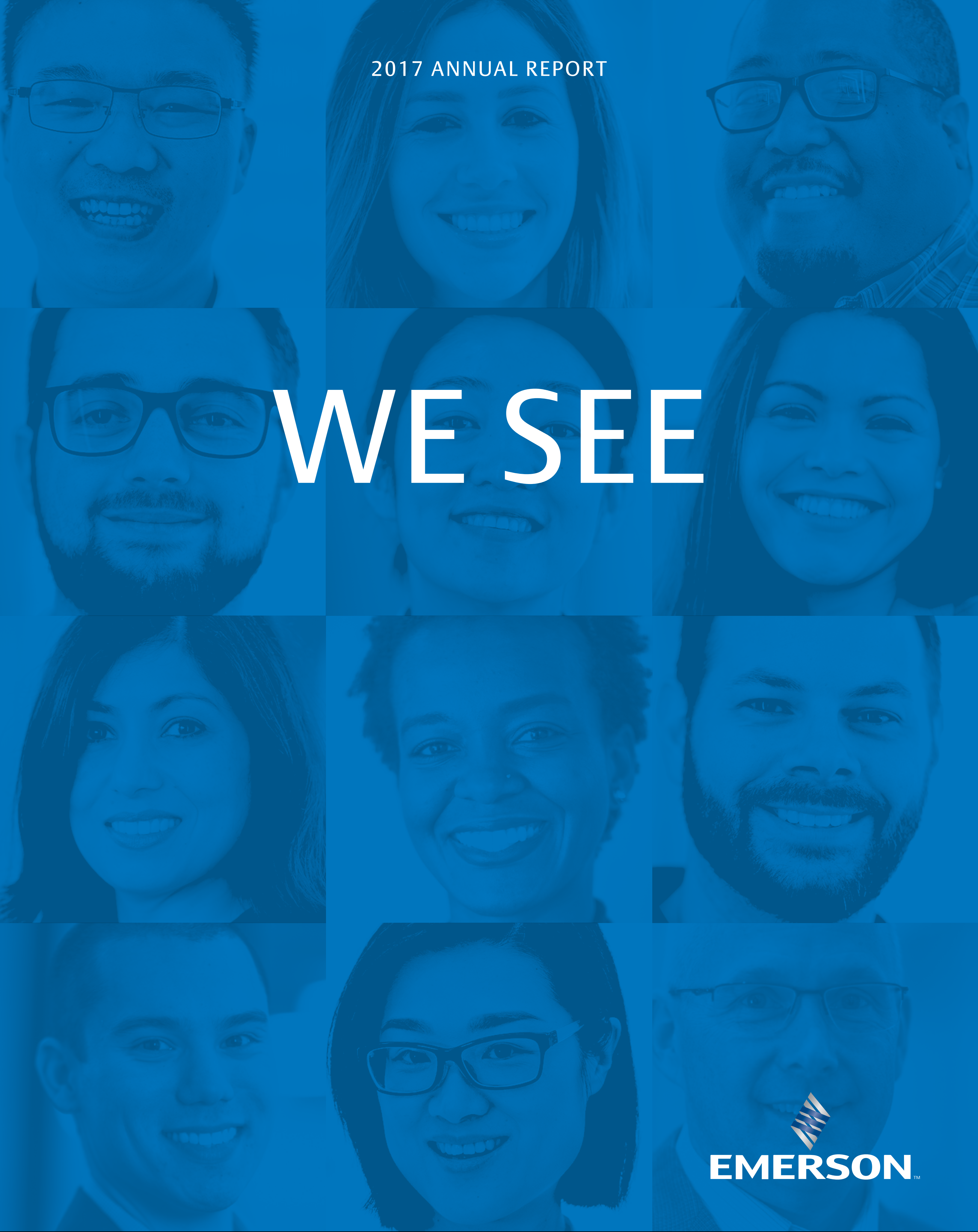


2017 ANNUAL REPORT

WE SEE

EMERSON

THE STRENGTH OF

ONE EMERSON

ONE-YEAR PERFORMANCE

Years ended September 30 Dollars in millions, except per share amounts	2016	**2017**	PERCENT CHANGE
Sales	$14,522	**$15,264**	5 %
Gross profit	$ 6,262	**$ 6,404**	2 %
Earnings before interest and taxes	$ 2,504	**$ 2,500**	– %
Earnings from continuing operations	$ 1,590	**$ 1,643**	3 %
Earnings per share from continuing operations	$ 2.45	**$ 2.54**	4 %
Adjusted earnings per share from continuing operations*	$ 2.45	**$ 2.64**	8 %
Dividends per share	$ 1.90	**$ 1.92**	1 %
Operating cash flow from continuing operations	$ 2,499	**$ 2,690**	8 %
Dividends as a percent of free cash flow from continuing operations	60%	**56%**	

FIVE-YEAR PERFORMANCE

Years ended September 30 Dollars in millions, except per share amounts	2012	**2017**	FIVE-YEAR CAGR
Sales	$17,349	**$15,264**	(3)%
Gross profit	$ 7,227	**$ 6,404**	(2)%
Earnings before interest and taxes	$ 2,602	**$ 2,500**	(1)%
Earnings from continuing operations	$ 1,444	**$ 1,643**	3 %
Earnings per share from continuing operations	$ 1.96	**$ 2.54**	5 %
Adjusted earnings per share from continuing operations*	$ 2.54	**$ 2.64**	1 %
Dividends per share	$ 1.60	**$ 1.92**	4 %
Operating cash flow from continuing operations	$ 2,336	**$ 2,690**	3 %
Dividends as a percent of free cash flow from continuing operations	65%	**56%**	

**Adjusted earnings per share exclude Valves & Controls' first year acquisition accounting charges of $65 million after-tax, $0.10 per share in 2017, and a goodwill impairment charge of $425 million after-tax, $0.58 per share in 2012.*

“

By concentrating on the most complex and important challenges facing process, industrial, commercial and residential markets, we have the opportunity to make the world a better place.

David N. Farr
Chairman and Chief Executive Officer

61 Years

of Increased Dividends

2017 earnings per share exclude a loss from discontinued operations of $0.19 and Valves & Controls first year acquisition accounting charges of $0.10.

Dear Shareholders:

Our global team began fiscal 2017 with a unified vision for the future. We set a course to strengthen our core businesses, serve our customers in new and innovative ways, increase revenue, expand our margins and return to a premium valuation. Thanks to the hard work of employees around the world, that vision is taking shape. Today, I see One Emerson – unified in our efforts and working to address critical world needs. By concentrating on the most complex and important challenges facing process, industrial, commercial and residential markets, we have the opportunity to make the world a better place.

As I reflect on 2017, I am proud of all that we have accomplished. This year we completed our strategic portfolio repositioning, a journey we started more than two years ago. Building on a foundation we've laid over decades, we enhanced our expertise and solidified our leadership positions in key industries. We are now strongly aligned around the two platforms that will propel us forward: Automation Solutions and Commercial & Residential Solutions. These platforms share many strategic leverage points and enable us to expand into adjacent markets, fuel growth, and serve as stewards for our industries. And we have already seen growth – organically, by adapting to meet customer challenges in new and innovative ways, and through targeted M&A such as the acquisition of the Pentair Valves & Controls business.

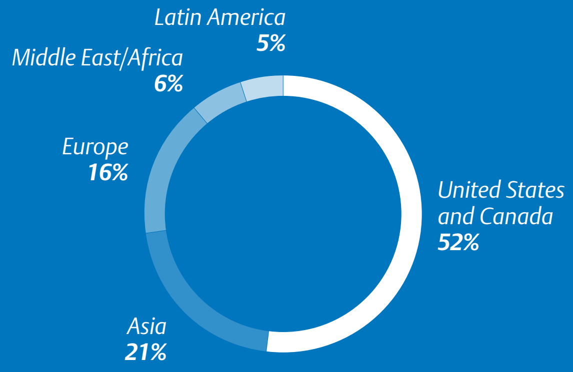
“

We see our markets evolving to be digitally enabled and reliant on data as a means to improve operational execution and profitability.

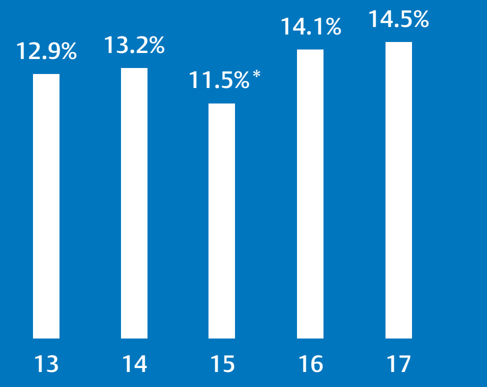
Adding Valves & Controls to our business is an example of the opportunities we see to expand key areas of our business and deliver end-to-end customer solutions. We now have the most complete valves portfolio in the market. With Valves & Controls, we can work with customers in new ways, such as serving as their main valve partner on greenfield projects or providing comprehensive, data-driven lifecycle management across a complete portfolio of valve assets. We are fortunate to have expanded our talented global workforce through this acquisition. Over the past six months it has been gratifying to see firsthand that the Valves & Controls employees share a common culture with Emerson, one focused on growth and serving customers with distinction. I welcome them to the Emerson family and I am proud to say that our combined valves workforce brings unparalleled skill and knowledge to serve our customers.

We see our markets evolving to be digitally enabled and reliant on data as a means to improve operational execution and profitability. But solutions must go well beyond just collecting data from devices. The data must be interpreted and transformed into actionable information – information that gives customers concrete steps to fix problems and enhance performance. Whether it’s monitoring food throughout the cold chain or replacing a deteriorating valve that could cause costly downtime, we enable customers to optimize operations and increase reliability, efficiency and safety. Further, our strong market presence and ability to expand existing products

2017 SALES BY GEOGRAPHIC DESTINATION



FREE CASH FLOW AS A PERCENT OF SALES



* Adjusted free cash flow as a percent of sales. Excludes $424 million of income taxes paid on divestiture gains. Unadjusted free cash flow as a percent of sales was 8.9%.

and technologies means we will continue to provide customers with additional layers of actionable data in key areas, such as simulation, monitoring and security.

Investing in the people who work on these technologies is just as important as investing in the technology itself. We could not have achieved success in 2017 without the dedication and commitment of our employees worldwide. As we look to maintain leadership in our industries and deliver results for customers, our employees are leading the digital transformation. Emerson is committed to ensuring our employees have the training and tools to fulfill their potential. We are also building the future of our industries by supporting the development of the next generation of innovators and problem-solvers through our "We Love STEM" program. From "We Love STEM" days, which support school-age activities, to partnering with colleges on programs to develop and retrain workers for the digital manufacturing era, Emerson is promoting STEM awareness. We see these efforts as foundational to developing needed talent for the future of Emerson and the industries we serve.

Just as our people are critical to our success, so are the core values that guide us and serve as the common language across our global organization. Emerson has always operated with the highest ethical standards – it is ingrained in our DNA. However, as we grow and evolve as One Emerson, we recognize the need to do more, which is why we introduced a renewed discussion on values this year. We interviewed more than 100 of our

"Emerson has always operated with the highest ethical standards – it is ingrained in our DNA.

senior executives across the globe and reviewed 14,000 employee survey responses on the topic of ethics and values within local organizations. These efforts surfaced the things we hold most important as Emerson employees: integrity, safety and quality, supporting our people, customer focus, continuous improvement, collaboration and innovation. These intrinsic values affect not only the way we work, but our strategic framework for investment, which has evolved to meet our changing environment. Our values also unify us around a common understanding and provide clear direction and priorities. For more information on our values, I encourage you to visit OneEmerson.com.

The communities in which we operate and where our employees live are just as important as their work environment. Every year, we contribute to organizations and initiatives around the world that improve quality of life. Through our corporate philanthropy and employee volunteerism, we work to make our communities better and more attractive places to live and work – not just for the benefit of our own employees and their families, but for everyone who calls them home. Emerson has long embraced a culture of taking responsibility for our actions and that includes the impact we have on the environment. In that spirit of responsibility, we enhanced our Corporate Social Responsibility (CSR) report to align with key industry reporting standards and inform our stakeholders of our efforts to reduce energy consumption, improve productivity, ensure the safety and well-being of our employees, and enhance our communities. As a global citizen

Steven J.
Pelch

Frank J.
Dellaquila

Sara
Yang Bosco

Edgar M.
Purvis Jr.

Michael H.
Train

Robert T.
Sharp

Katherine T.
Button Bell

Mark J.
Bulanda

Edward L.
Monser

The Office of the Chief Executive

and good steward of the environment, we are committed to continuing these efforts. This report is a demonstration of that commitment, and we will continue to keep all of our stakeholders informed of our progress. Our CSR report is available on our website, and I encourage you to read it.

I would like to extend thanks to our Board of Directors for faithful and insightful counsel and guidance. The Board has been actively engaged throughout Emerson's transition, and their oversight and support has been instrumental in transforming the company.

On a sad note, this year we lost a legendary leader and a great friend with the passing of Charles F. Knight. He had an immeasurable impact on Emerson and on everyone who knew him. I encourage you to read the tribute to Chuck on the inside back cover of this report.

Finally, on behalf of the Board of Directors and all of us at Emerson, we thank our shareholders for the continued support and trust you place in us. Together, we will continue to grow the business profitably for a successful future.

Thank you, and we wish you a healthy and prosperous 2018,

David N. Farr
Chairman and Chief Executive Officer

We are

transforming quality of life, one breath at a time

Clean air is a life-changing need for millions in China. High-efficiency heat pumps – powered by Emerson technology – are reducing China's reliance on coal-burning heat, which pollutes the air with harmful emissions. These electric-powered heat pumps take advantage of natural outdoor temperature differences to create heat in the winter and cooling in the summer. Emerson's scroll compressor technology enables sustainable heating, while delivering efficient indoor comfort to homes in northern China.

Galen Yin
Vice President, China,
Commercial & Residential Solutions

20 percent

Emerson's Copeland Scroll heating technology is **20 percent** more energy efficient than a traditional coal-fired boiler system.

Advancing energy efficiency to meet critical needs in China

Emerson engineers pioneered new heating technology for our Copeland Scroll™ compressor. Heat pumps with this revolutionary scroll technology can operate efficiently when temperatures are below freezing, providing significant cost savings when compared to traditional heat pumps. The expanded use of heat pumps drives lower CO_2 emissions by more than 60 million tons each year.

Breathing cleaner air

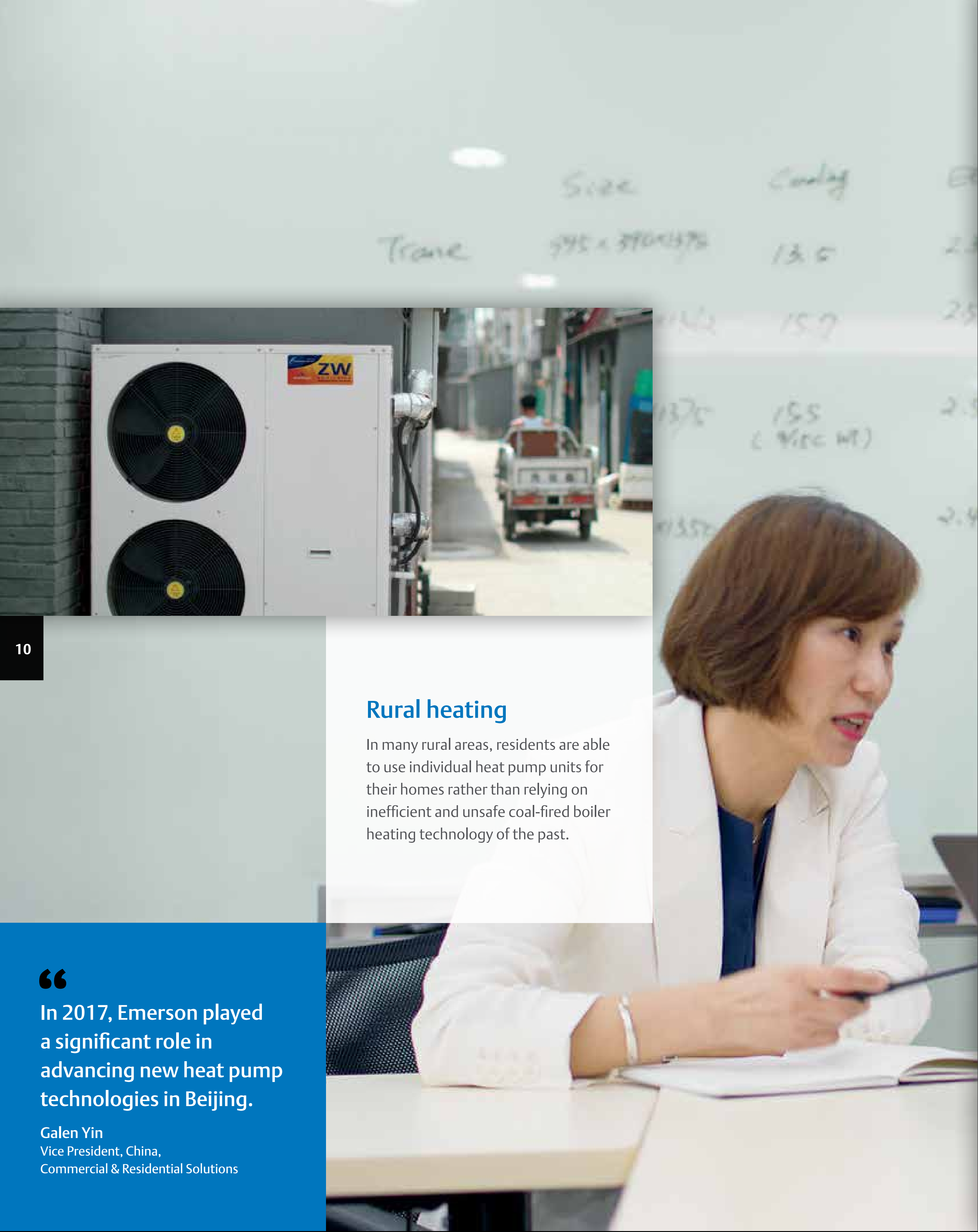
Emerson's technology is having a significant impact: In 2017, more than 200,000 Emerson-powered heat pumps were installed throughout China in apartment buildings, villas and other residential community developments, as well as commercial buildings/spaces. The heat pumps have contributed to a reduction in coal use and carbon emissions, improving overall air quality and living standards.

Learn more on our website:
AnnualReport.Emerson.com

We are

innovating for a better tomorrow

Driven to uncover the next world-changing solution, our engineers work side by side with system manufacturers and industry leaders to advance critical heating technologies. Emerson develops technologies that deliver better quality of life, efficiency and comfort, such as our enhanced vapor injection, a heat pump feature that helps achieve significant energy savings and sets us apart from competitors.



Rural heating

In many rural areas, residents are able to use individual heat pump units for their homes rather than relying on inefficient and unsafe coal-fired boiler heating technology of the past.

> In 2017, Emerson played a significant role in advancing new heat pump technologies in Beijing.

Galen Yin
Vice President, China,
Commercial & Residential Solutions

Commercial heating

Commercial buildings can rely on a central heat pump unit for an entire building – resulting in more efficient, clean heating.

District heating

Heat pumps are scalable to allow centralized heating for surrounding apartment complexes, driving cost and energy efficiency.

We are

safeguarding the world’s food supply

Innovative technology is playing an increasingly vital role in protecting food as it travels through the behind-the-scenes transport and storage network known as the cold chain. With our deep industry expertise and broad technology portfolio across every link of the cold chain, we take a total-channel approach as we provide monitoring technologies to maintain food quality and safety – from harvest to store shelves and every stop in between.

Mark Dunson
Group President, Electronics & Solutions,
Commercial & Residential Solutions

$750B

The global food industry loses **$750 billion** annually due to insufficient cold chain systems.

9 out of 10 adults are concerned about food safety, according to a recent Emerson survey.

Making smarter, data-informed decisions

Real-time data gives 24/7 insight into the foods we feed our families, enhancing safety and reducing risk of expensive and unnecessary global waste. This data, collected through the cold chain journey, provides a full picture of any perishable item's path, helping our customers make informed decisions that support not just safety and quality but sustainability efforts and regulatory compliance.

Learn more on our website:
AnnualReport.Emerson.com

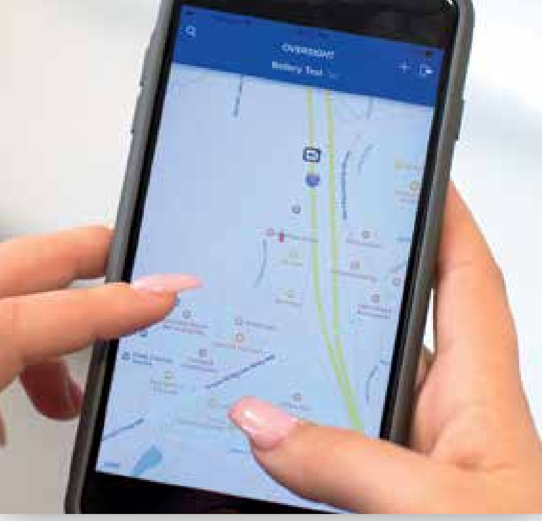
We are

expanding our cold chain leadership

Emerson's acquisitions of Locus Traxx and PakSense help connect the links of the cold chain, bringing together a portfolio of technologies that provide better food and better products to consumers around the world. Paired with Emerson's legacy of proven cold chain and monitoring expertise, we are poised to continue developing innovative solutions and pioneering advanced sensor technology to protect food quality and sustainability.

> Our customers are very interested in tracking shipments because a single shipment of produce can be worth hundreds of thousands of dollars.

Kent Moya
Director of Systems Architecture,
Commercial & Residential Solutions



Fresh from farm to fork

The average American meal travels about 1,500 miles from farm to fork. Emerson plays a critical role in monitoring food surface temperature to ensure it reaches the destination safely.

We are

transforming power industry innovation

The critical and increasingly complex power industry, where a single mistake can mean costly and extended customer downtime, is faced with an aging infrastructure. Emerson's decades of experience and expertise, built directly into our Ovation™ control systems, are the foundation for a virtual plant environment that simulates actual plant equipment and processes. This "digital twin" gives customers the freedom to innovate and try new ways of optimizing plant environments in a virtual world without risking harm to physical plant operations.

Bob Yeager
President of Power & Water Solutions,
Automation Solutions

Turning simulation into action

Emerson built "digital twin" virtual plant functionality directly into our Ovation control software for power generation plants. Synchronized data between the real and virtual plant allows operators to test changes in a simulated environment before implementing them in the real world. This comprehensive and unique approach expands business opportunities for Emerson by helping our customers identify operating efficiencies, improve safety and decrease unscheduled maintenance.

1.3M

Emerson automates **1.3 million** megawatts of power worldwide.

3.5M

Ovation uses more than **3.5 million** lines of code to build continuous high-fidelity virtual plant simulations.

