032	**1,060** (2)
9.1%	9.1%	9.1%	9.1%	9.2%	9.2%	6.7%	**7.7%**
19.7%	19.9%	20.8%	21.9%	21.9%	22.6%	16.5%	**17.9%** (2)
2.03	2.27	2.52	2.80	3.03	3.33	2.43	**.29**
2.01	2.25	2.50	2.77	3.00	3.30	2.40	**.29**
2.01	2.25	2.50	2.77	3.00	3.30	3.01 (1)	**2.52** (2)
2.14	2.42	2.69	2.99	3.27	3.63	3.36 (1)	**2.52** (2)
.89	.98	1.08	1.18	1.30	1.43	1.53	**1.55**
10.88	11.96	12.30	13.24	14.27	14.98	14.57	**13.65**
1,773	1,984	2,098	2,294	2,222	2,336	2,033	**1,741**
17.7%	17.8%	17.1%	17.1%	15.6%	15.0%	13.1%	**12.6%**
2,135	2,451	2,735	3,012	3,154	3,243	3,288	**3,116**
9,399	10,481	11,463	12,660	13,624	15,164	15,046	**14,545**
209	773	571	1,057	1,317	2,248	2,256	**2,990**
4,871	5,353	5,421	5,803	6,181	6,403	6,114	**5,741**
24.7%	24.5%	27.1%	30.8%	34.6%	41.8%	43.5%	**44.2%**
23.3%	22.9%	24.9%	29.0%	32.7%	40.2%	41.5%	**42.0%**
421	514	575	603	592	692	554	**384**
303	339	369	406	447	454	462	**457**
862	963	1,034	1,093	1,126	1,196	982	**915**
2,380	2,569	2,771	3,003	3,171	3,376	3,389	**3,107**
78,900	86,400	100,700	111,800	116,900	123,400	124,500	**111,500**
31,000	29,800	35,900	37,200	36,300	35,000	33,700	**32,700**
447,506	448,095	445,020	439,193	433,801	427,379	425,438	**418,888**
451,946	452,754	449,501	444,121	438,397	431,395	429,452	**420,891**

Message from the Chairman



Charles F. Knight

On behalf of the board of directors, we congratulate David and his management team on their actions in fiscal 2002. As a result of their efforts, Emerson is poised to emerge from the current difficult economic environment with leading positions in our key businesses. Management has worked closely with the board over the course of the year, and the directors firmly endorse the company's direction.

I am also pleased to report that our focus on corporate governance over many years continues to serve the company well, enabling management to readily comply with new certification requirements from the U.S. Securities and Exchange Commission and the New York Stock Exchange during the year.

John B. Menzer, president and chief executive officer of Wal-Mart International and executive vice president of Wal-Mart Stores, Inc., is our newest director, joining the board in November 2002. John's customer orientation and knowledge of global markets will be assets to Emerson.

And we deeply thank Larry Browning, the former vice chairman of Emerson, and Dick Loynd, chairman of the executive committee of Furniture Brands International, Inc., for their contributions as directors over a combined 50 years. Both will retire from the board in February 2003. We have benefited from their insight, leadership and integrity, and we will miss them.

Charles F. Knight

Board of Directors

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President

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Former Vice Chairman,
Emerson Electric Co.

August A. Busch III
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David N. Farr
St. Louis, Missouri
Chief Executive Officer

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

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Vice Chairman of the Board
& Chief Executive Officer
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International, Inc.

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President of Wal-Mart Stores, Inc.

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Vice President

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Former U.S. Ambassador to
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Rozanne L. Ridgway
Arlington, Virginia
Former Assistant Secretary
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Senior Counsel,
Bryan Cave LLP

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Chairman &
Chief Executive Officer,
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T.E. Bettcher
Executive Vice President

J.J. Lindemann
Executive Vice President

E.L. Monser
Chief Operating Officer

J-P.L. Montupet
Executive Vice President

P.J. Sly
Executive Vice President

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A.F. Golden
R.B. Loynd
J.B. Menzer
R.L. Ridgway
W.M. Van Cleve

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J.W. Prueher
E.E. Whitacre, Jr.

