

FINANCIAL REVIEW

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, 2011 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, internal controls, as well as non-audit-related services.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements 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*, 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, 2011.

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 Vice President
and Chief Financial Officer*

Results of Operations

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

	2009	2010	2011	CHANGE 2009 - 2010	CHANGE 2010 - 2011
Net sales	\$20,102	21,039	24,222	5%	15%
Gross profit	\$ 7,560	8,326	9,557	10%	15%
<i>Percent of sales</i>	37.6%	39.6%	39.5%		
SG&A	\$ 4,416	4,817	5,328		
<i>Percent of sales</i>	22.0%	22.9%	22.0%		
Other deductions, net	\$ 474	369	375		
Interest expense, net	\$ 220	261	223		
Earnings from continuing operations					
before income taxes	\$ 2,450	2,879	3,631	18%	26%
<i>Percent of sales</i>	12.2%	13.7%	15.0%		
Earnings from continuing operations					
common stockholders	\$ 1,715	1,978	2,454	15%	24%
Net earnings common stockholders	\$ 1,724	2,164	2,480	26%	15%
<i>Percent of sales</i>	8.6%	10.3%	10.2%		
Diluted EPS – Earnings from continuing operations	\$ 2.26	2.60	3.24	15%	25%
Diluted EPS – Net earnings	\$ 2.27	2.84	3.27	25%	15%
Return on common stockholders' equity	19.5%	23.6%	24.6%		
Return on total capital	16.2%	18.9%	19.6%		

OVERVIEW

The Company achieved strong sales growth and record earnings and earnings per share in 2011, led by innovative technology, improved economic conditions in industrial end markets, continued expansion in emerging markets and repositioning efforts in previous periods. Worldwide gross fixed investment continues to recover, however the economic environment remains uncertain amidst mixed macroeconomic indicators, including weakening trends in the U.S. and Europe. Consumer spending and residential construction remain weak. Fiscal year 2011 sales increased 15 percent and earnings per share from continuing operations of \$3.24 were up 25 percent. Net sales were up in all segments and major geographic regions for the year, aided by acquisitions and foreign currency translation. Earnings increased for Process Management and Industrial Automation on very strong sales growth, while Tools and Storage and Climate Technologies reported moderate sales and earnings growth. Earnings declined in the Network Power segment on weakness in Asia and the embedded computing and power business, and the impact of higher amortization and other costs related to the Chloride and Avocent acquisitions. Fourth quarter sales and earnings growth were strong for Process Management and Industrial Automation, modest for Tools and Storage, and down for

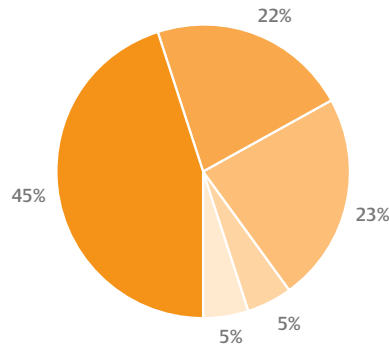
Climate Technologies on lower volume. Fourth quarter Network Power segment sales growth was strong due to the Chloride acquisition and modest underlying growth, while earnings declined slightly as improvement in the network power systems business was offset by weakness in the embedded computing and power business. For 2011 the Company generated operating cash flow of \$3.2 billion and free cash flow (operating cash flow less capital expenditures) of \$2.6 billion. Emerson is well positioned for future sales and earnings growth given its strong financial position, global footprint that includes rapid expansion in emerging markets, and a focus on products and technology.

NET SALES

Net sales for 2011 were \$24.2 billion, an increase of \$3,183 million, or 15 percent from 2010. Sales grew in all segments, led by Industrial Automation, Network Power and Process Management, which were up \$1,005 million, \$983 million and \$978 million, respectively. Consolidated results reflect an 11 percent (\$2,216 million) increase in underlying sales (which exclude acquisitions and foreign currency translation), a 2 percent (\$623 million) contribution from acquisitions, and a 2 percent (\$344 million) favorable impact from foreign currency translation. Underlying sales reflect volume gains of

SALES BY GEOGRAPHIC DESTINATION

■ United States and Canada
 ■ Latin America
 ■ Europe
 ■ Middle East/Africa
 ■ Asia



10 percent and an estimated 1 percent from higher selling prices as sales increased 13 percent internationally, including Asia (11 percent), Europe (11 percent), Latin America (20 percent), Middle East/Africa (16 percent) and Canada (20 percent). Underlying sales increased 8 percent in the United States.

Net sales for 2010 were \$21.0 billion, an increase of \$937 million, or 5 percent from 2009. Sales growth was strong in Climate Technologies, aided by China stimulus programs, while Network Power, Tools and Storage, and Industrial Automation increased primarily due to acquisitions and favorable foreign currency translation. Process Management was down as end markets were strongly impacted by the economic slowdown. Consolidated results reflected a 1 percent (\$102 million) decline in underlying sales, a 4 percent (\$738 million) contribution from acquisitions and a 2 percent (\$301 million) favorable impact from foreign currency translation. Underlying sales reflected a decline in volume as sales decreased 2 percent internationally, including Europe (7 percent), Middle East/Africa (10 percent), Canada (9 percent) and Latin America (2 percent), partially offset by an increase in Asia (7 percent). Underlying sales increased 1 percent in the United States.