Learn more on our website:
AnnualReport.Emerson.com

We are

preparing tomorrow's workforce – virtually

More than half of power industry engineers will likely retire in the next 10 years, taking with them decades of knowledge learned through trial and error. The Ovation "digital twin," an exact virtual replica, provides controlled training for the next generation of engineers in a way that's never been done in this industry. Using data delivered by our Industrial Internet of Things connected devices throughout the plant, the virtual environment helps operators learn to recognize and manage abnormal operations and to run the plant efficiently and profitably.

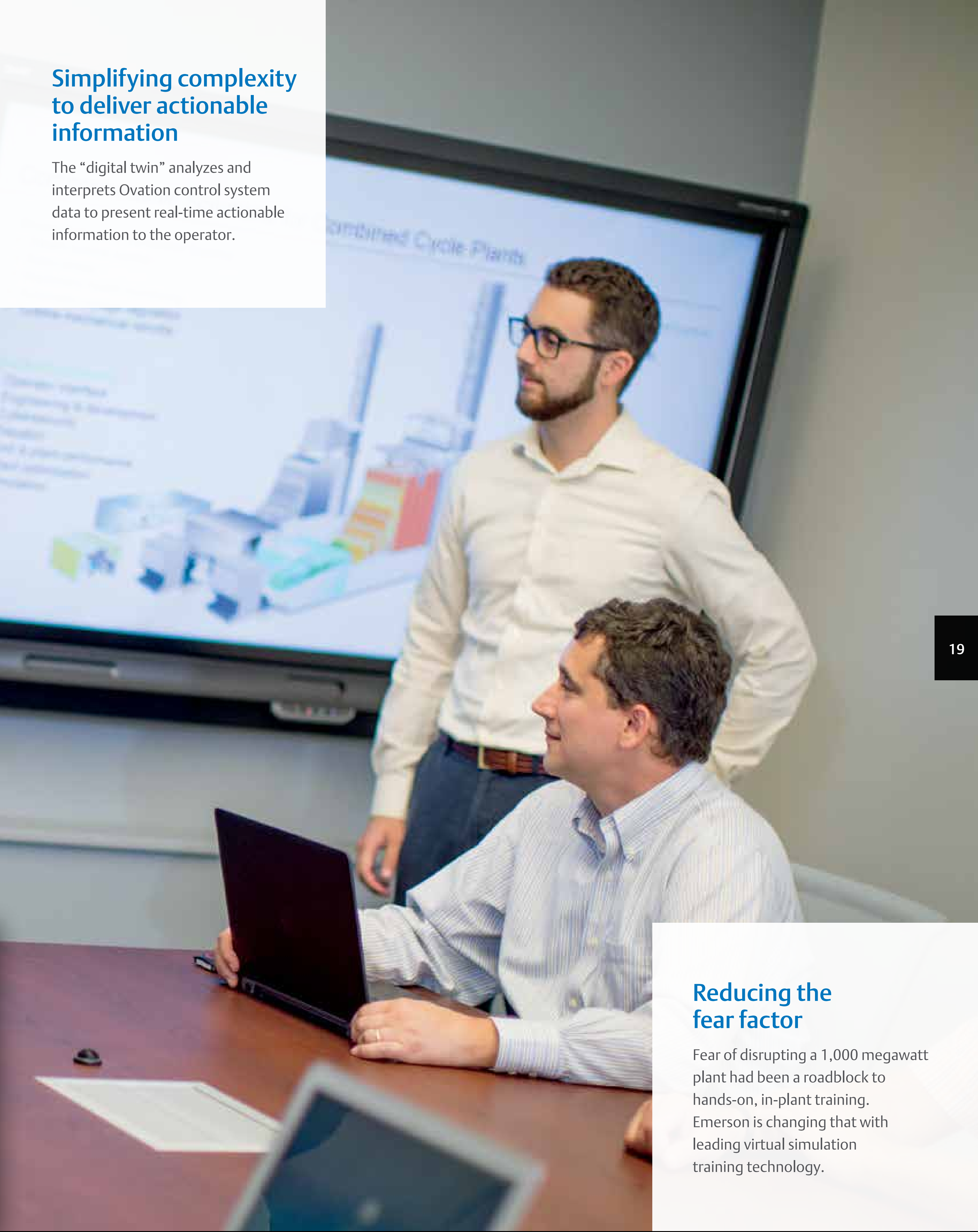
“

The top three benefits of the ‘digital twin’ are reduced operating cost, improved safety and virtualized training.

Isaac Slaughter
Simulation Engineer,
Automation Solutions

Simplifying complexity to deliver actionable information

The "digital twin" analyzes and interprets Ovation control system data to present real-time actionable information to the operator.



Reducing the fear factor

Fear of disrupting a 1,000 megawatt plant had been a roadblock to hands-on, in-plant training. Emerson is changing that with leading virtual simulation training technology.

We are creating an unmatched Final Control portfolio

Global manufacturers rely on valves to control critical processes and ensure safety in their plants. Today, they also want the associated hardware and controls packaged together for a complete controls solution. This year, by adding Pentair Valves & Controls to Emerson's leading Final Control business, we now have the valves, actuators and instruments that help us create fully automated, safety-certified customer solutions. Customers in this space are counting on partners for complete valve solutions: Emerson is now the only company with *the* full portfolio of valves and associated technologies.

Ram Krishnan
Group President, Final Control,
Automation Solutions

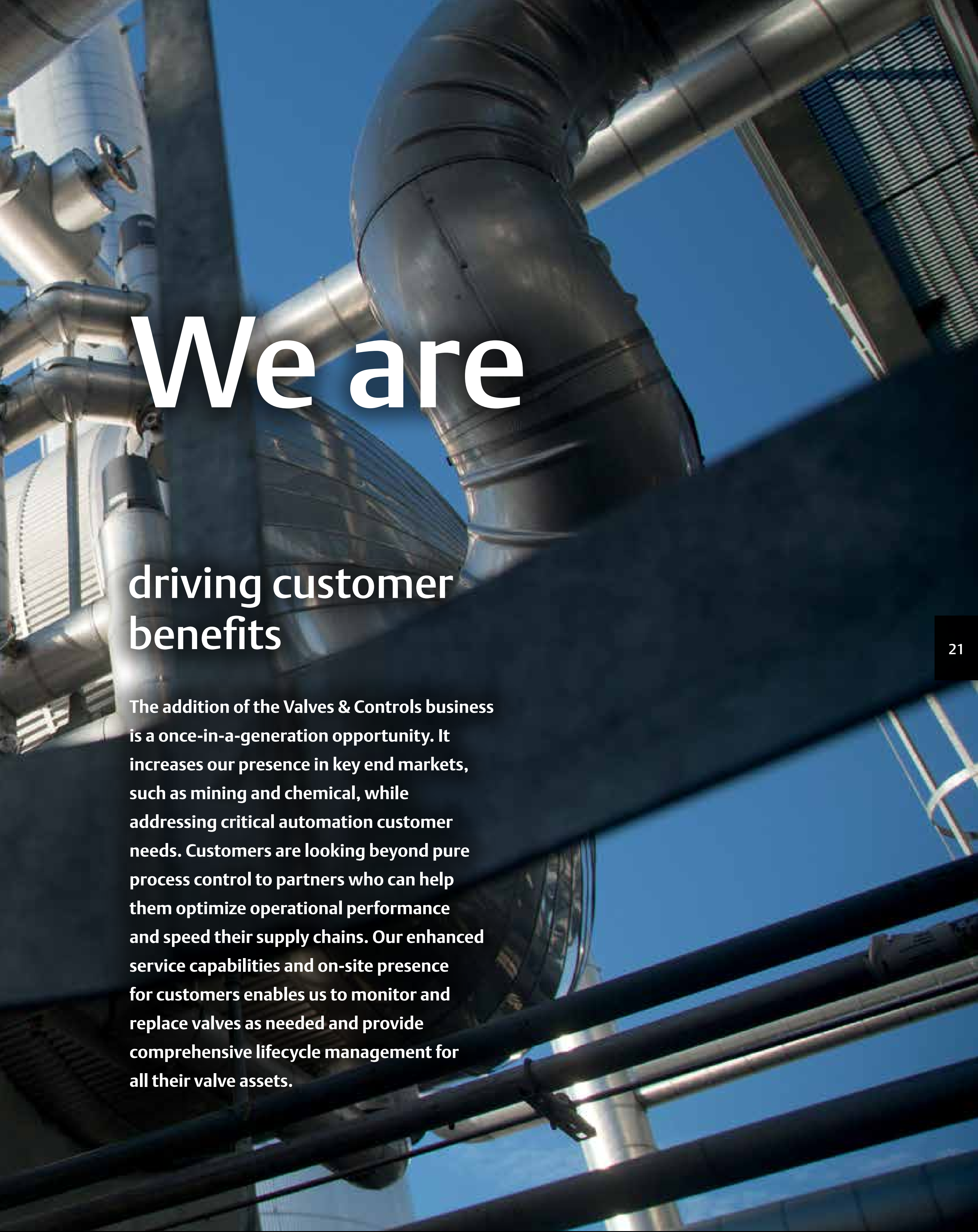
Driving Top Quartile performance

Removing uncertainty and risk from plant operations with a complete line of leading valve technologies and comprehensive monitoring and service is a winning equation, helping operators achieve Top Quartile performance – optimized production, improved reliability, reduced emissions and increased safety.

30 percent

Top Quartile manufacturers have **30 percent** lower emissions and use **30 percent** less energy compared to their peers. They also achieve 4 percent higher availability and half the maintenance costs.

Learn more on our website:
AnnualReport.Emerson.com



We are

driving customer benefits

The addition of the Valves & Controls business is a once-in-a-generation opportunity. It increases our presence in key end markets, such as mining and chemical, while addressing critical automation customer needs. Customers are looking beyond pure process control to partners who can help them optimize operational performance and speed their supply chains. Our enhanced service capabilities and on-site presence for customers enables us to monitor and replace valves as needed and provide comprehensive lifecycle management for all their valve assets.

> Customers want a full package from one vendor. They want a complete valve offering, controllers and actuators from a single supplier.

Trevor Shanks
Vice President Isolation Valves,
Automation Solutions

Enabling safer and more productive plant operations

Emerson now has the ability to provide end-to-end safety technology, which includes the valves, actuators and digital valve controllers for the isolation valve space.

“

The valves and controls acquisition allows Emerson to participate in markets that were tougher to reach before, specifically in the discrete and hybrid space.

John Wilson
Vice President of North America Sales,
Final Control, Automation Solutions

We are

accelerating the next generation of innovation

Emerson innovators are changing the world as they bring ideas to life in our cutting-edge collaboration center. The Helix showcases four ecosystems – supermarkets, commercial kitchens, residential homes and commercial buildings – under one roof, allowing our experts to test concepts in real-world scenarios. The ability to interact with these environments firsthand promotes creativity, enabling us to approach industry issues from new perspectives. The Helix is instrumental in helping our teams work with customers to uncover the world of possibilities in addressing the most complex challenges facing our industries.

Rajan Rajendran
Vice President of Systems and Innovation, Commercial & Residential Solutions

Leading the way as industry stewards

The Helix fosters a new way of thinking, focused on creative collaboration both inside and outside of Emerson. As equal parts imagination sandbox and real-world proving ground, the Helix drives evidence-based insights for our customers. These crucial learnings can be shared with regulators, empowering them to create new or better standards to govern their markets as we collectively work to be good stewards of the industries we serve.

1,200

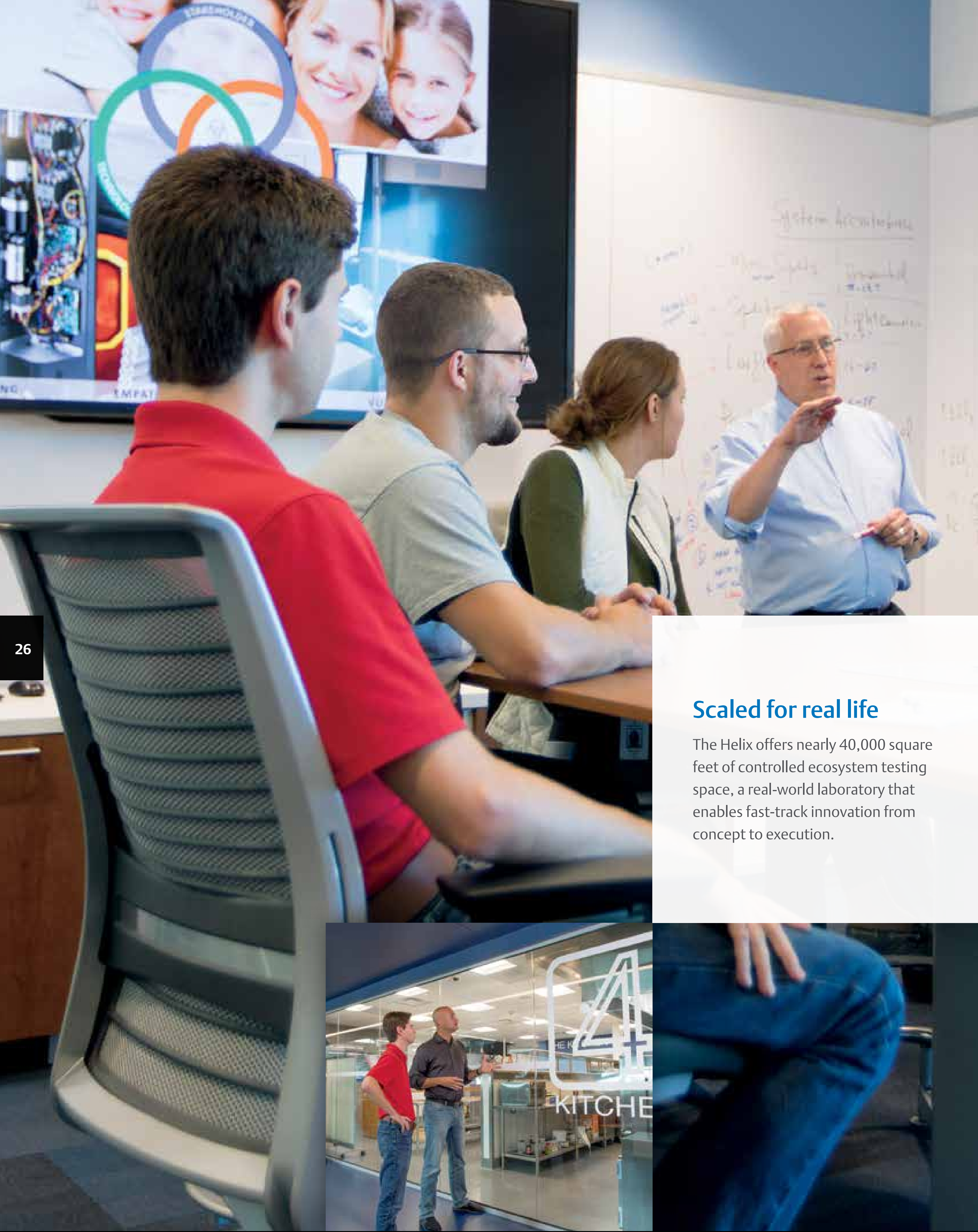
The Helix hosted more than **1,200 visitors** in 2017, including equipment manufacturers, wholesalers, contractors, building managers, supermarket and convenience store operators and restaurant owners.

Learn more on our website:
AnnualReport.Emerson.com

We are

redefining creativity

The Helix is shaking up the ideation and development process, creating solutions ahead of the pace of change. When our customers enter the Helix, they see a world of possibilities to work with Emerson in ways they've never considered. Foodservice customers can develop and test food waste solutions in our working commercial kitchen. Our two-story home enclosed in a temperature and humidity controlled environment – the only one of its kind in the world – enables us to adjust simulated outside humidity and temperature conditions, testing HVAC concepts in a controlled atmosphere.



Scaled for real life

The Helix offers nearly 40,000 square feet of controlled ecosystem testing space, a real-world laboratory that enables fast-track innovation from concept to execution.

> The Helix is about giving form to vision. It's a mindset. It's a way to think through problems that are increasingly complex and interconnected.

Stuart Morgan
Innovation Lead at the Helix,
Commercial & Residential Solutions

Replicating retail space to spur innovation

Our Helix supermarket has everything but the shoppers, making it possible to test new refrigeration formats and system-level energy efficiency concepts for the food retail industry.

We are driving connectivity

Emerson has long been the leading supplier of the equipment that makes a production or process plant work – the valves, instrumentation and control systems and software. Today, we securely connect much of that equipment to the Industrial Internet of Things to deliver the data and the applications customers need to efficiently manage operations. Emerson technologies measure plant activity that has never been measured before, helping our customers run safer, more efficient, cost-effective plants so they can outperform their competition.

Bob Karschnia
Vice President and Wireless General Manager, Automation Solutions

Certainty in decision making

Knowledge is power. Emerson provides a wide range of the most innovative and reliable sensors in the world. Our easy-to-use software applications interpret the sensor data to move customers from "I think I know" to "I know."

32,000

Emerson has installed **32,000** wireless networks with 10 billion operating hours.

30 percent

Predictive maintenance can lead to a **30 percent** reduction in maintenance costs and a 70 percent cut in downtime from equipment breakdowns.

Learn more on our website:
AnnualReport.Emerson.com

We are

optimizing the plant

The Plantweb™ digital ecosystem is Emerson's open Industrial Internet of Things portfolio that securely connects data, analytics and people. Pervasive sensing (sensors placed throughout the plant, including in remote or hazardous areas) gathers data like vibration, acoustics, corrosion, temperature, pressure and more. Analytics software then interprets that data to determine the action needed, such as replacing a piece of equipment or addressing a hazardous condition. This data also fuels predictive maintenance, which ultimately translates into reduced energy consumption, improved safety and lower emissions.

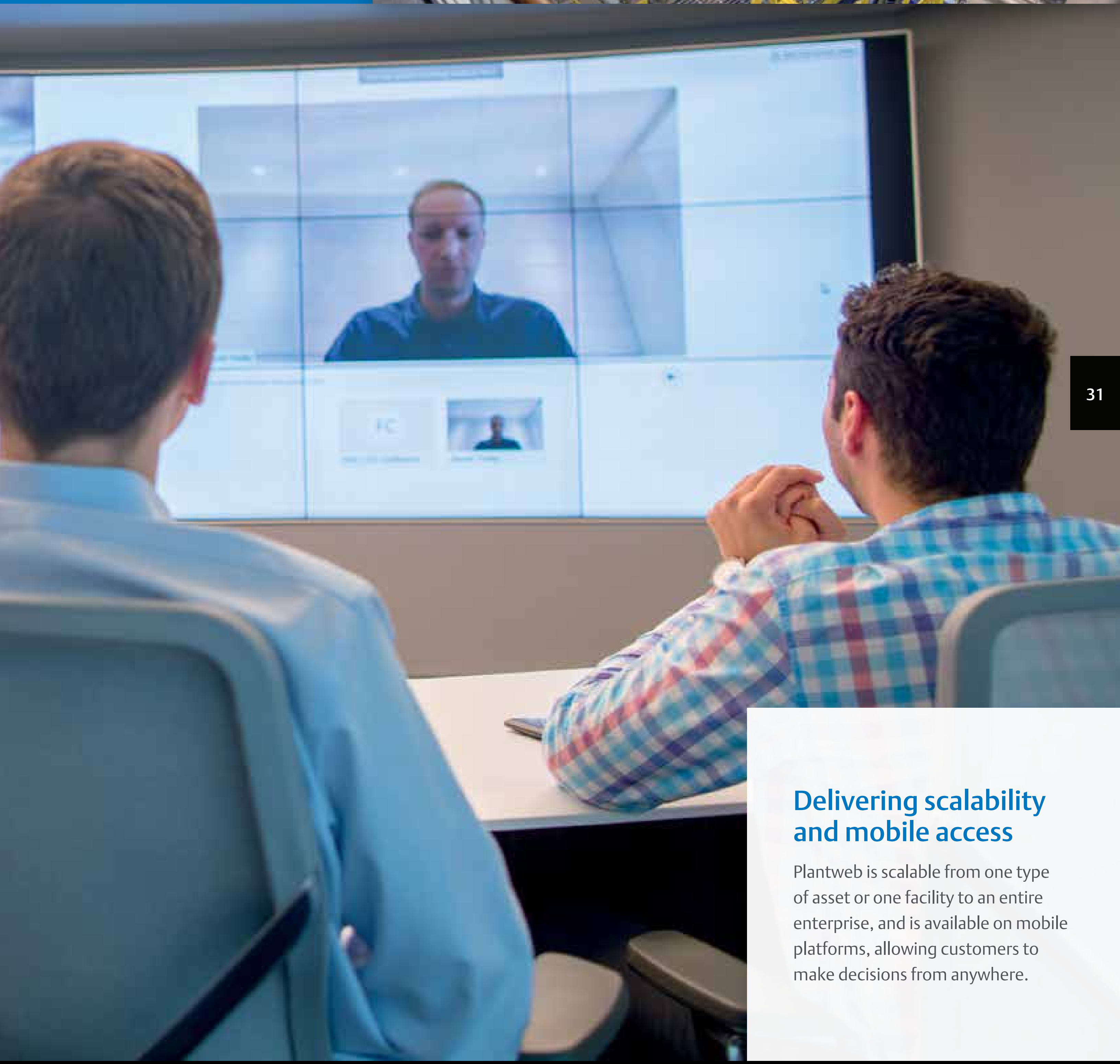
> “The Industrial Internet of Things is really all about collecting information, connecting it all together and then helping our customers make more sense of it.

Brian Joe
Global Wireless Product Manager,
Automation Solutions

❝

Customers talk about being data rich, but information poor. We are bridging that gap so they can make informed decisions and take action.

Melissa Stiegler
Director of Wireless Product Management, Automation Solutions



Delivering scalability and mobile access

Plantweb is scalable from one type of asset or one facility to an entire enterprise, and is available on mobile platforms, allowing customers to make decisions from anywhere.

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, 2017 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 internal 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 Company's 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 and internal controls, as well as nonaudit-related services.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements and on the Company's internal control over financial reporting. Their opinions are based on procedures that they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors and that the Company's internal controls are effective.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of September 30, 2017.

The valves & controls business was acquired on April 28, 2017. Management has excluded this business from its assessment of internal control over financial reporting as of September 30, 2017. Valves & controls' total assets and revenues excluded from the assessment represented approximately 20 percent and 4 percent, respectively, of the Company's related consolidated financial statement amounts as of and for the year ended September 30, 2017.