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

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R.L. Ridgway
W.M. Van Cleve

Management

Senior Management

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Chairman

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Chief Executive Officer

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President

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

E.L. Monser
Chief Operating Officer

C.A. Peters
Senior Executive Vice
President

Operating Management

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T.E. Bettcher
Executive Vice President

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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

Corporate Management

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Vice President-
Profit Planning

K. Button Bell
Vice President
& Chief Marketing Officer

M.J. Bulanda
Vice President-
Planning

J.R. Carius
Vice President-
Employee Relations &
Chief Employment Counsel

G.D. Carmichael
Vice President
& Chief Information Officer

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Senior Vice President-
Acquisitions & Development

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Vice President

T.C. Derrick, Jr.
Vice President-
Labor Relations

B.N. Eckhardt
Senior Vice President
& Controller

L.A. Flavin
Vice President-
Audit

D.J. Green
Vice President
& Associate General Counsel

K.D. Hahn
Vice President-
Information Technology

J.A. Harmon
Senior Vice President

C.G. Heath
Vice President-
Executive Compensation

L.E. Heikkila
Vice President-
Aviation

P.A. Hutchison
Senior Vice President-
Human Resources

R.E. Keefe
Vice President-
Manufacturing

C.T. Kelly
Vice President-
Human Resources

L.J. Kremer
Vice President-
Materials

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Vice President-
Environmental Affairs
& Real Estate

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Vice President-
Labor Relations

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Senior Vice President
& Chief Technology Officer

R.M. Levy
Vice President-
Development

J.A. Mannebach
Vice President-
Financial Administration

R.D. McDonald
Vice President-
Government Affairs

P.E. McKnight
Vice President-
Organization Planning

M.J. Molloy
Vice President-
Development

D.C. Moon
Vice President-
Tax

D.J. Rabe
Vice President & Treasurer

J.E. Rhodes
Assistant Treasurer
& Director-Investor Relations

P.A. Roberts
Vice President-
Public Affairs

L.A. Rodriguez
President-Emerson
Latin America

S.C. Roemer
Vice President-
Financial Planning

K.W. Rolls
Vice President-
Benefits

R.J. Schlueter
Vice President
& Chief Accounting Officer

P. Sen
President-
Emerson India

D.D. Sollberger
Vice President-
Procurement

J.D. Switzer
Senior Vice President-
Development

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 4, 2003, 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 2002 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, 10-Q and 8-K, 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 & Stock Purchase Plan

The Plan is administered by Mellon Bank, N.A., to individual investors who want a convenient, low-cost way to purchase or sell Emerson Electric Co. common stock (NYSE:EMR). You can participate in the Plan if you are a registered holder of Emerson common stock. If you do not own Emerson common stock, you can make your initial purchase directly through the Plan. The Plan provides you the opportunity to reinvest dividends and is an alternative to traditional methods of buying, holding, and selling Emerson common stock. The Plan is not sponsored or administered by Emerson. 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 also 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, changes 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) current and future business environment, including interest rates and capital and consumer spending; (ii) volatility of the end markets served, as demonstrated by the recent decline in the electronics and telecommunications market; (iii) competitive factors and competitor responses to Emerson initiatives; (iv) development and market introduction of anticipated new products; (v) availability of raw materials and purchased components; (vi) government laws and regulations, including taxes; (vii) outcome of pending and future litigation, including environmental compliance; (viii) stable governments and business conditions in emerging economies; (ix) penetration of emerging economies; (x) favorable environment for acquisitions, domestic and foreign, including regulatory requirements and market values of candidates; (xi) integration of acquisitions; (xii) favorable access to capital markets; and (xiii) execution of cost-reduction efforts.

Design: Obata Design, Inc., St. Louis, MO

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Emerson

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