The Company's auditor, KPMG LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

David N. Farr
Chairman of the Board and Chief Executive Officer

Frank J. Dellaquila
Senior Executive Vice President and Chief Financial Officer

Results of Operations

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

	2015	2016	**2017**	16 vs. 15	**17 vs. 16**
Net sales	$16,249	14,522	**15,264**	(11)%	**5 %**
Gross profit	$ 7,008	6,262	**6,404**	(11)%	**2 %**
Percent of sales	*43.1%*	*43.1%*	***42.0%***		
SG&A	$ 3,735	3,464	**3,618**		
Percent of sales	*23.0%*	*23.8%*	***23.7%***		
Gains on divestitures of businesses	$ 1,039	—	**—**		
Other deductions, net	$ 330	294	**286**		
Interest expense, net	$ 175	188	**165**		
Earnings from continuing operations before income taxes	$ 3,807	2,316	**2,335**	(39)%	**1 %**
Percent of sales	*23.4%*	*16.0%*	***15.3%***		
Earnings from continuing operations common stockholders	$ 2,517	1,590	**1,643**	(37)%	**3 %**
Net earnings common stockholders	$ 2,710	1,635	**1,518**	(40)%	**(7)%**
Percent of sales	*16.7%*	*11.3%*	***9.9%***		
Diluted EPS – Earnings from continuing operations	$ 3.71	2.45	**2.54**	(34)%	**4 %**
Diluted EPS – Net earnings	$ 3.99	2.52	**2.35**	(37)%	**(7)%**
Return on common stockholders' equity	29.8%	20.9%	**18.6%**		
Return on total capital	22.8%	15.5%	**15.3%**		

OVERVIEW

In 2017, Emerson successfully completed the previously announced strategic actions to streamline its portfolio and drive growth in its core businesses. These actions resulted in the divestiture of the network power systems, and power generation, motors and drives businesses, which are reported in discontinued operations for all years presented. Additionally, on April 28, 2017, the Company completed the acquisition of Pentair's valves & controls business.

Sales from continuing operations for 2017 were $15.3 billion, an increase of $742 million, or 5 percent, supported by the acquisition of the valves & controls business, which added 4 percent. Underlying sales were up 1 percent compared with the prior year reflecting improving economic conditions and industrial end markets.

Earnings from continuing operations common stockholders were $1,643 million in 2017, up 3 percent compared with prior year earnings of $1,590 million. Diluted earnings per share from continuing operations were $2.54, up 4 percent versus $2.45 per share in 2016. Earnings per share from continuing operations were $2.64, up 8 percent, excluding first year acquisition accounting charges of $0.10 per share related to the valves & controls business which deducted 4 percentage points.

Discontinued operations in 2017 was a net loss of $125 million, $0.19 per share, reflecting the impact of completing the divestitures. Discontinued operations income in 2016 was $45 million, $0.07 per share. See Note 4 for further information.

Net earnings common stockholders, which includes the impact of discontinued operations, were $1,518 million in 2017, down 7 percent compared with prior year earnings of $1,635 million. Diluted earnings per share were $2.35, down 7 percent versus $2.52 per share in 2016.

Sales increased in both businesses. Automation Solutions sales increased 5 percent due to the acquisition of the valves & controls business, while underlying sales decreased slightly, reflecting weakness in energy-related markets which began to improve in the second half of the year. Commercial & Residential Solutions sales increased 5 percent reflecting favorable conditions in HVAC, refrigeration and construction related markets.

The Company generated operating cash flow from continuing operations of $2.7 billion in 2017, an increase of $191 million, or 8 percent. Total operating cash flow of $1.9 billion was reduced by cash used for discontinued operations of $778 million to execute the repositioning, primarily for income taxes on completion of the divestitures and repatriation of cash.

NET SALES

Net sales for 2017 were $15.3 billion, an increase of $742 million, or 5 percent compared with 2016. Underlying sales, which exclude foreign currency translation, acquisitions and divestitures, increased 1 percent ($168 million) on higher volume and slightly lower price. Acquisitions added 4 percent ($628 million) while foreign currency translation subtracted $54 million. Underlying sales increased 2 percent in the U.S. and were flat internationally. Sales increased $441 million in Automation Solutions and $302 million in Commercial & Residential Solutions.

Net sales for 2016 were $14.5 billion, a decrease of $1,727 million, or 11 percent compared with 2015. Underlying sales decreased 7 percent ($1,046 million) on 6 percent lower volume and 1 percent lower price. Foreign currency translation subtracted 2 percent ($266 million) and divestitures, net of acquisitions subtracted 2 percent ($415 million). Underlying sales decreased 5 percent in the U.S. and 8 percent internationally. Sales in Automation Solutions decreased $1,176 million and Commercial & Residential solutions decreased $76 million.

INTERNATIONAL SALES

Emerson is a global business with international sales representing 52 percent of total sales, including U.S. exports. Although economic conditions are currently soft worldwide, the Company generally expects faster economic growth in emerging markets in Asia, Latin America, Eastern Europe and Middle East/Africa in the future.

International destination sales, including U.S. exports, increased 5 percent, to $8.0 billion in 2017, reflecting increases in both the Automation Solutions and Commercial & Residential Solutions businesses. U.S. exports of $927 million were up 4 percent compared with 2016, reflecting increases in both Automation Solutions, which benefited from the valves & controls acquisition, and Commercial & Residential Solutions. Underlying international destination sales were flat, as foreign currency translation had a 1 percent unfavorable impact, while acquisitions had a 6 percent favorable impact on the comparison. Underlying sales were down 1 percent in Europe and up 6 percent in Asia (China up 15 percent). Underlying sales decreased 12 percent in Latin America, 3 percent in Canada and 6 percent in Middle East/Africa. Origin sales by international subsidiaries, including shipments to the U.S., totaled $7.2 billion in 2017, up 6 percent compared with 2016, primarily reflecting the valves & controls acquisition.

International destination sales, including U.S. exports, decreased 12 percent, to $7.6 billion in 2016, reflecting decreases in all segments, partially due to divestitures. U.S. exports of $888 million were down 25 percent compared with 2015, reflecting reduced spending by global oil and gas customers, weakness in industrial spending and the stronger U.S. dollar. Underlying international destination sales declined 8 percent, as foreign currency translation and divestitures had a 3 percent and a 1 percent unfavorable impact, respectively, on the comparison. Underlying sales were up 2 percent in Europe and decreased 10 percent in both Asia and Latin America. Sales decreased 21 percent in Canada and 15 percent in Middle East/Africa. Weakness in energy-related and industrial end markets and global economic uncertainty challenged growth in these areas. Origin sales by international subsidiaries, including shipments to the U.S., totaled $6.8 billion in 2016, down 10 percent compared with 2015, reflecting the weakness in industrial capital spending, unfavorable foreign currency translation and divestitures.

ACQUISITIONS AND DIVESTITURES

The Company is currently pursuing a potential acquisition of Rockwell Automation, Inc. On November 16, 2017, the Company announced that it proposed to acquire Rockwell for $29 billion, or $225 per share, consisting of $135 per share in cash, financed primarily with newly issued debt, and $90 per share in Emerson stock, which would result in Rockwell shareholders owning approximately 22 percent of the combined company. Rockwell has not engaged with the Company on this or previous proposals. Rockwell had fiscal 2017 sales of approximately $6.3 billion. See Item 1A – “Risk Factors” in the Company’s Annual Report on Form 10-K for additional information.

See information under “Discontinued Operations” for a discussion of the Company’s divestitures related to its portfolio repositioning actions.

On April 28, 2017, the Company completed the acquisition of Pentair’s valves & controls business for $2.960 billion, net of cash acquired of $207 million, subject to certain post-closing adjustments. This business, with annualized sales of approximately $1.4 billion, is a manufacturer of control, isolation and pressure relief valves and actuators, and complements the Valves, Actuators & Regulators product offering within Automation Solutions. The Company also acquired two smaller businesses in the Automation Solutions segment. Total cash paid for all businesses was $3.0 billion, net of cash acquired. See Note 3.

On October 2, 2017, the Company sold its residential storage business for $200 million in cash, subject to post-closing adjustments, and expects to recognize a loss of approximately $40 million in 2018 due to income taxes resulting from nondeductible goodwill. The Company expects to realize approximately $140 million in after-tax cash proceeds from the sale. This business, with sales of $298 million and pretax earnings of $15 million in 2017, is a leader in home organization and storage systems, and was reported within the Tools & Home Products segment.

The Company acquired six businesses in 2016, four in Automation Solutions and two in Climate Technologies. Total cash paid for these businesses was $132 million, net of cash acquired. Annualized sales for these businesses were approximately $51 million in 2016. The Company completed eight acquisitions in 2015, seven in Automation Solutions and one in Tools & Home Products, which had combined annualized sales of approximately $115 million. Total cash paid for all businesses was $324 million, net of cash acquired.

In January 2015, the Company completed the sale of its mechanical power transmission solutions business for $1.4 billion, and recognized a pretax gain from the transaction of $939 million ($532 million after-tax, $0.78 per share). Proceeds from the divestiture were used for share repurchase. This business was previously reported in the former Industrial Automation segment, and had partial year sales of $189 million in 2015 and related pretax earnings of $21 million. Power transmission solutions designs and manufactures market-leading couplings, bearings, conveying components and gearing and drive components, and provides supporting services and solutions.

On September 30, 2015, the Company sold its InterMetro commercial storage business for $411 million in cash and recognized a pretax gain from the transaction of $100 million ($79 million after-tax, $0.12 per share). This business was previously reported in the former Commercial & Residential Solutions segment, and had annual sales of $288 million and pretax earnings of $42 million in 2015. InterMetro is a leading manufacturer and supplier of storage and transport products in the food service, commercial products and health care industries.

COST OF SALES

Cost of sales for 2017 were $8.9 billion, an increase of $600 million compared with $8.3 billion in 2016. The increase reflects the acquisition of the valves & controls business and higher volume, partially offset by cost reduction actions and the impact of foreign currency translation. Gross profit was $6.4 billion in 2017 compared to $6.3 billion in 2016. Gross margin of 42.0 percent reflected dilution of 1.2 percentage points due to the valves & controls operations and first year acquisition accounting charges of $74 million related to inventory. Slightly lower price also contributed to the decline, while savings from cost reduction actions partially offset these decreases. Gross profit margin was 43.1 percent in 2016.

Cost of sales for 2016 were $8.3 billion, a decrease of $981 million compared with $9.2 billion in 2015, primarily due to reduced sales volume, the impact of foreign currency translation ($186 million) and prior year divestitures ($273 million). Gross profit was $6.3 billion in 2016 compared with $7.0 billion in 2015. Gross margin of 43.1 percent was flat compared with 2015, as savings from cost reduction and containment actions were offset by deleverage on lower volume and unfavorable mix.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses of $3.6 billion in 2017 increased $154 million compared with 2016, primarily due to the valves & controls acquisition. Savings from cost reduction actions and lower incentive stock compensation of $35 million, reflecting the impact of changes in the stock price, were partially offset by higher other costs. SG&A as a percent of sales of 23.7 percent decreased 0.1 percentage points compared with 2016.

SG&A expenses of $3.5 billion in 2016 decreased $271 million compared with 2015. The decrease reflects savings from cost reduction actions, reduced costs from lower sales volume, and prior year divestitures ($137 million), partially offset by higher incentive stock compensation of $121 million. SG&A as a percent of sales of 23.8 percent increased 0.8 percent in 2016, reflecting deleverage on lower sales volume and higher incentive stock compensation, primarily due to changes in the stock price and overlap of awards, partially offset by savings from restructuring actions.

GAINS ON DIVESTITURES OF BUSINESSES

In 2015, the Company sold its power transmission solutions and commercial storage businesses and recorded pretax gains of $939 million ($532 million after-tax, $0.78 per share) and $100 million ($79 million after-tax, $0.12 per share), respectively. See Note 3.

OTHER DEDUCTIONS, NET

Other deductions, net were $286 million in 2017, a decrease of $8 million compared with 2016. The decrease primarily reflects favorable foreign currency transactions comparisons of $78 million (unfavorable in the prior year) and lower restructuring expense of $18 million. These decreases were substantially offset by intangibles and backlog amortization related to the valves & controls acquisition of $29 million and $19 million, respectively, and higher acquisition/divestiture costs of $24 million. Additionally, 2016 results included a $21 million gain from payments received related to dumping duties. See Note 5.

Other deductions, net were $294 million in 2016, a $36 million decrease from 2015 primarily due to lower restructuring costs of $42 million, decreased litigation costs of $30 million and a $21 million gain on payments received related to dumping duties. The decrease in other deductions was partially offset by unfavorable foreign currency transactions of $67 million.

INTEREST EXPENSE, NET

Interest expense, net was $165 million, $188 million and $175 million in 2017, 2016 and 2015, respectively. The decrease of $23 million in 2017 reflects the maturity of long-term debt with relatively higher interest rates and higher interest income.

INCOME TAXES

Income taxes were $660 million, $697 million and $1,267 million for 2017, 2016 and 2015, respectively, resulting in effective tax rates of 28 percent, 30 percent and 33 percent in 2017, 2016 and 2015, respectively. The 2 percentage point decrease versus the prior year is largely due to tax benefits from restructuring a foreign subsidiary. The 3 percentage point higher rate in 2015 was due to taxes on the gains from the divestitures of the power transmission solutions and commercial storage businesses.

EARNINGS FROM CONTINUING OPERATIONS

Earnings from continuing operations attributable to common stockholders in 2017 were $1,643 million, up 3 percent compared with 2016, and diluted earnings per share were $2.54 in 2017, up 4 percent. Valves & controls reduced both comparisons by 6 percentage points, or $97 million, $0.15 per share, including restructuring expense, intangibles amortization, and first year pretax acquisition accounting charges related to inventory and backlog of $93 million ($65 million after-tax, $0.10 per share) which are reported in Corporate and other. Earnings increased $66 million in the Automation Solutions segment in 2017 and $72 million in Commercial & Residential Solutions. See the Business discussion that follows and Note 18.

Earnings from continuing operations attributable to common stockholders in 2016 were $1,590 million, down 37 percent compared with 2015, and diluted earnings per share were $2.45, down 34 percent. Divestiture gains in the prior year negatively impacted earnings from continuing operations and earnings per share comparisons by 20 and 21 percentage points, respectively. In 2016, earnings decreased $390 million in the Automation Solutions segment and increased $87 million in Commercial & Residential Solutions.

DISCONTINUED OPERATIONS

On November 30, 2016, the Company completed the sale of its network power systems business for $4.0 billion in cash and retained a subordinated interest in distributions, contingent upon the equity holders first receiving a threshold return on their initial investment. This business comprised the former Network Power segment. Additionally, on January 31, 2017, the Company completed the sale of its power generation, motors and drives business for approximately $1.2 billion, subject to post-closing adjustments. This business was previously reported in the former Industrial Automation segment. The results of operations for these businesses were reported in discontinued operations for all years presented, and the assets and liabilities were reflected as held-for-sale. See Note 4 and Item 1A – “Risk Factors,” in the Company’s Annual Report on Form 10-K.

Discontinued operations was a net loss of $125 million in 2017, and income of $45 million and $193 million for 2016 and 2015, respectively. In 2017, the net loss of $125 million, $0.19 per share, included an after-tax gain on the divestiture of the network power systems business of $125 million, a $173 million after-tax loss on the divestiture of the power generation, motors and drives business, income tax expense of $109 million for repatriation of sales proceeds, and lower expense of $32 million primarily due to ceasing depreciation and amortization for the discontinued businesses held-for-sale. Operating cash flow used by discontinued operations was $778 million for 2017, which primarily included payments of approximately $700 million for income taxes on completion of the divestitures and repatriation of cash, cash used by operations and other costs. Capital expenditures were $20 million.

Discontinued operations income of $45 million, $0.07 per share, in 2016 included earnings from operations of $344 million and costs to execute the portfolio repositioning of $299 million. These costs are comprised of income tax expense of $143 million for repatriation of cash from these businesses, reorganization of their legal structures prior to sale, and basis differences for book and tax, as well as costs for legal, consulting, investment banking and other expenses of $77 million. In addition, net earnings for 2016 included a loss of $103 million to write down the power generation, motors and drives business to the sales price less costs to sell, and lower expense of $24 million due to ceasing depreciation and amortization for the discontinued businesses held-for-sale. Discontinued operations income of $193 million, $0.28 per share, in 2015 included earnings from operations of $245 million and separation costs of $52 million, comprised of income tax expense of $42 million and fees of $10 million. Operating cash flow from discontinued operations was $382 million (net of payments of $179 million for separation costs) and $489 million for 2016 and 2015, respectively. Capital expenditures were $76 million for 2016 and $97 million for 2015.

NET EARNINGS AND EARNINGS PER SHARE; RETURNS ON EQUITY AND TOTAL CAPITAL

Net earnings attributable to common stockholders in 2017 were $1,518 million, down 7 percent compared with 2016, and diluted earnings per share were $2.35, down 7 percent. These results include the impact of discontinued operations discussed above which negatively impacted net earnings and earnings per share comparisons 10 and 11 percentage points, respectively.

Net earnings attributable to common stockholders in 2016 were $1,635 million, down 40 percent compared with 2015, and diluted earnings per share were $2.52, down 37 percent. Net earnings and earnings per share comparisons were negatively impacted approximately 24 percentage points due to divestiture gains of $611 million ($0.90 per share) in 2015 and discontinued operations in both years.

Return on common stockholders’ equity (net earnings attributable to common stockholders divided by average common stockholders’ equity) was 18.6 percent in 2017 compared with 20.9 percent in 2016 and 29.8 percent in 2015. Return on total capital was 15.3 percent in 2017 compared with 15.5 percent in 2016 and 22.8 percent in 2015 (computed as net earnings attributable to common stockholders excluding after-tax net interest expense, divided by average common stockholders’ equity plus short- and long-term debt less cash and short-term investments). Discontinued operations and the acquisition of the valves & controls business reduced the 2017 return on common stockholders’ equity approximately 19 percentage points and return on total capital 11 percentage points. Discontinued operations reduced the 2016 return on common stockholders’ equity approximately 23 percentage points and return on total capital 9 percentage points. For 2015, the combined impact of the divestiture gains and discontinued operations reduced the return on common stockholders’ equity approximately 12 percentage points and return on total capital 3 percentage points.

Business Segments

Following is an analysis of segment results for 2017 compared with 2016, and 2016 compared with 2015. The Company defines segment earnings as earnings before interest and income taxes. In connection with the strategic portfolio repositioning actions completed in fiscal 2017, the Company began reporting three segments: Automation Solutions, and Climate Technologies and Tools & Home Products which together comprise the Commercial & Residential Solutions business. See Note 18.

AUTOMATION SOLUTIONS

(DOLLARS IN MILLIONS)	2015	2016	**2017**	16 vs. 15	**17 vs. 16**
Sales	$10,153	8,977	**9,418**	(12)%	**5 %**
Earnings	$ 1,846	1,456	**1,522**	(21)%	**5 %**
Margin	18.2%	16.2%	**16.2%**		
Sales by Major Product Offering					
Measurement & Analytical Instrumentation	$ 3,619	3,137	**3,070**	(13)%	**(2)%**
Valves, Actuators & Regulators	2,559	2,137	**2,668**	(16)%	**25 %**
Industrial Solutions	1,779	1,621	**1,680**	(9)%	**4 %**
Process Control Systems & Solutions	2,196	2,082	**2,000**	(5)%	**(4)%**
Total	$10,153	8,977	**9,418**	(12)%	**5 %**

2017 vs. 2016 – Automation Solutions reported sales of $9.4 billion in 2017, an increase of $441 million, or 5 percent. Underlying sales decreased 1 percent ($128 million) on lower volume and slightly lower price. The valves & controls acquisition added 7 percent ($603 million), while foreign currency translation subtracted 1 percent ($34 million). Sales for Measurement & Analytical Instrumentation decreased 2 percent and Process Control Systems & Solutions decreased 4 percent due to weakness in energy-related markets, but began to improve in the second half of the year as oil prices stabilized. Valves, Actuators & Regulators increased $531 million, or 25 percent, due to the valves & controls acquisition. Industrial Solutions sales increased $59 million, or 4 percent, on improving economic conditions and industrial end markets, especially automotive. Chemical, power and life sciences were favorable. Underlying sales increased 1 percent in the U.S., were down 2 percent in Europe and increased 1 percent in Asia (China up 9 percent). Latin America decreased 20 percent, Canada decreased 6 percent and Middle East/Africa was down 6 percent. Earnings of $1.5 billion increased $66 million from the prior year. Savings from cost reduction actions and favorable foreign currency transactions comparisons of $64 million (unfavorable in the prior year) were partially offset by lower volume, and $25 million of restructuring expense and $29 million of intangibles amortization related to the valves & controls acquisition. Materials cost containment offset lower price. Margin was flat, primarily reflecting the benefit from cost reduction actions offset by dilution from the valves & controls acquisition of 1.5 percentage points. Strong order rates in the second half of the year were supported by broad-based momentum across end markets and regions. Going forward, strong demand for MRO and mid-sized projects together with increasing momentum in international markets supports the outlook for solid underlying growth in fiscal 2018.

2016 vs. 2015 – Automation Solutions reported sales of $9.0 billion in 2016, a decrease of $1.2 billion or 12 percent. Underlying sales decreased 10 percent ($1,027 million) on 9 percent lower volume and 1 percent lower price as global oil and gas customers continued to curtail spending levels in a difficult environment. Foreign currency translation had a 2 percent ($206 million) unfavorable impact, while acquisitions added $57 million. Sales for Measurement & Analytical Instrumentation, Valves, Actuators & Regulators, and Process Control Systems & Solutions decreased 13 percent, 16 percent and 5 percent, respectively, compared with the prior year. These decreases reflect lower capital and operational spending by global oil and gas customers, particularly in upstream markets, while sales growth was positive in life sciences and power. Industrial Solutions sales decreased 9 percent on weakness in industrial spending and upstream oil and gas markets. Underlying sales decreased 10 percent in the U.S., were up 2 percent in Europe and decreased 13 percent in Asia (China down 16 percent). Latin America decreased 13 percent, Canada was down 26 percent and Middle East/Africa decreased 18 percent. Earnings of $1.5 billion decreased $390 million and margin was down 2.0 percentage points due to sharply lower volume, deleverage and unfavorable mix, partially offset by savings from cost reduction actions and lower restructuring costs of $22 million. Materials cost containment offset lower pricing. Results also reflect unfavorable foreign currency transactions of $65 million, partially offset by a favorable comparison from litigation costs of $20 million in 2015.

COMMERCIAL & RESIDENTIAL SOLUTIONS

(DOLLARS IN MILLIONS)	2015	2016	**2017**	16 VS. 15	**17 vs. 16**
Sales:					
Climate Technologies	$4,006	3,944	**4,212**	(2)%	**7%**
Tools & Home Products	1,625	1,611	**1,645**	(1)%	**2%**
Total	$5,631	5,555	**5,857**	(1)%	**5%**
Earnings:					
Climate Technologies	$ 835	902	**975**	8 %	**8%**
Tools & Home Products	364	384	**383**	5 %	**—%**
Total	$1,199	1,286	**1,358**	7 %	**6%**
Margin	21.3%	23.2%	**23.2%**		

2017 vs. 2016 – Commercial & Residential Solutions sales were $5.9 billion in 2017, an increase of $302 million, or 5 percent, reflecting favorable conditions in HVAC and refrigeration markets in the U.S., Asia and Europe, as well as U.S. and Asian construction markets. Underlying sales increased 5 percent ($297 million) on 6 percent higher volume, partially offset by 1 percent lower price. Foreign currency translation deducted $20 million and acquisitions added $25 million. Climate Technologies sales were $4.2 billion in 2017, an increase of $268 million, or 7 percent. Global air conditioning sales were solid, led by strength in the U.S. and Asia and robust growth in China partially due to easier comparisons, while sales were up modestly in Europe and declined moderately in Middle East/Africa. Global refrigeration sales were strong, reflecting robust growth in China on increased adoption of energy-efficient solutions and slight growth in the U.S. Sensors and solutions had strong growth, while temperature controls was up modestly. Tools & Home Products sales were $1.6 billion in 2017, up $34 million compared to the prior year. Professional tools had strong growth on favorable demand from oil and gas customers and in other construction related markets. Wet/dry vacuums sales were up moderately as favorable conditions continued in U.S. construction markets. Food waste disposers increased slightly, while the storage business declined moderately. Overall, underlying sales increased 3 percent in the U.S., 4 percent in Europe and 17 percent in Asia (China up 27 percent). Sales increased 3 percent in Latin America and 4 percent in Canada, while sales decreased 5 percent in Middle East/Africa. Earnings were $1.4 billion, an increase of $72 million driven by Climate Technologies, while margin was flat. Increased volume and resulting leverage, savings from cost reduction actions and lower customer accommodation costs of $16 million were largely offset by higher materials costs, lower price and unfavorable product mix. In fiscal 2018, global demand is expected to remain favorable in air conditioning, refrigeration and construction markets, supporting the outlook for moderate underlying growth.

2016 vs. 2015 – Commercial & Residential Solutions sales were $5.6 billion in 2016, a decrease of $76 million, or 1 percent. Underlying sales decreased less than 1 percent (down $21 million) on lower price, offset by slightly higher volume. Foreign currency translation deducted 1 percent ($60 million), while acquisitions added $5 million. Climate Technologies sales were $3.9 billion in 2016, a decrease of $62 million, or 2 percent. Global air conditioning sales were down while global refrigeration sales were up modestly, as the U.S. exhibited growth and Europe and China were down, with more significant declines in air conditioning. Sales of temperature controls, sensors and solutions decreased. Tools & Home Products sales were $1.6 billion in 2016, down $14 million compared to the prior year. Food waste disposers had solid sales growth and the wet/dry vacuums business was up modestly, while sales decreased moderately in the professional tools and storage businesses. Overall, underlying sales were up 1 percent in the U.S. and 3 percent in Europe, while Asia decreased 4 percent. Latin America decreased 3 percent, Canada was down 4 percent, and Middle East/Africa decreased 3 percent. Earnings of $1.3 billion increased $87 million and margin improved 1.9 percentage points, primarily due to savings from cost reduction actions, materials cost containment and lower restructuring costs of $24 million, partially offset by lower price and higher customer accommodation costs.

Financial Position, Capital Resources and Liquidity

The Company continues to generate substantial cash from operations and has the resources available to reinvest for growth in existing businesses, pursue strategic acquisitions and manage its capital structure on a short- and long-term basis.

CASH FLOW FROM CONTINUING OPERATIONS

(DOLLARS IN MILLIONS)	2015	2016	**2017**
Operating Cash Flow	$2,040	2,499	**2,690**
Percent of sales	*12.6%*	*17.2%*	***17.6%***
Capital Expenditures	$ 588	447	**476**
Percent of sales	*3.6%*	*3.1%*	***3.1%***
Free Cash Flow (Operating Cash Flow less Capital Expenditures)	$1,452	2,052	**2,214**
Percent of sales	*8.9%*	*14.1%*	***14.5%***
Operating Working Capital	$1,177	755	**1,007**
Percent of sales	*7.2%*	*5.2%*	***6.6%***

Operating cash flow from continuing operations for 2017 was $2.7 billion, a $191 million, or 8 percent increase compared with 2016, reflecting higher earnings and favorable changes in working capital. Operating cash flow from continuing operations of $2.5 billion in 2016 was a 23 percent increase compared to $2.0 billion in 2015, as comparisons benefited from income taxes of $424 million paid on the gains from divestitures in 2015. At September 30, 2017, operating working capital as a percent of sales increased to 6.6 percent due to higher levels of working capital in the acquired valves & controls business, compared with 5.2 percent and 7.2 percent in 2016 and 2015, respectively. Operating cash flow from continuing operations funded capital expenditures of $476 million, dividends of $1,239 million, common stock purchases of $400 million, and was also used to partially pay down debt in 2017. Proceeds of $5.1 billion from the sales of the network power systems and power generation, motors and drives businesses funded acquisitions of $2,990 million, cash used for discontinued operations of $778 million and repayments of short-term borrowings and long-term debt of approximately $1.3 billion. Contributions to pension plans were $45 million in 2017, $66 million in 2016 and $53 million in 2015.

Capital expenditures related to continuing operations were $476 million, $447 million and $588 million in 2017, 2016 and 2015, respectively. Free cash flow from continuing operations (operating cash flow less capital expenditures) was $2.2 billion in 2017, up 8 percent. Free cash flow was $2.1 billion in 2016, compared with $1.5 billion in 2015. The Company is targeting capital spending of approximately $550 million in 2018. Net cash paid in connection with acquisitions was $2,990 million, $132 million and $324 million in 2017, 2016 and 2015, respectively. Proceeds from divestitures not classified as discontinued operations were $39 million in 2017 and $1,812 million in 2015.

Dividends were $1,239 million ($1.92 per share) in 2017, compared with $1,227 million ($1.90 per share) in 2016 and $1,269 million ($1.88 per share) in 2015. In November 2017, the Board of Directors voted to increase the quarterly cash dividend 1 percent, to an annualized rate of $1.94 per share.

Purchases of Emerson common stock totaled $400 million, $601 million and $2,487 million in 2017, 2016 and 2015, respectively, at average per share prices of $60.51, $48.11 and $57.68.

The Board of Directors authorized the purchase of up to 70 million common shares in November 2015, and 56.9 million shares remain available for purchase under this authorization. The Company purchased 6.6 million shares in 2017 under the November 2015 authorization. In 2016, the Company purchased 12.5 million shares under a combination of the November 2015 authorization and the remainder of the May 2013 authorization. A total of 43.1 million shares were purchased in 2015 under the May 2013 authorization.

LEVERAGE/CAPITALIZATION

(DOLLARS IN MILLIONS)	2015	2016	**2017**
Total Assets	$22,088	21,732	**19,589**
Long-term Debt	$ 4,289	4,051	**3,794**
Common Stockholders' Equity	$ 8,081	7,568	**8,718**
Total Debt-to-Total Capital Ratio	45.8%	46.7%	**34.8%**
Net Debt-to-Net Capital Ratio	31.3%	31.3%	**15.4%**
Operating Cash Flow-to-Debt Ratio	29.8%	37.7%	**57.8%**
Interest Coverage Ratio	20.2X	11.8X	**12.6X**

Total debt, which includes long-term debt, current maturities of long-term debt, commercial paper and other short-term borrowings, was $4.7 billion, $6.6 billion and $6.8 billion for 2017, 2016 and 2015, respectively. During the year, the Company repaid $250 million of 5.125% notes that matured in December 2016. In 2015, the Company issued $500 million of 2.625% notes due December 2021 and $500 million of 3.150% notes due June 2025, and repaid $250 million of 5.0% notes that matured in December 2014 and $250 million of 4.125% notes that matured in April 2015.

The total debt-to-capital ratio and the net debt-to-net capital ratio (less cash and short-term investments) decreased in 2017 due to lower total debt outstanding and higher common stockholders' equity from changes in other comprehensive income. The total debt-to-capital ratio and the net debt-to-net capital ratio (less cash and short-term investments) increased in 2016 due to lower common stockholders' equity from share repurchases and changes in other comprehensive income. The operating cash flow from continuing operations-to-debt ratio increased in 2017 primarily due to lower debt in the current year. The operating cash flow from continuing operations-to-debt ratio increased in 2016 primarily due to taxes paid in 2015 on the divestiture gains and lower debt in 2016. The interest coverage ratio is computed as earnings from continuing operations before income taxes plus interest expense, divided by interest expense. The increase in interest coverage in 2017 reflects lower interest expense in the current year. The decrease in interest coverage in 2016 reflects lower pretax earnings, largely due to the divestiture gains of $1,039 million in 2015, and slightly higher interest expense.

In April 2014, the Company entered into a $3.5 billion five-year revolving backup credit facility with various banks, which replaced the December 2010 $2.75 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowing. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial. The Company also maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

Emerson's financial structure provides the flexibility necessary to achieve its strategic objectives. The Company has been successful in efficiently deploying cash where needed worldwide to fund operations, complete acquisitions and sustain long-term growth. At September 30, 2017, $3.1 billion of the Company's cash was held outside the U.S. (primarily in Europe and Asia), $1.4 billion of which income taxes have been provided for, and was generally available for repatriation to the U.S. Under current tax law, repatriated cash may be subject to U.S. federal income taxes, net of available foreign tax credits. The Company routinely repatriates a portion of its non-U.S. cash from earnings each year, or otherwise when it can be accomplished tax efficiently, and provides for U.S. income taxes as appropriate. The Company has been able to readily meet all its funding requirements and currently believes that sufficient funds will be available to meet the Company's needs in the foreseeable future through operating cash flow, existing resources, short- and long-term debt capacity or backup credit lines.

CONTRACTUAL OBLIGATIONS

At September 30, 2017, the Company's contractual obligations, including estimated payments, are as follows:

	AMOUNTS DUE BY PERIOD				
(DOLLARS IN MILLIONS)	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	3 – 5 YEARS	MORE THAN 5 YEARS
Long-term Debt (including Interest)	$5,342	428	1,434	966	2,514
Operating Leases	536	171	206	80	79
Purchase Obligations	746	655	71	14	6
Total	$6,624	1,254	1,711	1,060	2,599

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The table above does not include $2.0 billion of other noncurrent liabilities recorded in the balance sheet and summarized in Note 19, which consist primarily of pension and postretirement plan liabilities, deferred income taxes and unrecognized tax benefits, because it is not certain when these amounts will become due. See Notes 11 and 12 for estimated future benefit payments and Note 14 for additional information on deferred income taxes.

FINANCIAL INSTRUMENTS

The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates and commodity prices, and selectively uses derivative financial instruments, including forwards, swaps and purchased options to manage these risks. The Company does not hold derivatives for trading or speculative purposes. The value of derivatives and other financial instruments is subject to change as a result of market movements in rates and prices. Sensitivity analysis is one technique used to forecast the impact of these movements. Based on a hypothetical 10 percent increase in interest rates, a 10 percent decrease in commodity prices or a 10 percent weakening in the U.S. dollar across all currencies, the potential losses in future earnings, fair value or cash flows are not material. Sensitivity analysis 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, and 8 through 10.

Critical Accounting Policies

Preparation of the Company's financial statements requires management to make judgments, assumptions and estimates regarding uncertainties that could affect reported revenue, expenses, assets, liabilities and equity. Note 1 describes the significant accounting policies used in preparation of the consolidated financial statements. The most significant areas where management judgments and estimates impact the primary financial statements 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 a large majority of its revenue through the sale of manufactured products and records the sale when products are shipped or delivered, title and risk of loss pass to the customer, and collection is reasonably assured. In certain circumstances, revenue is recognized using the percentage-of-completion method, as performance occurs, or in accordance with ASC 985-605 related to software. Sales arrangements sometimes involve delivering multiple elements, which requires management judgment that affects the amount and timing of revenue recognized. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or a management estimate of the relative selling price. Revenue is recognized for delivered elements if they have value to the customer on a stand-alone basis and performance related to the undelivered items is probable and substantially in the Company's control, or the undelivered elements are inconsequential or perfunctory and there are no unsatisfied contingencies related to payment. The vast majority of deliverables are tangible products, with a smaller portion attributable to installation, service or maintenance. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

INVENTORIES

Inventories are stated at the lower of cost or market. The majority of inventory is valued based on standard costs, which approximate average costs, while the remainder is principally valued on a first-in, first-out basis. Cost standards are revised at the beginning of each year. The annual effect of resetting standards plus any operating variances incurred during each period are allocated to inventories and recognized in cost of sales as product is sold. The Company's businesses review inventory for obsolescence, make appropriate provisions and dispose of obsolete inventory on a regular basis. Various factors are considered in these reviews, including sales history and recent trends, industry conditions and general economic conditions. If actual circumstances indicate a decline in any of these factors, particularly an abrupt change in economic conditions, the Company could incur higher levels of obsolescence expense.

LONG-LIVED ASSETS

Long-lived assets, which include property, plant and equipment, goodwill and identifiable intangible assets, are reviewed for impairment whenever events or changes in business circumstances indicate impairment may exist. If the Company determines that the carrying value of a 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 estimated fair value. Reporting units are also reviewed for possible goodwill impairment at least annually, in the fourth quarter. If an initial assessment indicates it is more likely than not an impairment may exist, it is evaluated by comparing the unit's estimated fair value to its carrying value. Fair value is generally estimated using an income approach that discounts estimated future cash flows using discount rates judged by management to be commensurate with the applicable risk. Estimates of future sales, operating results, cash flows and discount rates are subject to changes in the economic environment, including such factors as the general level of market interest rates, expected equity market returns and the volatility of markets served, particularly when recessionary economic circumstances continue for an extended period of time. Management believes the estimates of future cash flows and fair values are reasonable; however, changes in estimates due to variance from assumptions could materially affect the evaluations.

RETIREMENT PLANS

The Company maintains a prudent long-term investment strategy consistent with the duration of pension obligations. The determination of defined benefit plan expense and liabilities is dependent on various assumptions, including the expected annual rate of return on plan assets, the discount rate and the rate of annual compensation increases. Management believes the assumptions used are appropriate; however, actual experience may differ. In accordance with U.S. generally accepted accounting principles, actual results that differ from the Company's assumptions are accumulated as deferred actuarial gains or losses and amortized to expense in future periods. The Company transitioned from defined benefit to defined contribution retirement plans in 2016. The principal U.S. defined benefit plan is closed to employees hired after January 1, 2016 while shorter-tenured current employees ceased accruing benefits effective October 1, 2016. Affected employees transitioned to an enhanced defined contribution plan. See Notes 11 and 12.

During 2017, the funded status of the Company's pension plans improved by $667 million. As of September 30, 2017, the U.S. pension plans were underfunded by $77 million in total, including unfunded plans totaling $201 million. The non-U.S. plans were underfunded by $253 million, including unfunded plans totaling $215 million. The Company contributed a total of $45 million to defined benefit plans in 2017 and expects to contribute approximately $60 million in 2018. At year-end 2017, the discount rate for U.S. plans was 3.76 percent, and was 3.50 percent in 2016. The assumed investment return on plan assets was 7.25 percent in 2017 and 7.50 percent in 2016 and 2015, and is expected to be 7.0 percent for 2018. Deferred actuarial losses to be amortized to expense in future years were $1,161 million ($753 million after-tax) as of September 30, 2017.

INCOME TAXES

Income tax expense and tax assets and liabilities reflect management's assessment of taxes paid or expected to be paid (received) on items included in the financial statements. Deferred tax assets and liabilities arise from temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and consideration of operating loss and tax credit carryforwards. Deferred income taxes are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are provided to reduce deferred tax assets to the amount that will more likely than not be realized. This requires management to make judgments and estimates regarding the amount and timing of the reversal of taxable temporary differences, expected future taxable income, and the impact of tax planning strategies.

Uncertainty exists regarding tax positions taken in previously filed tax returns which remain subject to examination, along with positions expected to be taken in future returns. The Company provides for unrecognized tax benefits, based on the technical merits, when it is more likely than not that an uncertain tax position will not be sustained upon examination. Adjustments are made to the uncertain tax positions when facts and circumstances change, such as the closing of a tax audit; changes in applicable tax laws, including tax case rulings and legislative guidance; or expiration of the applicable statute of limitations.

The Company also pays U.S. federal income taxes, net of available foreign tax credits, on cash repatriated from non-U.S. locations. No provision is made for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries where these earnings are considered permanently invested or otherwise indefinitely retained for continuing international operations. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Notes 1 and 14.

Other Items

LEGAL MATTERS

At September 30, 2017, 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.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB amended ASC 606, *Revenue from Contracts with Customers*, to update and consolidate revenue recognition guidance from multiple sources into a single, comprehensive standard to be applied for all contracts with customers. The fundamental principle of the revised standard is to recognize revenue based on the transfer of goods and services to customers at an amount that the Company expects to be entitled to in exchange for those goods and services. Also required are additional disclosures regarding the nature, extent, timing and uncertainty of revenues and associated cash flows. The new standard is effective for the Company in the first quarter of fiscal 2019 and may be adopted on either a prospective or retrospective basis. The Company currently expects to adopt the new standard prospectively with the cumulative effect of adoption recognized in retained earnings. The Company continues to evaluate the impact of the revised standard and does not currently expect that the updates will materially impact its financial statements. The Company is also in the process of evaluating and implementing changes to its business processes, systems, controls and accounting policies to support recognition and disclosure under the new guidance.

In February 2016, the FASB amended ASC 842, *Leases*, to require recognition on the balance sheet of assets and liabilities related to the rights and obligations associated with all lease arrangements. Currently, obligations classified as operating leases are not recorded on the balance sheet but must be disclosed. The new standard is effective for the Company in the first quarter of fiscal 2020. The Company is in the process of evaluating the impact of the revised standard on its financial statements. The Company expects the revised standard to have a material impact on its balance sheet due to the recognition of right-of-use assets and lease liabilities related to operating leases. Contractual obligations related to operating leases totaled $536 million at September 30, 2017. The Company does not expect the new standard will materially impact its results of operations.

In March 2017, the FASB issued updates to ASC 715, *Compensation – Retirement Benefits*, which only permit the service cost component of net periodic pension and postretirement expense to be reported with other compensation costs, while all other components are required to be reported separately in other deductions. These updates are effective in the first quarter of fiscal 2019, with early adoption permitted, and must be adopted on a retrospective basis. The updates change presentation only and will not impact the Company's results of operations.

In August 2017, the FASB issued updates to ASC 815, *Derivatives and Hedging*, which permit hedging contractually specified risk components. The updates also eliminate the requirement to separately measure and report hedge ineffectiveness and simplify hedge documentation and effectiveness assessment requirements. These updates are effective for the Company in the first quarter of fiscal 2020, with early adoption permitted, and must be adopted using a modified retrospective approach. The Company is in the process of evaluating the impact of the revised standard on its financial statements.

In January 2017, the FASB issued updates to ASC 350, *Intangibles – Goodwill and Other*, eliminating the requirement to measure impairment based on the implied fair value of goodwill compared to the carrying amount of a reporting unit's goodwill. Instead, goodwill impairment will be measured as the excess of a reporting unit's carrying amount over its estimated fair value. These updates are effective prospectively for impairment tests beginning in fiscal 2021, with early adoption permitted, and are not expected to materially impact the Company's results of operations.

Fiscal 2018 Outlook

Market conditions began trending favorably in the second half of fiscal 2017 and are expected to continue into 2018. Oil and gas prices are expected to remain stable in a range favorable for energy-related markets, while growth in air conditioning, refrigeration and global construction markets is expected to continue. Automation Solutions net sales are expected to be up 14 to 16 percent, with underlying sales up 5 to 7 percent excluding an approximate 8 percent impact from acquisitions and 1 percent from currency translation. Commercial & Residential Solutions net sales are expected to be down 1 percent to up 1 percent, with underlying sales up 3 to 5 percent excluding an approximate 5 percent negative impact from divestitures and 1 percent from favorable currency translation. Consolidated net sales are expected to be up 8 to 10 percent, with underlying sales up 4 to 6 percent, excluding an approximate 3 percent impact from acquisitions and divestitures and 1 percent from currency translation. Reported earnings per share are expected to be $2.66 to $2.86. Earnings per share are expected to be $2.75 to $2.95, excluding a $0.03 impact from valves & controls first year acquisition accounting charges related to inventory and backlog amortization, and a $0.06 impact from a tax-related loss on the divestiture of the residential storage business.

Consolidated Statements of Earnings

EMERSON ELECTRIC CO. & SUBSIDIARIES

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

	2015	2016	2017
Net sales	$16,249	14,522	**15,264**
Costs and expenses:			
Cost of sales	9,241	8,260	**8,860**
Selling, general and administrative expenses	3,735	3,464	**3,618**
Gains on divestitures of businesses	1,039	—	**—**
Other deductions, net	330	294	**286**
Interest expense, net of interest income of: 2015, $23; 2016, $27; 2017, $36	175	188	**165**
Earnings from continuing operations before income taxes	3,807	2,316	**2,335**
Income taxes	1,267	697	**660**
Earnings from continuing operations	2,540	1,619	**1,675**
Discontinued operations, net of tax: 2015, $161; 2016, $269; 2017, $671	193	45	**(125)**
Net earnings	2,733	1,664	**1,550**
Less: Noncontrolling interests in earnings of subsidiaries	23	29	**32**
Net earnings common stockholders	$ 2,710	1,635	**1,518**
Earnings common stockholders:			
Earnings from continuing operations	$ 2,517	1,590	**1,643**
Discontinued operations, net of tax	193	45	**(125)**
Net earnings common stockholders	$ 2,710	1,635	**1,518**
Basic earnings per share common stockholders:			
Earnings from continuing operations	$ 3.72	2.46	**2.54**
Discontinued operations	0.29	0.07	**(0.19)**
Basic earnings per common share	$ 4.01	2.53	**2.35**
Diluted earnings per share common stockholders:			
Earnings from continuing operations	$ 3.71	2.45	**2.54**
Discontinued operations	0.28	0.07	**(0.19)**
Diluted earnings per common share	$ 3.99	2.52	**2.35**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2015	2016	2017
Net earnings	$ 2,733	1,664	**1,550**
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(794)	(188)	**441**
Pension and postretirement	(206)	(210)	**500**
Cash flow hedges	(43)	18	**37**
Total other comprehensive income (loss)	(1,043)	(380)	**978**
Comprehensive income	1,690	1,284	**2,528**
Less: Noncontrolling interests in comprehensive income of subsidiaries	22	31	**30**
Comprehensive income common stockholders	$ 1,668	1,253	**2,498**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

EMERSON ELECTRIC CO. & SUBSIDIARIES

September 30 | Dollars in millions, except per share amounts

	2016	2017
ASSETS		
Current assets		
Cash and equivalents	$ 3,182	**3,062**
Receivables, less allowances of $92 in 2016 and $91 in 2017	2,701	**3,072**
Inventories	1,208	**1,696**
Other current assets	669	**349**
Current assets held-for-sale	2,200	**73**
Total current assets	9,960	**8,252**
Property, plant and equipment, net	2,931	**3,321**
Other assets		
Goodwill	3,909	**5,316**
Other intangible assets	902	**1,890**
Other	200	**634**
Noncurrent assets held-for-sale	3,830	**176**
Total other assets	8,841	**8,016**
Total assets	$21,732	**19,589**
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current maturities of long-term debt	$ 2,584	**862**
Accounts payable	1,517	**1,776**
Accrued expenses	2,126	**2,286**
Income taxes	180	**65**
Current liabilities held-for-sale	1,601	**56**
Total current liabilities	8,008	**5,045**
Long-term debt	4,051	**3,794**
Other liabilities	1,729	**1,975**
Noncurrent liabilities held-for-sale	326	**5**
Equity		
Common stock, $0.50 par value; authorized, 1,200,000,000 shares; issued, 953,354,012 shares; outstanding, 642,796,490 shares in 2016; 641,691,971 shares in 2017	477	**477**
Additional paid-in-capital	205	**297**
Retained earnings	21,716	**21,995**
Accumulated other comprehensive income (loss)	(1,999)	**(1,019)**
	20,399	**21,750**
Less: Cost of common stock in treasury, 310,557,522 shares in 2016; 311,662,041 shares in 2017	12,831	**13,032**
Common stockholders' equity	7,568	**8,718**
Noncontrolling interests in subsidiaries	50	**52**
Total equity	7,618	**8,770**
Total liabilities and equity	$21,732	**19,589**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Equity

EMERSON ELECTRIC CO. & SUBSIDIARIES

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

	2015	2016	**2017**
Common stock	$ 477	477	**477**
Additional paid-in-capital			
Beginning balance	161	170	**205**
Stock plans	31	35	**92**
Purchase of noncontrolling interests	(22)	—	**—**
Ending balance	170	205	**297**
Retained earnings			
Beginning balance	19,867	21,308	**21,716**
Net earnings common stockholders	2,710	1,635	**1,518**
Dividends paid (per share: 2015, $1.88; 2016, $1.90; 2017, $1.92)	(1,269)	(1,227)	**(1,239)**
Ending balance	21,308	21,716	**21,995**
Accumulated other comprehensive income (loss)			
Beginning balance	(575)	(1,617)	**(1,999)**
Foreign currency translation	(793)	(190)	**443**
Pension and postretirement	(206)	(210)	**500**
Cash flow hedges	(43)	18	**37**
Ending balance	(1,617)	(1,999)	**(1,019)**
Treasury stock			
Beginning balance	(9,811)	(12,257)	**(12,831)**
Purchases	(2,487)	(601)	**(400)**
Issued under stock plans	41	27	**199**
Ending balance	(12,257)	(12,831)	**(13,032)**
Common stockholders' equity	8,081	7,568	**8,718**
Noncontrolling interests in subsidiaries			
Beginning balance	48	47	**50**
Net earnings	23	29	**32**
Other comprehensive income (loss)	(1)	2	**(2)**
Dividends paid	(23)	(28)	**(28)**
Ending balance	47	50	**52**
Total equity	$ 8,128	7,618	**8,770**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions

	2015	2016	**2017**
Operating activities			
Net earnings	$ 2,733	1,664	**1,550**
(Earnings) Loss from discontinued operations, net of tax	(193)	(45)	**125**
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	573	568	**636**
Changes in operating working capital	(181)	93	**160**
Pension funding	(53)	(66)	**(45)**
Gains on divestitures of businesses, after tax	(611)	—	**—**
Income taxes paid on divestiture gains	(424)	—	**—**
Other, net	196	285	**264**
Cash from continuing operations	2,040	2,499	**2,690**
Cash from discontinued operations	489	382	**(778)**
Cash provided by operating activities	2,529	2,881	**1,912**
Investing activities			
Capital expenditures	(588)	(447)	**(476)**
Purchases of businesses, net of cash and equivalents acquired	(324)	(132)	**(2,990)**
Divestitures of businesses	1,812	—	**39**
Other, net	(221)	30	**(106)**
Cash from continuing operations	679	(549)	**(3,533)**
Cash from discontinued operations	(88)	(77)	**5,047**
Cash provided by (used in) investing activities	591	(626)	**1,514**
Financing activities			
Net increase (decrease) in short-term borrowings	1,116	(34)	**(1,635)**
Proceeds from short-term borrowings greater than three months	2,515	1,264	**—**
Payments of short-term borrowings greater than three months	(3,286)	(1,174)	**(90)**
Proceeds from long-term debt	1,000	—	**—**
Payments of long-term debt	(504)	(254)	**(254)**
Dividends paid	(1,269)	(1,227)	**(1,239)**
Purchases of common stock	(2,501)	(601)	**(400)**
Other, net	(19)	(19)	**27**
Cash used in financing activities	(2,948)	(2,045)	**(3,591)**
Effect of exchange rate changes on cash and equivalents	(267)	(82)	**45**
Increase (Decrease) in cash and equivalents	(95)	128	**(120)**
Beginning cash and equivalents	3,149	3,054	**3,182**
Ending cash and equivalents	$ 3,054	3,182	**3,062**

Changes in operating working capital			
Receivables	$ 241	162	**(25)**
Inventories	(11)	58	**32**
Other current assets	(140)	(4)	**(12)**
Accounts payable	(256)	(22)	**135**
Accrued expenses	(4)	(57)	**74**
Income taxes	(11)	(44)	**(44)**
Total changes in operating working capital	$ (181)	93	**160**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

(1) Summary of Significant Accounting Policies

FINANCIAL STATEMENT PRESENTATION

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

In the first quarter of 2017, the Company adopted updates to ASC Subtopic 835-30, *Interest-Imputation of Interest*, which require presentation of debt issuance costs as a deduction from the related debt liability rather than within other assets. These updates were adopted on a retrospective basis and did not materially impact the Company's financial statements.

In the fourth quarter of 2017, the Company adopted updates to ASC 718, *Compensation – Stock Compensation*, which require all excess tax benefits and deficiencies related to share-based payments to be recognized in income tax expense rather than through additional paid-in-capital, and to be presented as operating cash flows instead of financing. These updates did not materially impact the Company's financial statements.

In the fourth quarter of 2017, the Company adopted updates to ASC 740, *Income Taxes*, which require noncurrent presentation of all deferred tax assets and liabilities on the balance sheet. These updates were adopted on a prospective basis and resulted in the reclassification of current deferred tax assets and liabilities to noncurrent presentation.

In the fourth quarter of 2017, the Company adopted updates to ASC 820, *Fair Value Measurement*, which require investments measured using the net asset value per share practical expedient to be removed from the fair value hierarchy and separately reported when making disclosures. These updates did not change the determination of fair value for any investments. Adoption affected disclosure presentation only; there was no impact on the Company's financial results.

In the first quarter of 2015, the Company adopted updates to ASC 205, *Presentation of Financial Statements*, and ASC 360, *Property, Plant and Equipment*, regarding the reporting of discontinued operations. These updates raised the threshold for reporting discontinued operations to a strategic business shift having a major effect on an entity's operations and financial results. The updates also added disclosures for disposals of business units qualifying for discontinued presentation, and for some dispositions that do not qualify as discontinued operations but are still considered individually significant components of the entity. In 2017, the Company completed the divestitures of its network power systems, and power generation, motors and drives businesses. The results of operations for these businesses were reported within discontinued operations for all years presented, and the assets and liabilities were reflected as held-for-sale. See Note 4.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its controlled affiliates. Intercompany transactions, profits and balances are eliminated in consolidation. Investments of 20 percent to 50 percent of the voting shares of other entities are accounted for by the equity method. Investments in publicly traded companies of less than 20 percent are carried at fair value, with changes in fair value reflected in accumulated other comprehensive income. Investments in nonpublicly traded companies of less than 20 percent are carried at cost.

FOREIGN CURRENCY TRANSLATION

The functional currency for most of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from translating local currency financial statements into U.S. dollars are reflected in accumulated other comprehensive income.

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 is valued based on standard costs, which approximate average costs, while the remainder is principally valued on a first-in, first-out basis. Cost standards are revised at the beginning of each fiscal year. The annual effect of resetting standards plus any operating variances incurred during each period are allocated to inventories and recognized in cost of sales as product is sold.

Following are the components of inventory as of September 30:

	2016	**2017**
Finished products	$ 382	**560**
Raw materials and work in process	826	**1,136**
Total inventories	$1,208	**1,696**

The increase is primarily due to the valves & controls acquisition. See Note 3.

FAIR VALUE MEASUREMENT

ASC 820, *Fair Value Measurement*, establishes a formal hierarchy and framework for measuring certain financial statement items at fair value, and requires disclosures about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for an identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or other approaches using market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market, such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Company's financial instruments fall within Level 2. The fair value of the Company's long-term debt is Level 2, estimated using current interest rates and pricing from financial institutions and other market sources for debt with similar maturities and characteristics.

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, which for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on estimated fair values if the sum of estimated future undiscounted cash flows of the related assets is less than the carrying values. The components of property, plant and equipment as of September 30 follow:

	2016	**2017**
Land	$ 210	**295**
Buildings	1,867	**2,043**
Machinery and equipment	4,932	**5,175**
Construction in progress	318	**360**
Property, plant and equipment, at cost	7,327	**7,873**
Less: Accumulated depreciation	4,396	**4,552**
Property, plant and equipment, net	$2,931	**3,321**

The increase is primarily due to the valves & controls acquisition. See Note 3.

GOODWILL AND OTHER INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. Substantially all goodwill is assigned to the reporting unit that acquires a business. A reporting unit is an operating segment as defined in ASC 280, *Segment Reporting*, or a business one level below an operating segment if discrete financial information for that business unit is prepared and regularly reviewed by the segment manager. The Company conducts annual impairment tests of goodwill in the fourth quarter. If an initial assessment indicates it is more likely than not goodwill might be impaired, it is evaluated by comparing the reporting unit's estimated fair value to its carrying value. Goodwill is also tested for impairment between annual tests if events or circumstances indicate the fair value of a unit may be less than its carrying value.

If the carrying amount exceeds the estimated fair value, impairment is recognized to the extent that recorded goodwill exceeds the implied fair value of that goodwill. Estimated fair values of reporting units are Level 3 measures and are developed generally under an income approach that discounts estimated future cash flows using risk-adjusted interest rates.

All of the Company's identifiable intangible assets are subject to amortization on a straight-line basis over their estimated useful lives. Identifiable intangibles consist of intellectual property such as patents and trademarks, customer relationships and capitalized software. Identifiable intangibles are also subject to evaluation for potential impairment if events or circumstances indicate the carrying amount may not be recoverable. See Note 7.

PRODUCT WARRANTY

Warranties vary by product line and are competitive for the markets in which the Company operates. Warranties generally extend for a period of one to two years from the date of sale or installation. Provisions for warranty are determined primarily based on historical warranty cost as a percentage of sales or a fixed amount per unit sold based on failure rates, adjusted for specific problems that may arise. Product warranty expense is less than one percent of sales.

REVENUE RECOGNITION

The Company recognizes a large majority of its revenues through the sale of manufactured products and records the sale when products are shipped or delivered, title and risk of loss pass to the customer, and collection is reasonably assured. Less than ten percent of the Company's revenues are recognized using the percentage-of-completion method as performance occurs, and revenue from software sales is recognized in accordance with ASC 985-605. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

Sales arrangements sometimes involve delivering multiple elements. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or a management estimate of the relative selling price. Revenue is recognized for delivered elements if they have value to the customer on a stand-alone basis and performance related to the undelivered items is probable and substantially in the Company's control, or the undelivered elements are inconsequential or perfunctory and there are no unsatisfied contingencies related to payment. Approximately five percent of the Company's revenues from continuing operations arise from qualifying sales arrangements that include the delivery of multiple elements, principally in the Automation Solutions segment. The vast majority of these deliverables are tangible products, with a smaller portion attributable to installation, service or maintenance. Generally, contract duration is short term, and cancellation, termination or refund provisions apply only in the event of contract breach and have historically not been invoked.

DERIVATIVES AND HEDGING

In the normal course of business, the Company is exposed to changes in interest rates, foreign currency exchange rates and commodity prices due to its worldwide presence and diverse business profile. The Company's foreign currency exposures relate to transactions denominated in currencies that differ from the functional currencies of its business units, primarily in euros, Mexican pesos, Singapore dollars and Indian rupees. Primary commodity exposures are price fluctuations on forecasted purchases of copper and aluminum and related products. As part of the Company's risk management strategy, derivative instruments are selectively used in an effort to minimize the impact of these exposures. Foreign exchange forwards and options are utilized to hedge foreign currency exposures impacting sales or cost of sales transactions, firm commitments and the fair value of assets and liabilities, while swap and option contracts may be used to minimize the effect of commodity price fluctuations on the cost of sales. All derivatives are associated with specific underlying exposures and the Company does not hold derivatives for trading or speculative purposes. The duration of hedge positions is generally two years or less.

All derivatives are accounted for under ASC 815, *Derivatives and Hedging*, and recognized at fair value. For derivatives hedging variability in future cash flows, the effective portion of any gain or loss is deferred in stockholders' equity and recognized when the underlying hedged transaction impacts earnings. The majority of the Company's derivatives that are designated as hedges and qualify for deferral accounting are cash flow hedges. For derivatives hedging the fair value of existing assets or liabilities, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in earnings each period. Currency fluctuations on non- U.S. dollar obligations that have been designated as hedges of non-U.S. dollar net asset exposures are reported in equity. To the extent that any hedge is not fully effective at offsetting changes in the underlying hedged item, there could be a net earnings impact. The Company also uses derivatives to hedge economic exposures that do not receive deferral accounting under ASC 815. The underlying exposures for these hedges relate primarily to purchases of commodity-based components used in the Company's manufacturing processes, and the revaluation of certain foreign-currency-denominated assets and liabilities. Gains or losses from the ineffective portion of any hedge, as well as any gains or losses on derivative instruments not designated as hedges, are recognized in the income statement immediately.

Counterparties to derivative arrangements are companies with high credit ratings, and the Company has bilateral collateral arrangements with them for which credit rating-based posting thresholds vary depending on the arrangement. If credit ratings on the Company's debt fall below preestablished levels, counterparties can require immediate full collateralization on all instruments in net liability positions. No collateral was posted with counterparties and none was held by the Company at year end. If contractual thresholds had been exceeded, the maximum collateral the Company could have been required to post was $4. The Company can also demand full collateralization of instruments in net asset positions should any of the Company's counterparties' credit ratings fall below certain thresholds. Risk from credit loss when derivatives are in asset positions is not considered material. The Company has master netting arrangements in place with its counterparties that allow the offsetting of certain derivative-related amounts receivable and payable when settlement occurs in the same period. Accordingly, counterparty balances are netted in the consolidated balance sheet and are reported in other current assets or accrued expenses as appropriate, depending on positions with counterparties as of the balance sheet date. See Note 8.

INCOME TAXES

The provision for income taxes is based on pretax income reported in the consolidated statements of earnings and tax rates currently enacted in each jurisdiction. Certain income and expense items are recognized in different time periods for financial reporting and income tax filing purposes, and deferred income taxes are provided for the effect of temporary differences. The Company also provides for U.S. federal income taxes, net of available foreign tax credits, on earnings intended to be repatriated from non-U.S. locations. No provision has been made for U.S. income taxes on approximately $4.9 billion of undistributed earnings of non-U.S. subsidiaries as of September 30, 2017, as these earnings are considered permanently invested or otherwise indefinitely retained for continuing international operations. Recognition of U.S. taxes on undistributed non-U.S. earnings would be triggered by a management decision to repatriate those earnings. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Note 14.

(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 also consider the dilutive effects of stock options and incentive shares. Options to purchase approximately 4.5 million, 13.3 million and 5.9 million shares of common stock were excluded from the computation of diluted earnings per share in 2017, 2016 and 2015, respectively, as the effect would have been antidilutive. Earnings allocated to participating securities were inconsequential for all years presented. Reconciliations of weighted-average shares for basic and diluted earnings per common share follow (shares in millions):

	2015	2016	**2017**
Basic shares outstanding	673.3	644.0	**642.1**
Dilutive shares	3.2	2.8	**1.3**
Diluted shares outstanding	676.5	646.8	**643.4**

(3) Acquisitions and Divestitures

On April 28, 2017, the Company completed the acquisition of Pentair's valves & controls business for $2.960 billion, net of cash acquired of $207, subject to certain post-closing adjustments. This business, with annualized sales of approximately $1.4 billion, is a manufacturer of control, isolation and pressure relief valves and actuators, and complements the Valves, Actuators & Regulators product offering within Automation Solutions. The Company recognized goodwill of $1,472 (none of which is expected to be tax deductible), and other identifiable intangible assets of $1,045, primarily customer relationships and intellectual property with a weighted-average life of approximately fifteen years. The Company also acquired two smaller businesses in the Automation Solutions segment. Total cash paid for all businesses was $3.0 billion, net of cash acquired.

The purchase price of the valves & controls business was preliminarily allocated to assets and liabilities as follows. Valuations of acquired assets and liabilities are in-process and subject to refinement.

Accounts receivable	$ 350
Inventory	525
Property, plant & equipment	355
Goodwill	1,472
Intangibles	1,045
Other assets	289
Total assets	4,036
Accounts payable	119
Other current liabilities	300
Deferred taxes and other liabilities	657
Cash paid, net of cash acquired	$2,960

Results of operations for 2017 included sales of $600 and a net loss of $97, $0.15 per share, including restructuring expense of $25 and intangibles amortization of $29. These results also included first year pretax acquisition accounting charges related to inventory of $74 and backlog of $19, or a total of $93 ($65 after-tax, $0.10 per share), which are reported in Corporate and other. See Note 18.

PRO FORMA FINANCIAL INFORMATION

The following pro forma consolidated condensed financial results of operations are presented as if the acquisition of the valves & controls business occurred on October 1, 2015. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the acquisition occurred as of that time.

	2016	2017
Net sales	$16,201	**16,112**
Net earnings from continuing operations common stockholders	$ 1,482	**1,692**
Diluted earnings per share from continuing operations	$ 2.28	**2.62**

The pro forma results for 2016 were adjusted to include first year acquisition accounting charges related to inventory and backlog of $122 in 2017. The pro forma 2016 results also include acquisition costs of $52, while the 2017 pro forma results were adjusted to exclude these charges.

On October 2, 2017, the Company sold its residential storage business for $200 in cash, subject to post-closing adjustments, and expects to recognize a loss of approximately $40 in 2018 due to income taxes resulting from nondeductible goodwill. The Company expects to realize approximately $140 in after-tax cash proceeds from the sale. This business, with sales of $298 and pretax earnings of $15 in 2017, is a leader in home organization and storage systems, and was reported within the Tools & Home Products segment. Assets and liabilities were classified as held-for-sale as of September 30, 2017.

The Company acquired six businesses in 2016, four in Automation Solutions and two in Climate Technologies. Total cash paid for these businesses was $132, net of cash acquired. Annualized sales for these businesses were approximately $51 in 2016. The Company recognized goodwill of $83 ($27 of which is expected to be tax deductible) and other identifiable intangible assets of $50, primarily customer relationships and intellectual property with a weighted-average life of approximately nine years.

The Company completed eight acquisitions in 2015, seven in Automation Solutions and one in Tools & Home Products, which had combined annualized sales of approximately $115. Total cash paid for all businesses was $324, net of cash acquired. The Company recognized goodwill of $178 ($42 of which is expected to be tax deductible) and other intangible assets of $128, primarily customer relationships and intellectual property with a weighted-average life of approximately ten years.

In January 2015, the Company completed the sale of its mechanical power transmission solutions business for $1.4 billion, and recognized a pretax gain from the transaction of $939 ($532 after-tax, $0.78 per share). Assets and liabilities sold were as follows: current assets, $182 (accounts receivable, inventories, other current assets); other assets, $374 (property, plant and equipment, goodwill, other noncurrent assets); accrued expenses, $56 (accounts payable, other current liabilities); and other liabilities, $41. Proceeds from the divestiture were used for share repurchase. This business was previously reported in the former Industrial Automation segment, and had partial year sales in 2015 of $189 and related pretax earnings of $21. Power transmission solutions designs and manufactures market-leading couplings, bearings, conveying components and gearing and drive components, and provides supporting services and solutions.

On September 30, 2015, the Company sold its InterMetro commercial storage business for $411 in cash and recognized a pretax gain from the transaction of $100 ($79 after-tax, $0.12 per share). This business had annual sales of $288 and pretax earnings of $42 in 2015 and was reported in the former Commercial & Residential Solutions segment. Assets and liabilities sold were as follows: current assets, $62 (accounts receivable, inventories, other current assets); other assets, $292 (property, plant and equipment, goodwill, other noncurrent assets); current liabilities, $34 (accounts payable, other current liabilities); and other liabilities, $9. InterMetro is a leading manufacturer and supplier of storage and transport products in the food service, commercial products and health care industries.

The results of operations of the acquired businesses discussed above have been included in the Company's consolidated results of operations since the respective dates of acquisition.

(4) Discontinued Operations

In 2017, the Company completed the previously announced strategic actions to streamline its portfolio and drive growth in its core businesses. On November 30, 2016, the Company completed the sale of its network power systems business for $4.0 billion in cash and retained a subordinated interest in distributions, contingent upon the equity holders first receiving a threshold return on their initial investment. This business comprised the former Network Power segment. Additionally, on January 31, 2017, the Company completed the sale of its power generation, motors and drives business for approximately $1.2 billion, subject to post-closing adjustments. This business was previously reported in the former Industrial Automation segment. The results of operations for these businesses were reported within discontinued operations for all years presented, and the assets and liabilities were reflected as held-for-sale.

The financial results of the network power systems business and power generation, motors and drives business reported as discontinued operations for the years ending September 30, 2017, 2016 and 2015, were as follows:

	NETWORK POWER SYSTEMS			POWER GENERATION, MOTORS AND DRIVES			TOTAL		
	2015	2016	**2017**	2015	2016	**2017**	2015	2016	**2017**
Net sales	$4,426	4,378	**630**	1,668	1,368	**407**	6,094	5,746	**1,037**
Cost of sales	2,810	2,708	**394**	1,244	1,033	**307**	4,054	3,741	**701**
SG&A	1,143	1,101	**180**	306	269	**83**	1,449	1,370	**263**
Other deductions, net	222	172	**(515)**	15	149	**42**	237	321	**(473)**
Earnings (Loss) before income taxes	251	397	**571**	103	(83)	**(25)**	354	314	**546**
Income taxes	134	218	**577**	27	51	**94**	161	269	**671**
Earnings (Loss), net of tax	$ 117	179	**(6)**	76	(134)	**(119)**	193	45	**(125)**

In 2017, the net loss from discontinued operations of $125, $0.19 per share, included an after-tax gain on the divestiture of the network power systems business of $125 ($519 pretax), a $173 after-tax loss ($36 pretax loss) on the divestiture of the power generation, motors and drives business, income tax expense of $109 for repatriation of sales proceeds, and lower expense of $32 primarily due to ceasing depreciation and amortization for the discontinued businesses held-for-sale.

Discontinued operations income of $45, $0.07 per share, in 2016 included earnings from operations of $344 and costs to execute the portfolio repositioning of $299. These costs are comprised of income tax expense of $143 for repatriation of cash from these businesses, reorganization of their legal structures prior to sale, and basis differences for book and tax, as well as costs for legal, consulting, investment banking and other expenses of $77. In addition, net earnings for 2016 included a loss of $103 to write down the power generation, motors and drives business to the sales price less costs to sell, and lower expense of $24 due to ceasing depreciation and amortization for the discontinued businesses held-for-sale. Discontinued operations income of $193, $0.28 per share, in 2015 included earnings from operations of $245 and separation costs of $52, comprised of income tax expense of $42 and fees of $10.

The aggregate carrying amounts of the major classes of assets and liabilities classified as held-for-sale as of September 30, 2016 are summarized as follows:

	NETWORK POWER SYSTEMS	POWER GENERATION, MOTORS AND DRIVES	TOTAL
	2016	2016	2016
Assets			
Receivables, less allowances	$1,202	290	1,492
Inventories	381	197	578
Property, plant & equipment, net	352	259	611
Goodwill	2,111	580	2,691
Other assets	581	77	658
Total assets held-for-sale	$4,627	1,403	6,030
Liabilities			
Accounts payable	$ 664	176	840
Other current liabilities	620	141	761
Deferred taxes and other noncurrent liabilities	227	99	326
Total liabilities held-for-sale	$1,511	416	1,927

The net cash from operating activities and from investing activities for the network power systems business and the power generation, motors and drives business for the years ending September 30, 2017, 2016 and 2015, were as follows:

	NETWORK POWER SYSTEMS			POWER GENERATION, MOTORS AND DRIVES			TOTAL		
	2015	2016	**2017**	2015	2016	**2017**	2015	2016	**2017**
Cash from operating activities	$378	343	**(615)**	111	39	**(163)**	489	382	**(778)**
Cash from investing activities	$ (48)	(33)	**3,952**	(40)	(44)	**1,095**	(88)	(77)	**5,047**

Operating cash flow used by discontinued operations was $778 for 2017, which primarily included payments of approximately $700 for income taxes on completion of the divestitures and repatriation of cash, cash used by operations and other costs. Operating cash flow from discontinued operations in 2016 was net of payments of $179 for separation costs.

(5) Other Deductions, Net

Other deductions, net are summarized as follows:

	2015	2016	**2017**
Amortization of intangibles (intellectual property and customer relationships)	$ 94	84	**136**
Restructuring costs	138	96	**78**
Other	98	114	**72**
Total	$330	294	**286**

Other is composed of several items, including foreign currency transaction gains and losses, bad debt expense, equity investment income and losses, litigation and other items. The decrease in other for 2017 is due to favorable foreign currency transactions comparisons of $78 (unfavorable in the prior year), partially offset by higher acquisition/divestiture costs of $24 and the comparative impact of a $21 gain from payments received related to dumping duties in 2016. The increase in 2016 is primarily due to an unfavorable foreign currency transactions impact of $67, partially offset by lower litigation costs of $30 and the dumping duties gain.

(6) Restructuring Costs

Each year the Company incurs costs to size its businesses to levels appropriate for current economic conditions and to continually improve its cost structure and operational efficiency, deploy assets globally, and remain competitive on a worldwide basis. Costs result from numerous individual actions implemented across the Company's various operating units on an ongoing basis and can include costs for moving facilities to best-cost locations, restarting plants after relocation or geographic expansion to better serve local markets, reducing forcecount or the number of facilities, exiting certain product lines, and other costs resulting from asset deployment decisions. By category, shutdown costs include severance and benefits, stay bonuses, lease and other contract termination costs and asset write-downs. Vacant facility costs include security, maintenance, utilities and other costs. Start-up and moving costs include the costs of relocating fixed assets and employee training and relocation.

Restructuring expenses were $78, $96 and $138, respectively, for 2017, 2016 and 2015. The 2017 restructuring expense included $25 related to the acquired valves & controls business. Restructuring activity in 2015 and 2016 was initiated in connection with the slowdown in global capital spending and the Company's strategic portfolio repositioning activities. The Company currently expects 2018 restructuring expense to be approximately $80, including costs to complete actions initiated before the end of 2017 and for actions anticipated to be approved and initiated during 2018.

Restructuring costs by business segment follows:

	2015	2016	**2017**
Automation Solutions	$102	80	**63**
Climate Technologies	20	5	**10**
Tools & Home Products	11	2	**2**
Commercial & Residential Solutions	31	7	**12**
Corporate	5	9	**3**
Total	$138	96	**78**

Costs incurred in 2017 primarily related to the deployment of resources to better serve local markets and higher growth areas, and the integration of the valves & controls business. In 2016 and 2015 costs primarily related to the reduction and selective repositioning of the Company's cost structure to address global economic weakness and in connection with the portfolio repositioning through facilities and forcecount rationalization in Europe and North America, primarily in Automation Solutions. In 2017, restructuring activities included actions to exit 10 production or office facilities worldwide and eliminate approximately 1,200 positions. Expenses incurred in 2016 and 2015 included actions to exit 19 and 12 facilities, and eliminate approximately 1,900 and 3,100 positions, respectively.

The change in the liability for restructuring costs during the years ended September 30 follows:

	2016	**EXPENSE**	**UTILIZED/PAID**	**2017**
Severance and benefits	$44	**49**	**33**	**60**
Lease and other contract terminations	5	**4**	**5**	**4**
Asset write-downs	—	**7**	**7**	**—**
Vacant facility and other shutdown costs	3	**5**	**7**	**1**
Start-up and moving costs	2	**13**	**15**	**—**
Total	$54	**78**	**67**	**65**

	2015	EXPENSE	UTILIZED/PAID	2016
Severance and benefits	$64	66	86	44
Lease and other contract terminations	1	9	5	5
Asset write-downs	—	4	4	—
Vacant facility and other shutdown costs	3	7	7	3
Start-up and moving costs	2	10	10	2
Total	$70	96	112	54

(7) Goodwill and Other Intangibles

Purchases of businesses are accounted for under the acquisition method, with substantially all goodwill assigned to the reporting unit that acquires the business. Under an impairment test performed annually, if the carrying amount of a reporting unit exceeds its estimated fair value, impairment is recognized to the extent that the carrying amount of the unit's goodwill exceeds the implied fair value of the goodwill. Fair values of reporting units are Level 3 measures which are estimated generally using an income approach that discounts future cash flows using risk-adjusted interest rates, as well as earnings multiples or other techniques as warranted. Fair values are subject to changes in underlying economic conditions.

The change in the carrying value of goodwill by business segment follows:

	AUTOMATION SOLUTIONS	CLIMATE TECHNOLOGIES	TOOLS & HOME PRODUCTS	**COMMERCIAL & RESIDENTIAL SOLUTIONS**	**TOTAL**
Balance, September 30, 2015	$3,138	513	196	709	3,847
Acquisitions	39	44		44	83
Foreign currency translation and other	(17)	(4)		(4)	(21)
Balance, September 30, 2016	3,160	553	196	749	3,909
Acquisitions	**1,486**				**1,486**
Divestitures			**(142)**	**(142)**	**(142)**
Foreign currency translation and other	**58**	**2**	**3**	**5**	**63**
Balance, September 30, 2017	**$4,704**	**555**	**57**	**612**	**5,316**

The gross carrying amount and accumulated amortization of identifiable intangible assets by major class follow:

	CUSTOMER RELATIONSHIPS		INTELLECTUAL PROPERTY		CAPITALIZED SOFTWARE		TOTAL	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Gross carrying amount	$580	**1,392**	730	**1,012**	1,071	**1,137**	2,381	**3,541**
Less: Accumulated amortization	286	**361**	393	**435**	800	**855**	1,479	**1,651**
Net carrying amount	$294	**1,031**	337	**577**	271	**282**	902	**1,890**

Intangible asset amortization expense for 2017, 2016 and 2015 was $222, $177 and $174, respectively. Based on intangible asset balances as of September 30, 2017, amortization expense is expected to approximate $261 in 2018, $226 in 2019, $201 in 2020, $168 in 2021 and $148 in 2022.

The increase in goodwill and intangibles is primarily due to the valves & controls acquisition. See Note 3.

(8) Financial Instruments

HEDGING ACTIVITIES

As of September 30, 2017, the notional amount of foreign currency hedge positions was approximately $1.8 billion, while commodity hedge contracts totaled approximately $115 (primarily 49 million pounds of copper and aluminum). All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of September 30, 2017 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. Gains and losses on foreign currency derivatives reported in other deductions, net reflect hedges of balance sheet exposures that do not receive deferral accounting.

Amounts included in earnings and other comprehensive income follow:

		GAIN (LOSS) TO EARNINGS			GAIN (LOSS) TO OCI		
		2015	2016	**2017**	2015	2016	**2017**
	Location						
Commodity	Cost of sales	$(24)	(35)	**10**	(43)	(9)	**25**
Foreign currency	Sales, cost of sales	(12)	(41)	**(15)**	(61)	(38)	**30**
Foreign currency	Other deductions, net	14	(27)	**(39)**			
Total		$(22)	(103)	**(44)**	(104)	(47)	**55**

Regardless of whether derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for open positions, which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness was immaterial in all years shown.

FAIR VALUE MEASUREMENT

The estimated fair value of long-term debt was $4,385 and $4,806, respectively, as of September 30, 2017 and 2016, which exceeded the carrying value by $321 and $488, respectively. As of September 30, 2017, the fair value of commodity contracts and foreign currency contracts was reported in other current assets and accrued expenses. Valuations of derivative contract positions as of September 30 follow:

	2016		**2017**	
	ASSETS	LIABILITIES	**ASSETS**	**LIABILITIES**
Foreign currency	$7	49	**26**	**18**
Commodity	$2	4	**12**	**–**

(9) Short-Term Borrowings and Lines of Credit

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

	2016	**2017**
Current maturities of long-term debt	$ 267	**270**
Commercial paper	2,317	**592**
Total	$2,584	**862**
Interest rate for weighted-average short-term borrowings at year end	0.5%	**1.1%**

The Company routinely issues commercial paper as a source of short-term financing. In April 2014, the Company entered into a $3.5 billion five-year revolving backup credit facility with various banks, which replaced a December 2010 $2.75 billion facility. The credit facility is maintained to support general corporate purposes, including commercial paper borrowing. The Company has not incurred any borrowings under this or previous facilities. The credit facility contains no financial covenants and is not subject to termination based on a change of credit rating or material adverse changes. The facility is unsecured and may be accessed under various interest rate and currency denomination alternatives at the Company's option. Fees to maintain the facility are immaterial.

(10) Long-Term Debt

The details of long-term debt follow:

	2016	**2017**
5.125% notes due December 2016	$ 250	**—**
5.375% notes due October 2017	250	**250**
5.25% notes due October 2018	400	**400**
5.0% notes due April 2019	250	**250**
4.875% notes due October 2019	500	**500**
4.25% notes due November 2020	300	**300**
2.625% notes due December 2021	500	**500**
2.625% notes due February 2023	500	**500**
3.15% notes due June 2025	500	**500**
6.0% notes due August 2032	250	**250**
6.125% notes due April 2039	250	**250**
5.25% notes due November 2039	300	**300**
Other	68	**64**
Long-term debt	4,318	**4,064**
Less: Current maturities	267	**270**
Total, net	$4,051	**3,794**

Long-term debt maturing during each of the four years after 2018 is $683, $516, $299 and $500, respectively. Total interest paid on all debt was approximately $192, $209 and $196 in 2017, 2016 and 2015, respectively. During the year, the Company repaid $250 of 5.125% notes that matured in December 2016. In 2016, the Company repaid $250 of 4.75% notes that matured in October 2015.

The Company maintains a universal shelf registration statement on file with the SEC under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts or share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

(11) Retirement Plans

Retirement plans expense includes the following components:

	U.S. PLANS			NON-U.S. PLANS		
	2015	2016	**2017**	2015	2016	**2017**
Defined benefit plans:						
Service cost (benefits earned during the period)	$ 69	59	**60**	37	26	**19**
Interest cost	182	148	**134**	46	39	**30**
Expected return on plan assets	(303)	(296)	**(290)**	(58)	(52)	**(56)**
Net amortization and other	174	166	**211**	20	17	**22**
Net periodic pension expense	122	77	**115**	45	30	**15**
Defined contribution plans	111	104	**96**	61	56	**47**
Total retirement plans expense	$ 233	181	**211**	106	86	**62**

The increase in net periodic pension expense in 2017 is attributable to higher amortization compared to the prior year. Beginning in 2016, the Company refined the method used to determine the service and interest cost components of pension expense for its U.S. retirement plans. The specific spot rates along the yield curve, rather than the single weighted-average rate previously used, are applied to the projected cash flows to provide more precise measurement of these costs. This is a change in estimate which has been accounted for prospectively beginning with the 2016 financial statements. The change reduced the 2016 service and interest cost by a total of $38 compared with the cost measured using the weighted-average approach. Net periodic pension expense includes $3, $12 and $14 and defined contribution expense includes $6, $34 and $33, for 2017, 2016 and 2015, respectively, related to discontinued operations. For defined contribution plans, the Company makes cash contributions based on plan requirements, which are expensed as incurred.

The Company transitioned from defined benefit to defined contribution retirement plans in 2016. The principal U.S. defined benefit pension plan is closed to employees hired after January 1, 2016, and current employees not meeting combined age and years of service criteria ceased accruing benefits effective October 1, 2016. Affected employees were enrolled in an enhanced defined contribution plan. The impact of these actions had an inconsequential impact on the Company's financial statements for all years presented. Over time, defined benefit plan expense will decline while defined contribution plan expense will increase, with an expectation of reduced earnings volatility.

All of the following tables include defined benefit plans related to continuing and discontinued operations.

Details of the changes in the actuarial present value of the projected benefit obligation and the fair value of plan assets for defined benefit pension plans follow:

	U.S. PLANS		NON-U.S. PLANS	
	2016	**2017**	2016	**2017**
Projected benefit obligation, beginning	$ 4,263	**4,696**	1,248	**1,320**
Service cost	59	**60**	26	**19**
Interest cost	148	**134**	39	**30**
Actuarial (gain) loss	565	**(144)**	275	**(83)**
Benefits paid	(191)	**(201)**	(31)	**(29)**
Settlements	(151)	**(125)**	(82)	**(25)**
Acquisitions (Divestitures), net	—	**(55)**	(6)	**163**
Foreign currency translation and other	3	**4**	(149)	**94**
Projected benefit obligation, ending	$ 4,696	**4,369**	1,320	**1,489**
Fair value of plan assets, beginning	$ 3,928	**4,110**	935	**909**
Actual return on plan assets	491	**516**	155	**61**
Employer contributions	31	**20**	35	**25**
Benefits paid	(191)	**(201)**	(31)	**(29)**
Settlements	(151)	**(125)**	(82)	**(25)**
Acquisitions (Divestitures), net	—	**(30)**	—	**232**
Foreign currency translation and other	2	**2**	(103)	**63**
Fair value of plan assets, ending	$ 4,110	**4,292**	909	**1,236**
Net amount recognized in the balance sheet	$ (586)	**(77)**	(411)	**(253)**
Location of net amount recognized in the balance sheet:				
Noncurrent asset	$ —	**154**	1	**43**
Current liability	(11)	**(11)**	(7)	**(11)**
Noncurrent liability	(565)	**(220)**	(279)	**(285)**
Net liability held-for-sale	(10)	**—**	(126)	**—**
Net amount recognized in the balance sheet	(586)	**(77)**	(411)	**(253)**
Pretax accumulated other comprehensive loss	$(1,527)	**(923)**	(389)	**(238)**

Approximately $142 of the $1,161 of pretax losses deferred in accumulated other comprehensive income (loss) at September 30, 2017 will be amortized to expense in 2018. As of September 30, 2017, U.S. pension plans were underfunded by $77 in total, including unfunded plans totaling $201. The non-U.S. plans were underfunded by $253, including unfunded plans totaling $215.

As of the September 30, 2017 and 2016 measurement dates, the plans' total accumulated benefit obligation was $5,607 and $5,729, respectively. Also as of the measurement dates, the total projected benefit obligation, accumulated benefit obligation and fair value of plan assets for individual plans with accumulated benefit obligations in excess of plan assets were $1,182, $1,088 and $663, respectively, for 2017, and $5,951, $5,678 and $4,958, respectively, for 2016.

Future benefit payments by U.S. plans are estimated to be $212 in 2018, $220 in 2019, $228 in 2020, $235 in 2021, $241 in 2022 and $1,272 in total over the five years 2023 through 2027. Based on foreign currency exchange rates as of September 30, 2017, future benefit payments by non-U.S. plans are estimated to be $56 in 2018, $57 in 2019, $59 in 2020, $63 in 2021, $68 in 2022 and $390 in total over the five years 2023 through 2027. The Company expects to contribute approximately $60 to its retirement plans in 2018.

The weighted-average assumptions used in the valuation of pension benefits follow:

	U.S. PLANS			NON-U.S. PLANS		
	2015	2016	**2017**	2015	2016	**2017**
Net pension expense:						
Discount rate used to determine service cost	4.25%	4.60%	**3.75%**	3.6%	3.3%	**2.3%**
Discount rate used to determine interest cost	4.25%	3.50%	**2.90%**	3.6%	3.3%	**2.3%**
Expected return on plan assets	7.50%	7.50%	**7.25%**	6.6%	6.4%	**6.2%**
Rate of compensation increase	3.25%	3.25%	**3.25%**	3.4%	3.4%	**3.2%**
Benefit obligations:						
Discount rate	4.35%	3.50%	**3.76%**	3.3%	2.3%	**2.6%**
Rate of compensation increase	3.25%	3.25%	**3.25%**	3.4%	3.2%	**3.4%**

The discount rate for the U.S. retirement plans was 3.76 percent as of September 30, 2017. An actuarially developed, company-specific yield curve is used to determine the discount rate. The expected return on plan assets assumption is determined by reviewing the investment returns of the plans for the past 10 years plus longer-term historical returns of an asset mix approximating the Company's asset allocation targets, and periodically comparing these returns to expectations of investment advisors and actuaries to determine whether long-term future returns are expected to differ significantly from the past.

The Company's asset allocations at September 30, 2017 and 2016, and weighted-average target allocations follow:

	U.S. PLANS			NON-U.S. PLANS		
	2016	**2017**	TARGET	2016	**2017**	TARGET
Equity securities	66%	**67%**	60-70%	51%	**52%**	50-60%
Debt securities	29	**28**	25-35	36	**38**	25-35
Other	5	**5**	3-10	13	**10**	10-20
Total	100%	**100%**	100%	100%	**100%**	100%

The primary objective for the investment of pension assets is to secure participant retirement benefits by earning a reasonable rate of return. Plan assets are invested consistent with the provisions of the prudence and diversification rules of ERISA and with a long-term investment horizon. The Company continuously monitors the value of assets by class and routinely rebalances to remain within target allocations. The equity strategy is to minimize concentrations of risk by investing primarily in a mix of companies that are diversified across geographies, market capitalization, style, sectors and industries worldwide. The approach for bonds emphasizes investment-grade corporate and government debt with maturities matching a portion of the longer duration pension liabilities. The bonds strategy also includes a high-yield element which is generally shorter in duration. For diversification, a small portion of U.S. plan assets is allocated to private equity partnerships and real asset fund investments, providing opportunities for above market returns. Leveraging techniques are not used and the use of derivatives in any fund is limited and inconsequential.

The fair values of defined benefit pension assets as of September 30, organized by asset class and by the fair value hierarchy of ASC 820, *Fair Value Measurement*, follow. Investments valued based on the net asset value (NAV) of fund units held, as derived from the fair value of the underlying assets, are excluded from the fair value hierarchy.

	LEVEL 1	LEVEL 2	LEVEL 3	MEASURED AT NAV	TOTAL	PERCENTAGE
2017						
U.S. equities	**$1,059**	**5**	**338**	**357**	**1,759**	**32%**
International equities	**724**	**6**		**739**	**1,469**	**27%**
Emerging market equities				**276**	**276**	**5%**
Corporate bonds		**514**		**283**	**797**	**14%**
Government bonds	**3**	**369**		**399**	**771**	**14%**
High-yield bonds				**132**	**132**	**2%**
Other	**132**	**6**	**113**	**73**	**324**	**6%**
Total	**$1,918**	**900**	**451**	**2,259**	**5,528**	**100%**
2016						
U.S. equities	$1,081	4	292	301	1,678	33%
International equities	627	8		599	1,234	25%
Emerging market equities				257	257	5%
Corporate bonds		476		172	648	13%
Government bonds	3	392		357	752	15%
High-yield bonds				122	122	2%
Other	144	2	113	69	328	7%
Total	$1,855	882	405	1,877	5,019	100%

Asset Classes

U.S. equities reflect companies domiciled in the U.S., including multinational companies. International equities are comprised of companies domiciled in developed nations outside the U.S. Emerging market equities are comprised of companies domiciled in portions of Asia, Eastern Europe and Latin America. Corporate bonds represent investment-grade debt of issuers primarily from the U.S. Government bonds include investment-grade instruments issued by federal, state and local governments, primarily in the U.S. High-yield bonds include noninvestment-grade debt from a diverse group of developed market issuers. Other includes cash, interests in mixed asset funds investing in commodities, natural resources, agriculture, real estate and infrastructure funds, life insurance contracts (U.S.), and shares in certain general investment funds of financial institutions or insurance arrangements (non-U.S.) that typically ensure no market losses or provide for a small minimum return guarantee.

Fair Value Hierarchy Categories

Valuations of Level 1 assets for all classes are based on quoted closing market prices from the principal exchanges where the individual securities are traded. Cash is valued at cost, which approximates fair value. Debt securities categorized as Level 2 assets are generally valued based on independent broker/dealer bids or by comparison to other debt securities having similar durations, yields and credit ratings. U.S. equity securities classified as Level 3 are fund investments in private companies. Valuation techniques and inputs for these assets include discounted cash flow analysis, earnings multiple approaches, recent transactions, transfer restrictions, prevailing discount rates, volatilities, credit ratings and other factors. In the Other class, interests in mixed asset funds are Level 2, and U.S. life insurance contracts and non-U.S. general fund investments and insurance arrangements are Level 3. Investments measured at net asset value are primarily nonexchange-traded commingled or collective funds where the underlying securities have observable prices available from active markets.

Details of the changes in value for Level 3 assets follow:

	2016	**2017**
Level 3, beginning	$371	**405**
Gains (Losses) on assets held	18	**49**
Gains (Losses) on assets sold	(20)	**(28)**
Purchases, sales and settlements, net	36	**25**
Level 3, ending	$405	**451**

(12) Postretirement Plans

The Company sponsors unfunded postretirement benefit plans (primarily health care) for certain U.S. retirees and their dependents. The components of net postretirement benefits expense for the years ended September 30 follow:

	2015	2016	2017
Service cost	$ 1	1	**1**
Interest cost	9	8	**6**
Net amortization	(22)	(21)	**(19)**
Net postretirement expense	$(12)	(12)	**(12)**

Details of the changes in actuarial present value of accumulated postretirement benefit obligations follow:

	2016	2017
Benefit obligation, beginning	$213	**206**
Service cost	1	**1**
Interest cost	8	**6**
Actuarial (gain) loss	—	**(24)**
Benefits paid	(16)	**(13)**
Divestitures	—	**(2)**
Benefit obligation, ending (recognized in balance sheet)	$206	**174**

As of September 30, 2017 there were $141 of deferred actuarial gains in accumulated other comprehensive income, of which approximately $19 will be amortized into earnings in 2018. The discount rates used to measure the benefit obligation as of September 30, 2017, 2016 and 2015 were 3.45 percent, 3.10 percent and 3.80 percent, respectively. The health care cost trend rate used for both 2018 and 2017 is assumed to be 7.5 percent initially, and declining to 5.0 percent over the subsequent eleven years. A one percentage point increase or decrease in the health care cost trend rate assumption for either year would have an inconsequential impact on postretirement benefits expense and the benefit obligation. The Company estimates that future health care benefit payments will be approximately $14 per year for 2018 through 2022, and $60 in total over the five years 2023 through 2027.

(13) Contingent Liabilities and Commitments

The Company is a party to a number of pending legal proceedings and claims, including those involving general and product liability (including asbestos) and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; the Company's experience in contesting, litigating and settling similar matters; and any related insurance coverage. Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been largely successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company. The Company enters into certain indemnification agreements in the ordinary course of business in which the indemnified party is held harmless and is reimbursed for losses incurred from claims by third parties, usually up to a prespecified limit. In connection with divestitures of certain assets or businesses, the Company often provides indemnities to the buyer with respect to certain matters including, for example, environmental or unidentified tax liabilities related to periods prior to the disposition. Because of the uncertain nature of the indemnities, the maximum liability cannot be quantified. As such, contingent liabilities are recorded when they are both probable and reasonably estimable. Historically, payments under indemnity arrangements have been inconsequential.

At September 30, 2017, 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.

(14) Income Taxes

Pretax earnings from continuing operations consist of the following:

	2015	2016	2017
United States	$2,688	1,312	**1,350**
Non-U.S.	1,119	1,004	**985**
Total pretax earnings	$3,807	2,316	**2,335**

The principal components of income tax expense follow:

	2015	2016	2017
Current:			
Federal	$ 831	394	**351**
State and local	86	11	**40**
Non-U.S.	398	305	**311**
Deferred:			
Federal	12	2	**7**
State and local	(1)	4	**4**
Non-U.S.	(59)	(19)	**(53)**
Income tax expense	$1,267	697	**660**

Reconciliations of the U.S. federal statutory income tax rate to the Company's effective tax rate follow:

	2015	2016	2017
Federal statutory rate	35.0%	35.0%	**35.0%**
State and local taxes, net of federal tax benefit	0.7	0.5	**1.2**
Non-U.S. rate differential	(2.4)	(2.9)	**(3.6)**
Non-U.S. tax holidays	(0.9)	(1.1)	**(1.0)**
U.S. manufacturing deduction	(1.2)	(1.8)	**(1.7)**
Gains on divestitures	1.8	—	**—**
Non-U.S. subsidiary restructuring	—	—	**(1.8)**
Other	0.3	0.4	**0.2**
Effective income tax rate	33.3%	30.1%	**28.3%**

Non-U.S. tax holidays reduce tax rates in certain foreign jurisdictions and are expected to expire over the next five years.

Following are changes in unrecognized tax benefits before considering recoverability of any cross-jurisdictional tax credits (federal, state and non-U.S.) and temporary differences. The amount of unrecognized tax benefits is not expected to change significantly within the next 12 months.

	2016	2017
Unrecognized tax benefits, beginning	$ 84	**86**
Additions for current year tax positions	12	**54**
Additions for prior year tax positions	16	**4**
Reductions for prior year tax positions	(13)	**(6)**
Acquisitions and divestitures	—	**9**
Reductions for settlements with tax authorities	(4)	**(4)**
Reductions for expiration of statutes of limitations	(9)	**(11)**
Unrecognized tax benefits, ending	$ 86	**132**

If none of the unrecognized tax benefits shown is ultimately paid, the tax provision and the calculation of the effective tax rate would be favorably impacted by $100, which is net of cross-jurisdictional tax credits and temporary differences. The Company accrues interest and penalties related to income taxes in income tax expense. Total interest and penalties recognized were $(1), $2 and $(4) in 2017, 2016 and 2015, respectively. As of September 30, 2017 and 2016, total accrued interest and penalties were $16 and $21, respectively.

The U.S. is the major jurisdiction for which the Company files income tax returns. U.S. federal tax returns are closed through 2013. The status of state and non-U.S. tax examinations varies due to the numerous legal entities and jurisdictions in which the Company operates.

The principal items that gave rise to deferred income tax assets and liabilities follow:

	2016	2017
Deferred tax assets:		
Net operating losses and tax credits	$ 164	**444**
Accrued liabilities	277	**319**
Postretirement and postemployment benefits	82	**70**
Employee compensation and benefits	206	**173**
Pensions	271	**72**
Other	158	**196**
Total	$1,158	**1,274**
Valuation allowances	$ (132)	**(309)**
Deferred tax liabilities:		
Intangibles	$ (510)	**(753)**
Property, plant and equipment	(239)	**(265)**
Undistributed non-U.S. earnings	(9)	**(249)**
Other	(42)	**(37)**
Total	$ (800)	**(1,304)**
Net deferred income tax asset (liability)	$ 226	**(339)**

As of September 30, 2017, all deferred tax assets and liabilities were presented as noncurrent. As of September 30, 2016, current deferred tax assets, net were $400 and noncurrent deferred tax liabilities, net were $174. Total income taxes paid were approximately $1,420, $950 and $1,590 in 2017, 2016 and 2015, respectively. Approximately one-third of the $444 of net operating losses and tax credits can be carried forward indefinitely, one-third expire in ten years, and the remainder expire over varying periods.

(15) Stock-Based Compensation

The Company's stock-based compensation plans include stock options, performance shares, restricted stock and restricted stock units. Although the Company has discretion, shares distributed under these plans are issued from treasury stock.

STOCK OPTIONS

The Company's stock option plans permit key officers and employees to purchase common stock at specified prices, which are equal to 100 percent of the closing market price of the Company's stock on the date of grant. Options generally vest one-third in each of the three years subsequent to grant and expire 10 years from the date of grant. Compensation expense is recognized ratably over the vesting period based on the number of options expected to vest. As of September 30, 2017, 11.5 million options were available for grant under the plans.

Changes in shares subject to options during the year ended September 30, 2017 follow (shares in thousands):

	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE	SHARES	TOTAL INTRINSIC VALUE OF SHARES	AVERAGE REMAINING LIFE (YEARS)
Beginning of year	**$54.87**	**15,276**		
Options granted	**$53.71**	**386**		
Options exercised	**$51.09**	**(3,812)**		
Options canceled	**$61.48**	**(1,091)**		
End of year	**$55.49**	**10,759**	**$87**	**5.8**
Exercisable at end of year	**$56.73**	**8,222**	**$58**	**5.1**

The weighted-average grant date fair value per option was $8.36, $9.02 and $12.48 in 2017, 2016 and 2015, respectively. Cash received for option exercises was $148 in 2017, $31 in 2016 and $36 in 2015. The total intrinsic value of options exercised in 2017, 2016 and 2015 was $36, $9 and $16, respectively, while the tax benefit realized by the Company from tax deductions related to option exercises was $2, $2 and $10, respectively.

The grant date fair value of options is estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used in valuations for 2017, 2016 and 2015 are, respectively: risk-free interest rate, based on U.S. Treasury yields, 1.7 percent, 1.9 percent and 1.9 percent; dividend yield, 3.6 percent, 3.8 percent and 3.1 percent; and expected volatility, based on historical volatility, 24 percent, 27 percent and 28 percent. The expected life of each option awarded is seven years based on historical experience and expected future exercise patterns.

PERFORMANCE SHARES, RESTRICTED STOCK AND RESTRICTED STOCK UNITS

The Company's incentive shares plans include performance shares awards which distribute the value of common stock to key management employees subject to certain operating performance conditions and other restrictions. The form of distribution is primarily shares of common stock, with a portion in cash. Compensation expense for performance shares is recognized over the service period based on the number of shares ultimately expected to be earned. Performance shares awards are accounted for as liabilities in accordance with ASC 718, *Compensation – Stock Compensation*, with compensation expense adjusted at the end of each reporting period to reflect the change in fair value of the awards.

As of September 30, 2016, 4,944,575 performance shares awarded primarily in 2013 were outstanding, contingent on the Company achieving its performance objectives through 2016 and the provision of additional service by employees. The objectives for these shares were met at the 86 percent level at the end of 2016, or 4,252,335 shares. Of these, 2,549,083 shares were distributed in early 2017 as follows: 1,393,715 issued as shares, 944,002 withheld for income taxes, and the value of 211,366 paid in cash. An additional 1,691,986 shares were distributed at the end of 2017 to employees who provided one additional year of service as follows: 1,070,264 issued as shares, 616,734 withheld for income taxes, and the value of 4,988 paid in cash. There were 11,266 shares canceled and not distributed. Additionally, the rights to receive a maximum of 2,388,125 and 2,178,388 common shares awarded in 2017 and 2016, under the new performance shares program, are outstanding and contingent upon the Company achieving its performance objectives through 2019 and 2018, respectively.

Incentive shares plans also include restricted stock awards which involve distribution of common stock to key management employees subject to cliff vesting at the end of service periods ranging from three to ten years. The fair value of restricted stock awards is determined based on the average of the high and low market prices of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable service period. In 2017, 130,641 shares of restricted stock vested as a result of participants fulfilling the applicable service requirements. Consequently, 84,398 shares were issued while 46,243 shares were withheld for income taxes in accordance with minimum withholding requirements. As of September 30, 2017, there were 1,194,500 shares of unvested restricted stock outstanding.

The total fair value of shares vested under incentive shares plans was $245, $11 and $9, respectively, in 2017, 2016 and 2015, of which $101, $4 and $5 was paid in cash, primarily for tax withholding. As of September 30, 2017, 12.9 million shares remained available for award under incentive shares plans.

Changes in shares outstanding but not yet earned under incentive shares plans during the year ended September 30, 2017 follow (shares in thousands):

	SHARES	AVERAGE GRANT DATE FAIR VALUE PER SHARE
Beginning of year	**7,328**	**$49.17**
Granted	**2,134**	**$51.91**
Earned/vested	**(4,372)**	**$49.14**
Canceled	**(91)**	**$51.18**
End of year	**4,999**	**$50.33**

Total compensation expense for stock options and incentive shares was $115, $159 and $30 for 2017, 2016 and 2015, respectively, of which $5, $14 and $6 was included in discontinued operations. The decrease in expense for 2017 reflects the impact of changes in the stock price. The increase in expense for 2016 reflects an increasing stock price in the current year compared with a decreasing price in 2015, and overlap of awards. Income tax benefits recognized in the income statement for these compensation arrangements during 2017, 2016 and 2015 were $33, $45 and $2, respectively. As of September 30, 2017, total unrecognized compensation expense related to unvested shares awarded under these plans was $149, which is expected to be recognized over a weighted-average period of 1.5 years.

In addition to the employee stock option and incentive shares plans, in 2017 the Company awarded 17,984 shares of restricted stock and 2,248 restricted stock units under the restricted stock plan for non-management directors. As of September 30, 2017, 174,335 shares were available for issuance under this plan.

(16) Common and Preferred Stock

At September 30, 2017, 40.0 million shares of common stock were reserved for issuance under the Company's stock-based compensation plans. During 2017, 6.6 million common shares were purchased and 5.5 million treasury shares were reissued. In 2016, 12.5 million common shares were purchased and 0.7 million treasury shares were reissued.

At September 30, 2017 and 2016, the Company had 5.4 million shares of $2.50 par value preferred stock authorized, with none issued.

(17) Accumulated Other Comprehensive Income (Loss)

Activity in accumulated other comprehensive income (loss) attributable to common stockholders is shown below:

	2015	2016	**2017**
Foreign currency translation			
Beginning balance	$ 171	(622)	**(812)**
Other comprehensive income (loss)	(793)	(190)	**58**
Reclassified to gain/loss on sale of businesses	—	—	**385**
Ending balance	(622)	(812)	**(369)**
Pension and postretirement			
Beginning balance	(746)	(952)	**(1,162)**
Actuarial gains (losses) deferred during the period	(315)	(310)	**315**
Amortization of deferred actuarial losses into earnings	109	100	**135**
Reclassified to gain/loss on sale of businesses	—	—	**50**
Ending balance	(952)	(1,162)	**(662)**
Cash flow hedges			
Beginning balance	—	(43)	**(25)**
Gains (Losses) deferred during the period	(66)	(30)	**34**
Reclassifications of realized (gains) losses to sales and cost of sales	23	48	**3**
Ending balance	(43)	(25)	**12**
Accumulated other comprehensive income (loss)	$(1,617)	(1,999)	**(1,019)**

Activity above is shown net of income taxes for 2017, 2016 and 2015, respectively, as follows: deferral of pension and postretirement actuarial gains (losses): $(170), $159 and $192; amortization of pension and postretirement deferred actuarial losses: $(75), $(59) and $(59); deferral of cash flow hedging gains (losses): $(21), $17 and $38; reclassification of realized cash flow hedging (gains) losses: $(2), $(28) and $(13).

(18) Business Segments Information

The Company designs and manufactures products and delivers services that bring technology and engineering together to provide innovative solutions for customers in a wide range of industrial, commercial and consumer markets around the world.

In connection with the strategic portfolio repositioning actions undertaken to transform the Company into a more focused enterprise, its businesses and organization were realigned. In fiscal 2017, the Company began reporting three segments: **Automation Solutions**, and **Climate Technologies** and **Tools & Home Products** which together comprise the **Commercial & Residential Solutions** business. Prior year information has been reclassified to conform with the current year presentation. The Automation Solutions segment includes the former Process Management segment and the remaining businesses in the former Industrial Automation segment, except for the hermetic motors business, which is now included in the Climate Technologies segment. The new Tools & Home Products segment consists of the businesses previously reported in the Commercial & Residential Solutions segment in fiscal 2016 and 2015.

The **Automation Solutions** segment enables process, hybrid and discrete manufacturers to maximize production, protect personnel and the environment, and optimize their energy efficiency and operating costs through a broad offering of integrated solutions and products, including measurement and analytical instrumentation, industrial valves and equipment, and process control systems. Significant end markets serviced include oil and gas, refining, chemicals and power generation, as well as pharmaceuticals, food and beverage, automotive, pulp and paper, metals and mining, and municipal water supplies. The segment's major product offerings are described below.

- **Measurement & Analytical Instrumentation** products measure the physical properties of liquids or gases in a process stream and communicate this information to a process control system or other software applications, and analyze the chemical composition of process fluids and emissions to enhance quality and efficiency, as well as environmental compliance.

- **Valves, Actuators & Regulators** consists of control, isolation and pressure relief valves which respond to commands from a control system to continuously and precisely modulate the flow of process fluids, smart actuation and control technologies, pressure management products, and industrial and residential regulators that reduce the pressure of fluids moving from high-pressure supply lines into lower pressure systems.

- **Industrial Solutions** provides fluid power and control mechanisms, electrical distribution equipment, and materials joining and precision cleaning products which are used in a variety of manufacturing operations to provide integrated solutions to customers.

- **Process Control Systems & Solutions** provides a digital ecosystem that controls plant processes by communicating with and adjusting the "intelligent" plant devices described above to provide precision measurement, control, monitoring, asset optimization, and plant safety and reliability for plants that produce power, or process fluids or other items.

The Commercial & Residential Solutions business consists of the Climate Technologies and Tools & Home Products segments. This business provides products and solutions that promote energy efficiency, enhance household and commercial comfort, and protect food quality and sustainability through heating, air conditioning and refrigeration technology, as well as a broad range of tools and appliance solutions.

The **Climate Technologies** segment provides products, services and solutions for all areas of the climate control industry, including residential heating and cooling, commercial air conditioning, commercial and industrial refrigeration, and cold chain management. Products include compressors, temperature sensors and controls, thermostats, flow controls, and stationary and mobile remote monitoring technologies and services that enable homeowners and businesses to better manage their heating, air conditioning and refrigeration systems for improved control and comfort, and lower energy costs.

The **Tools & Home Products** segment offers tools for professionals and homeowners and appliance solutions. Products include professional pipe-working tools, residential and commercial food waste disposers, and wet-dry vacuums.

The principal distribution method for each segment is direct sales forces, although the Company also uses independent sales representatives and distributors. Due to its global presence, certain of the Company's international operations are subject to risks including the stability of governments and business conditions in foreign countries which could result in adverse changes in exchange rates, changes in regulation or disruption of operations.

The primary income measure used for assessing segment performance and making operating decisions is earnings before interest and income taxes. Intersegment selling prices approximate market prices. Accounting method differences between segment reporting and the consolidated financial statements are primarily management fees allocated to segments based on a percentage of sales and the accounting for pension and other retirement plans. Corporate and other includes corporate operations, stock compensation expense, acquisition related costs and other items. Corporate assets are primarily comprised of cash and equivalents, investments and certain fixed assets. Summarized below is information about the Company's operations by business segment and by geography.

BUSINESS SEGMENTS

	SALES			EARNINGS			TOTAL ASSETS		
	2015	2016	**2017**	2015	2016	**2017**	2015	2016	**2017**
Automation Solutions	$10,153	8,977	**9,418**	$1,846	1,456	**1,522**	$ 8,817	8,759	**12,581**
Climate Technologies	4,006	3,944	**4,212**	835	902	**975**	2,455	2,489	**2,547**
Tools & Home Products	1,625	1,611	**1,645**	364	384	**383**	817	809	**830**
Commercial & Residential Solutions	5,631	5,555	**5,857**	1,199	1,286	**1,358**	3,272	3,298	**3,377**
Divested businesses (a)	477			58					
Differences in accounting methods				174	189	**148**			
Corporate and other (b)				705	(427)	**(528)**	9,999	9,675	**3,631**
Eliminations/Interest	(12)	(10)	**(11)**	(175)	(188)	**(165)**			
Total	$16,249	14,522	**15,264**	$3,807	2,316	**2,335**	$22,088	21,732	**19,589**

(a) Divested businesses includes sales and earnings related to the power transmission solutions and commercial storage businesses, which were reported in the former Industrial Automation and Commercial & Residential Solutions segments, respectively.

(b) Corporate and other in 2017 includes first year pretax acquisition accounting charges related to inventory and backlog of $93 ($65 after-tax, $0.10 per share), and in 2015 includes pretax gains on divestitures of $1,039 ($611 after-tax, $0.90 per share) related to the power transmission solutions and commercial storage businesses. See Note 3. Assets held-for-sale of $6,030 and $6,222 are included in Corporate and other for 2016 and 2015, respectively. See Note 4.

Automation Solutions sales by major product offering are summarized below:

	2015	2016	**2017**
Measurement & Analytical Instrumentation	$ 3,619	3,137	**3,070**
Valves, Actuators & Regulators	2,559	2,137	**2,668**
Industrial Solutions	1,779	1,621	**1,680**
Process Control Systems & Solutions	2,196	2,082	**2,000**
Total	$10,153	8,977	**9,418**

	DEPRECIATION AND AMORTIZATION			CAPITAL EXPENDITURES		
	2015	2016	**2017**	2015	2016	**2017**
Automation Solutions	$311	330	**400**	$298	246	**234**
Climate Technologies	149	150	**156**	154	133	**182**
Tools & Home Products	42	44	**45**	46	44	**45**
Commercial & Residential Solutions	191	194	**201**	200	177	**227**
Corporate and other	71	44	**35**	90	24	**15**
Total	$573	568	**636**	$588	447	**476**

GEOGRAPHIC INFORMATION

	SALES BY DESTINATION			PROPERTY, PLANT AND EQUIPMENT		
	2015	2016	**2017**	2015	2016	**2017**
United States and Canada	$ 8,370	7,505	**7,854**	$1,756	1,780	**1,852**
Asia	3,363	2,926	**3,253**	481	459	**525**
Europe	2,381	2,300	**2,434**	426	435	**626**
Latin America	981	834	**767**	216	203	**203**
Middle East/Africa	1,154	957	**956**	50	54	**115**
Total	$16,249	14,522	**15,264**	$2,929	2,931	**3,321**

Sales in the U.S. were $7,273, $6,940 and $7,608 for 2017, 2016 and 2015, respectively, while Asia includes sales in China of $1,540, $1,320 and $1,575 in those years. Assets located in the U.S. were $1,840 in 2017, $1,772 in 2016 and $1,746 in 2015.

(19) Other Financial Data

Items reported in earnings from continuing operations during the years ended September 30 included the following:

	2015	2016	2017
Research and development expense	$336	320	**340**
Depreciation expense	$399	391	**414**
Rent expense	$287	273	**289**

The Company leases certain facilities, transportation and office equipment, and various other items under operating lease agreements. Minimum annual rentals under noncancelable long-term leases, exclusive of maintenance, taxes, insurance and other operating costs, will approximate $171 in 2018, $125 in 2019, $81 in 2020, $49 in 2021 and $31 in 2022.

Items reported in accrued expenses included the following:

	2016	2017
Employee compensation	$431	**531**
Customer advanced payments	$433	**505**
Product warranty	$106	**120**

Other liabilities are summarized as follows:

	2016	2017
Pension and postretirement liabilities	$1,037	**664**
Deferred income taxes	210	**425**
Asbestos litigation	52	**340**
Other	430	**546**
Total	$1,729	**1,975**

The increase in asbestos litigation primarily reflects the valves & controls acquisition, which added approximately $240 of asbestos liabilities. In addition, other long-term assets include $133 of related insurance receivables, $95 of which were acquired with valves & controls.

Other operating cash flow is comprised of the following:

	2015	2016	2017
Pension expense	$153	95	**127**
Stock compensation expense	24	145	**110**
Deferred income taxes and other	19	45	**27**
Total	$196	285	**264**

(20) Quarterly Financial Information (Unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Full Year	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Net sales	$3,337	**3,216**	3,579	**3,574**	3,674	**4,039**	3,932	**4,435**	14,522	**15,264**
Gross profit	$1,414	**1,365**	1,542	**1,557**	1,593	**1,678**	1,713	**1,804**	6,262	**6,404**
Earnings from continuing operations common stockholders	$ 303	**364**	367	**376**	441	**407**	479	**496**	1,590	**1,643**
Net earnings common stockholders	$ 349	**309**	369	**292**	479	**413**	438	**504**	1,635	**1,518**
Earnings per common share from continuing operations:										
Basic	$ 0.47	**0.56**	0.57	**0.58**	0.68	**0.63**	0.74	**0.77**	2.46	**2.54**
Diluted	$ 0.46	**0.56**	0.57	**0.58**	0.68	**0.63**	0.74	**0.77**	2.45	**2.54**
Net earnings per common share:										
Basic	$ 0.54	**0.48**	0.57	**0.45**	0.74	**0.64**	0.68	**0.78**	2.53	**2.35**
Diluted	$ 0.53	**0.48**	0.57	**0.45**	0.74	**0.64**	0.68	**0.78**	2.52	**2.35**
Dividends per common share	$0.475	**0.48**	0.475	**0.48**	0.475	**0.48**	0.475	**0.48**	1.90	**1.92**
Common stock prices:										
High	$51.47	**58.28**	55.54	**64.36**	56.82	**61.63**	56.72	**64.18**	56.82	**64.36**
Low	$42.21	**49.22**	41.25	**55.40**	48.45	**56.77**	50.41	**57.81**	41.25	**49.22**

Earnings per share are computed independently each period; as a result, the quarterly amounts may not sum to the calculated annual figure.

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

Report of Independent Registered Public Accounting Firm

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, 2017 and 2016, and the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the years in the three-year period ended September 30, 2017. We also have audited Emerson Electric Co.'s internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Emerson Electric Co.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, the valves & controls business was acquired on April 28, 2017 and management has excluded this business from its assessment of internal control over financial reporting as of September 30, 2017. Valves & controls' total assets and revenues excluded from the assessment represented approximately 20 percent and 4 percent, respectively, of the Company's related consolidated financial statement amounts as of and for the year ended September 30, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the acquired business.

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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Emerson Electric Co. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

St. Louis, Missouri
November 20, 2017

Five-Year Summary

EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

	2013	2014	2015	2016	**2017**
Summary of Operations					
Net sales	$17,935	17,733	16,249	14,522	**15,264**
Gross profit	$ 7,565	7,762	7,008	6,262	**6,404**
Interest expense	$ 219	196	175	188	**165**
Earnings from continuing operations common stockholders	$ 1,506[a]	2,201	2,517[b]	1,590	**1,643**
Percent of net sales	8.4%	12.4%	15.5%	11.0%	**10.8%**
Net earnings common stockholders	$ 2,004[a]	2,147[a]	2,710[b]	1,635	**1,518**
Operating cash flow from continuing operations	$ 2,877	2,999	2,040	2,499	**2,690**
Return on common stockholders' equity	19.2%[a]	20.7%[a]	29.8%[b]	20.9%	**18.6%**
Per Share of Common Stock					
Diluted EPS – Earnings from continuing operations	$ 2.08[a]	3.11	3.71[b]	2.45	**2.54**
Diluted EPS – Net earnings	$ 2.76[a]	3.03[a]	3.99[b]	2.52	**2.35**
Cash dividends	$ 1.64	1.72	1.88	1.90	**1.92**
Book value	$ 14.98	14.53	12.34	11.77	**13.59**
Year-End Financial Position					
Operating working capital	$ 1,686	1,729	1,748	1,354	**1,007**
Percent of net sales	6.8%	7.0%	7.8%	6.7%	**6.6%**
Property, plant and equipment, net	$ 3,605	3,802	3,585	3,542	**3,321**
Total assets	$24,711	24,177	22,088	21,732	**19,589**
Long-term debt	$ 4,055	3,559	4,289	4,051	**3,794**
Common stockholders' equity	$10,585	10,119	8,081	7,568	**8,718**
Total debt to total capital	34.8%	37.3%	45.8%	46.7%	**34.8%**
Net debt to net capital	18.3%	22.1%	31.3%	31.3%	**15.4%**
Other Data					
Capital expenditures	$ 678	767	685	523	**476**
Depreciation	$ 521	518	507	477	**414**
Total taxes, including income taxes	$ 1,821	1,856	2,056	1,554	**1,748**
Salaries and wages	$ 4,967	4,961	4,713	4,521	**3,478**
Average number of employees	131,600	115,100	110,800	103,500	**76,500**
Approximate number of common stockholders of record at year end	21,898	20,901	20,130	19,724	**19,066**
Average common shares – diluted (in thousands)	722,912	704,071	676,450	646,837	**643,351**

See Note 3 in the Annual Report for information regarding the Company's acquisition and divestiture activities for the last three years. The results for all periods presented in the Summary of Operations above reflect the impact of the Company's strategic portfolio repositioning actions.

Net sales, earnings and EPS for the network power systems and power generation, motors and drives businesses have been classified as discontinued operations for all periods. These businesses had combined annual sales of $1,037, $5,746, $6,094, $6,842 and $6,791 in 2017, 2016, 2015, 2014 and 2013, respectively. See Note 4 in the Annual Report.

a – 2013 included goodwill impairment charges of $496 after-tax ($0.68 per share) and income tax charges of $70 ($0.10 per share). Additionally, 2014 included a goodwill impairment charge of $508 after-tax ($0.72 per share) reported in discontinued operations.

b – 2015 included gains on divestitures of businesses of $611 after-tax ($0.90 per share benefit).

Board of Directors

Clemens A.H. Boersig
Frankfurt, Germany
Retired Chairman of the Supervisory Board, Deutsche Bank AG

Joshua B. Bolten
Washington, District of Columbia
President & CEO, Business Roundtable

David N. Farr
St. Louis, Missouri
Chairman and Chief Executive Officer, Emerson

Gloria A. Flach
Falls Church, Virginia
Chief Operating Officer, Northrop Grumman Corporation

Arthur F. Golden
New York, New York
Partner, Davis Polk & Wardwell LLP

Candace Kendle
Boca Grande, Florida
Retired Chairman and Chief Executive Officer, Kendle International Inc.

Matthew S. Levatich
Milwaukee, Wisconsin
President and Chief Executive Officer, Harley-Davidson Inc.

Joseph W. Prueher
Virginia Beach, Virginia
Admiral, USN (Ret)
Former U.S. Ambassador to the People's Republic of China

Randall L. Stephenson
Dallas, Texas
Chairman and Chief Executive Officer, AT&T Inc.

James S. Turley
St. Louis, Missouri
Retired Chairman of the Board and Chief Executive Officer, Ernst & Young LLP

ADVISORY DIRECTORS

Frank J. Dellaquila
Senior Executive Vice President and Chief Financial Officer

Edward L. Monser
President

Edgar M. Purvis Jr.
Executive Vice President and Chief Operating Officer

Steven J. Pelch
Executive Vice President, Organization Planning and Development

Robert T. Sharp
Executive President, Commercial & Residential Solutions

Michael H. Train
Executive President, Automation Solutions

COMMITTEES

Executive Committee
David N. Farr, Chair
Clemens A.H. Boersig
Joshua B. Bolten
Arthur F. Golden
Randall L. Stephenson
James S. Turley

Audit Committee
James S. Turley, Chair
Joshua B. Bolten
Candace Kendle
Matthew S. Levatich

Compensation Committee
Randall L. Stephenson, Chair
Clemens A.H. Boersig
Gloria A. Flach
Matthew S. Levatich
Joseph W. Prueher

Corporate Governance and Nominating Committee
Joshua B. Bolten, Chair
Candace Kendle
Randall L. Stephenson
James S. Turley

Finance Committee
Clemens A.H. Boersig, Chair
Gloria A. Flach
Arthur F. Golden
Joseph W. Prueher

Management

SENIOR MANAGEMENT

David N. Farr
Chairman and Chief Executive Officer

Edward L. Monser
President

Frank J. Dellaquila
Senior Executive Vice President and Chief Financial Officer

Edgar M. Purvis Jr.
Executive Vice President and Chief Operating Officer

Steven J. Pelch
Executive Vice President, Organization Planning and Development

Robert T. Sharp
Executive President, Commercial & Residential Solutions

Michael H. Train
Executive President, Automation Solutions

Sara Yang Bosco
Senior Vice President, Secretary and General Counsel

Mark J. Bulanda
Senior Vice President, Acquisition Planning and Development

Katherine T. Button Bell
Senior Vice President and Chief Marketing Officer

OPERATING MANAGEMENT

Michael H. Train
Executive President, Automation Solutions

Manish Bhandari
Group President, Fluid and Motion Control

Terry D. Buzbee
Chairman, Final Control

Ram R. Krishnan
Group President, Final Control

Larry W. Flatt
Group President, Discrete & Industrial

S. Lal Karsanbhai
Group President, Measurement & Analytical

David A. Tredinnick
Group President, Flow Solutions

Sabee Mitra
Group President, Global Sales

Jim A. Nyquist
Group President, Systems and Solutions

Robert T. Sharp
Executive President, Commercial & Residential Solutions

Jim J. Lindemann
Executive Vice President and Chief Operating Officer, Commercial & Residential Solutions

Mark D. Dunson
Group President, Electronics & Solutions

J. Tim Ferry
Group President, Tools & Home Products

Jack M. Huether
Group President, Sensors & Controls

John E. Rhodes
Group President, Cold Chain

Brent A. Schroeder
Group President, Heating & Air Conditioning

Management *continued*

CORPORATE MANAGEMENT

Jan L. Bansch
Vice President, Benefits

Michael J. Baughman
Vice President
and Controller

Edwin M. Boone
President,
Emerson Asia Pacific

Akberet Boykin Farr
Vice President,
Diversity and Inclusion

James E. Carter
Vice President,
Government Affairs

David Chan
Vice President,
Development

Steve L. Clarke
Vice President,
Real Estate and
Environmental Affairs

Jayme L. Collins
Vice President,
Executive Compensation

Anton Conrad
Vice President and
General Counsel, Europe

Tony Danilov
Vice President,
Corporate and General
Counsel MEA

T. Judson Duncan
Vice President,
Planning

Scott M. Evans
Vice President,
Perfect Execution

Lisa A. Flavin
Vice President,
Audit and Chief
Compliance Officer

Jake J. Fritz
Vice President and
Chief Information Officer

Greg A. Fromknecht
Vice President,
Global Supply Chain Systems
and Solutions

Ryan P. Garrah
President, Emerson Canada

John M. Groves
Vice President,
Intellectual Property

Clellen W. Ip
Vice President,
Development

Jean Janssen
President, Emerson Europe

James E. Jones
Vice President,
Human Resources

Michael J. Keating
Vice President,
Global Litigation
and Arbitration

Victor A. Lazzaretti
Vice President and
Deputy General Counsel
and Assistant Secretary

Mei Yin Lim
Vice President and
General Counsel,
Asia Pacific

Rob W. Lockwood
Vice President,
International Trade
Compliance

Vanessa R. McKenzie
Vice President and Counsel,
Mergers and Acquisitions

David A. Meade
Vice President,
Pension Investments

Catherine G. Merkel
Vice President,
Development

Alan D. Mielcuszny
Vice President,
Financial Planning
and Analysis

Alexander L. Peng
Vice President, Tax

Fred A. Perreand
Vice President, Global Supply
Chain Operations

David J. Rabe
Vice President,
Corporate Social
Responsibility

Timothy W. Reeves
Assistant Treasurer
and Director,
Investor Relations

James N. Rhodes
Vice President, Human
Resource Systems

Richard J. Schlueter
Vice President, Controller
and Chief Accounting Officer

John G. Shively
Vice President,
Governance and Securities
and Assistant Secretary

Greg A. Shoemaker
Vice President, Labor
and Employment Law

James H. Thomasson
Vice President
and Treasurer

Tony Vermillion
Vice President

Timothy M. Volk
Vice President,
Global Human Resources

Steve E. Von Gruben
Vice President

Giovanni Zullo
President,
Emerson India,
Middle East and Africa

Reconciliation of Non-GAAP Measures

RECONCILIATION OF NON-GAAP MEASURES

Dollars in millions, except per share amounts

	2016	**2017**	CHANGE
Pretax earnings (GAAP)	$2,316	**$2,335**	1 %
Interest expense, net	188	**165**	(1)%
Earnings before interest and taxes (non-GAAP)	$2,504	**$2,500**	– %

	2012	**2017**	CAGR '12 - '17
Pretax earnings (GAAP)	$2,377	**$2,335**	– %
Interest expense, net	225	**165**	(1)%
Earnings before interest and taxes (non-GAAP)	$2,602	**$2,500**	(1)%

	2012	2016	**2017**	CAGR '12 - '17	CHANGE '16 - '17
Earnings per share from continuing operations (GAAP)	$1.96	$2.45	**$2.54**	5 %	4%
Valves & Controls first year acquisition accounting charges			**0.10**	1 %	4%
Goodwill impairment charge	0.58			(5)%	
Adjusted earnings per share from continuing operations (non-GAAP)	$2.54	$2.45	**$2.64**	1 %	8%

	2012	2013	2014	2015	2016	**2017**
Operating cash flow from continuing operations as a percent of sales (GAAP)	13.5 %	16.0 %	16.9 %	12.6 %	17.2 %	**17.6 %**
Capital expenditures as a percent of sales	(3.1)%	(3.1)%	(3.7)%	(3.7)%	(3.1)%	**(3.1)%**
Free cash flow from continuing operations as a percent of sales (non-GAAP)	10.4 %	12.9 %	13.2 %	8.9 %	14.1 %	**14.5 %**
Impact of taxes paid on divestiture gains				2.6 %		
Adjusted free cash flow from continuing operations as a percent of sales (non-GAAP)				11.5 %		

	2012	2016	**2017**
Dividends as a percent of operating cash flow from continuing operations (GAAP)	50%	49%	**46%**
Capital expenditures	15%	11%	**10%**
Dividends as a percent of free cash flow from continuing operations (non-GAAP)	65%	60%	**56%**

Stockholders Infomation

REGISTRAR AND TRANSFER AGENT

By Mail:
Computershare, Inc.
Attention: Emerson Electric Co.
P.O. Box 505000
Louisville, KY 40233

By Phone:
Toll-Free: (888) 213-0970
TDD for Hearing Impaired: (800) 231-5469
Foreign Shareholders: (201) 680-6578
TDD Foreign Shareholders: (201) 680-6610

By Internet:
www.computershare.com/investor

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

STOCKHOLDER SERVICES

Inquiries regarding dividend payments, loss or nonreceipt of a stock certificate or dividend check, stock transfers (including name changes), tax information and address changes should be directed to Computershare.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Plan is administered by Computershare, for individual investors who want a convenient way to purchase or sell Emerson Electric Co. stock (NYSE:EMR). Only registered holders of Emerson common stock can participate, however, an initial purchase can be made directly through the Plan. The Plan provides the opportunity to reinvest dividends and is an alternative to traditional methods of buying and selling Emerson common stock. The Plan is not sponsored or administered by Emerson. For further information and an authorization form, contact Computershare.

DIRECT DEPOSIT OF DIVIDENDS

Stockholders may elect to have dividends electronically deposited into a checking or savings account. For details, contact Computershare.

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 duplicate copies, contact Computershare.

INTERNET ACCESS

Corporate news releases, Forms 10-K, 10-Q and 8-K, the Annual Report, and other information about the Company are available at www.Emerson.com

ANNUAL MEETING

The annual meeting of stockholders will be held at 10 a.m. CST, Tuesday, February 6, 2018 in Emerson's World Headquarters Building, 8000 W. Florissant Ave., St. Louis, Missouri 63136. Notice of the meeting, proxy statement and proxy were sent or made available to stockholders with this annual report.

10-K REPORT

The Company's 2017 Annual Report on Form 10-K for the fiscal year ended September 30, 2017 filed with the U.S. Securities and Exchange Commission (the "Form 10-K") is available to stockholders without charge by contacting the Emerson Investor Relations Department or by accessing the investor section of our company's website at www.Emerson.com, Investors, or by going to the SEC's website at www.sec.gov. The Company's Chief Executive Officer and Chief Financial Officer have furnished the required Form 10-K certifications.

ENVIRONMENTAL PROGRAMS

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

ANNUAL REPORT

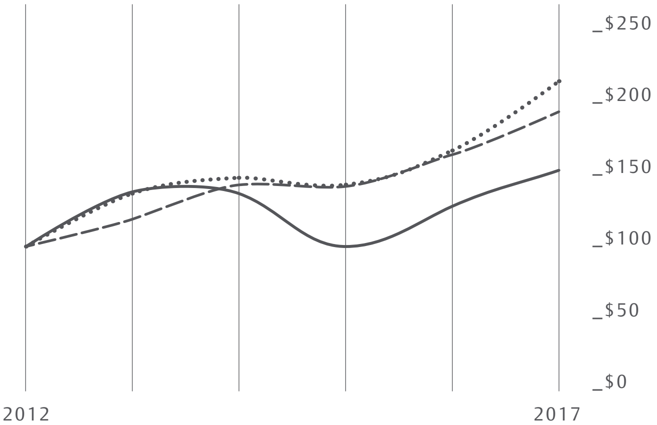
Included in this 2017 Annual Report are financial and operating highlights and summary financial information. Please refer to the Company's Form 10-K for important financial and business information, including Risk Factors, market risk, description of industry segments, and risks of foreign operations. You should read the Form 10-K in connection with this 2017 Annual Report.

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 and are subject to risks and uncertainties. Emerson undertakes no obligation to update any such statements 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 in 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.

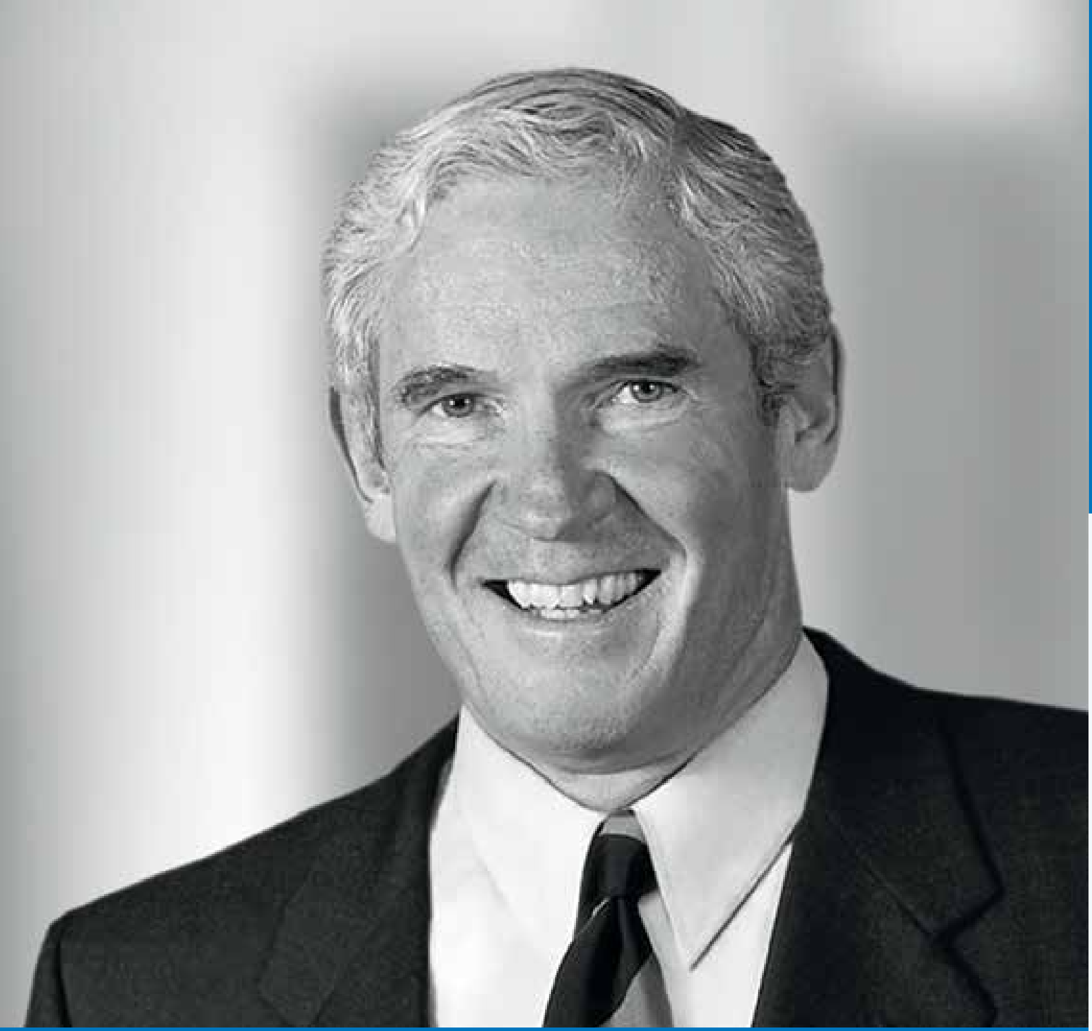
Such factors include, but are not limited to, the following: (1) the current and future business environment, including capital and consumer spending, potential volatility of the end markets served, interest rates, and currency exchange rates; (2) competitive factors and competitor responses to Emerson initiatives; (3) development and market introduction of anticipated new products; (4) the ability to defend and protect our intellectual property rights; (5) favorable environments for and execution of acquisitions and divestitures, domestic and foreign, including regulatory requirements and market values of candidates; (6) integration of acquisitions and separation of disposed businesses; (7) the availability of raw materials and purchased components; (8) stability of governments and business conditions in foreign countries which could result in adverse changes in exchange rates, changes in regulation, nationalization of facilities or disruption of operations; (9) unrestricted access to capital markets; (10) our ability to attract, develop and retain key personnel; (11) ability to prevent security breaches or disruptions of our information technology systems; and (12) the outcome of pending and future litigation, including environmental compliance.

COMPARISON OF FIVE-YEAR CUMULATIVE SHAREHOLDER RETURN



	2012	2013	2014	2015	2016	2017	CAGR
Emerson	**100**	**138**	**137**	**100**	**128**	**153**	**8.8%**
S&P 500	100	119	143	142	164	194	14.2%
Peer Index*	100	137	148	143	167	215	16.6%

*Dow Jones US Electrical Components & Equipment Index $100 invested on September 30, 2012 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.



IN MEMORIAM

Charles F. Knight

The void felt at Emerson and across the business world by the loss of Charles F. "Chuck" Knight is a measure of the man's spectacular contributions to our company, our customers and the industries we serve.

As a business leader, Chuck achieved legendary status. When he took Emerson's reins in 1973, the company had a dozen divisions generating total revenues of $1 billion. When he stepped down in 2000, Emerson comprised more than 60 businesses with revenues totaling over $15 billion. Moreover, Chuck had transformed the company from a domestic manufacturer into a global industrial technology leader, all while maintaining an astounding record for continuous earnings and dividend growth.

Simultaneously, Chuck found time to provide the St. Louis area with energetic, farsighted and philanthropic leadership in education, healthcare and other critical areas.

He left both Emerson and St. Louis better and stronger. While we mourn his loss, we will long remember his astonishing legacy.

Albert E. Suter

If a force existed in nature to match that of Chuck Knight, its name was Albert Edward Suter. As Senior Vice Chairman and Chief Operating Officer for 22 years, Al not only helped lead our growth, he also enriched our lives with his infectious blend of intensity, enthusiasm and fun. His spirit lives on in Emerson's culture.

Emerson

World Headquarters
8000 W. Florissant Ave.
P.O. Box 4100
St. Louis, MO 63136
Emerson.com