INTERNATIONAL SALES

Emerson is a global business for which international sales, including non-U.S. acquisitions, have grown over the years and now represent 59 percent of the Company's total sales. The Company expects this trend to continue due to faster economic growth in emerging markets in Asia, Latin America, Eastern Europe and Middle East/Africa.

International destination sales, including U.S. exports, increased approximately 20 percent, to \$14.3 billion in 2011, reflecting increases in Network Power, Industrial Automation and Process Management as well as benefits from acquisitions. U.S. exports of \$1,520 million were up 15 percent compared with 2010. Underlying destination sales increased 11 percent in Asia, including 12 percent growth in China, 11 percent in Europe, 20 percent in Latin America, 16 percent in Middle East/Africa and 20 percent in Canada. International subsidiary sales, including shipments to the United States, were \$12.8 billion in 2011, up 20 percent from 2010. Excluding an 8 percent net favorable impact from acquisitions and foreign currency translation, international subsidiary sales increased 12 percent compared with 2010.

International destination sales, including U.S. exports, increased approximately 5 percent, to \$11.9 billion in 2010, reflecting increases in Climate Technologies, Network Power and Industrial Automation as well as benefits from acquisitions and a weaker U.S. dollar. U.S. exports of \$1,317 million were up 9 percent compared with 2009. Underlying destination sales decreased 7 percent in Europe, 10 percent in Middle East/Africa and 2 percent in Latin America, partially offset by a 7 percent increase in Asia that includes 13 percent growth in China. International subsidiary sales, including shipments to the United States, were \$10.7 billion in 2010, up 4 percent from 2009. Excluding a 7 percent net favorable impact from acquisitions and foreign currency translation, international subsidiary sales decreased 3 percent compared with 2009.

ACQUISITIONS

The Company acquired several small businesses during 2011, mainly in the Process Management and Climate Technologies segments, all of which were complementary to the existing business portfolio. Total cash paid for all businesses in 2011 was approximately \$232 million. Annualized sales for businesses acquired in 2011 were approximately \$100 million. See Note 3 for additional information.

In 2010, the Company acquired Chloride Group PLC and Avocent Corporation. Chloride provides commercial and industrial uninterruptible power supply systems and services, which significantly strengthened the Company's network power systems business in Europe. Avocent is a leader in delivering solutions that enhance companies' integrated data center management capabilities and the acquisition strongly positioned the Company to benefit from the growing importance of infrastructure management in data centers worldwide. Chloride and Avocent, together with the Company's other existing offerings, create a global leader in providing integrated data center management solutions. The Company also acquired SSB

Group GmbH and several smaller businesses during 2010. SSB designs and manufactures electrical pitch systems and controls used in wind turbine generators for the alternative energy market. Total cash paid for all businesses in 2010 was approximately \$2,843 million. Additionally, the Company assumed debt of \$169 million. Annualized sales for businesses acquired in 2010 were approximately \$1,100 million. Also see Note 3.

COST OF SALES

Costs of sales for 2011 and 2010 were \$14.7 billion and \$12.7 billion, respectively. Gross profit of \$9.6 billion and \$8.3 billion, respectively, resulted in gross margins of 39.5 percent and 39.6 percent. The increase in gross profit primarily reflects higher volume and leverage, acquisitions, and savings from cost reduction actions in prior periods. Higher materials costs were only partially offset by price increases, diluting margins. Materials cost pressures persisted throughout the year. The Company continues working to balance cost increases with pricing actions.

Costs of sales for 2010 and 2009 were \$12.7 billion and \$12.5 billion, respectively. Gross profit of \$8.3 billion and \$7.6 billion, respectively, resulted in gross margins of 39.6 percent and 37.6 percent. The increase in gross profit primarily reflected acquisitions, savings from rationalization and other cost reduction actions and favorable foreign currency translation, partially offset by a decline in volume. The two percentage point gross margin increase primarily reflected savings from cost reduction actions and materials cost containment. The Company's provision for inventory obsolescence decreased \$29 million in 2010 due to improving economic conditions and a lower average inventory balance.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses for 2011 were \$5.3 billion, or 22.0 percent of net sales, compared with \$4.8 billion, or 22.9 percent of net sales for 2010. The \$511 million increase was primarily due to higher sales volume and the impact of acquisitions. The decrease as a percent of sales was due to volume leverage, cost reduction savings and a \$96 million decrease in incentive stock compensation expense reflecting changes in the Company's stock price and a reduced impact from incentive stock plans overlap compared to prior year (see Note 14), partially offset by acquisitions and higher wage and other costs.

SG&A expenses for 2010 were \$4.8 billion, or 22.9 percent of net sales, compared with \$4.4 billion, or 22.0 percent of net sales for 2009. The \$401 million increase was primarily due to acquisitions and higher incentive stock compensation expense of \$163 million related to an increase in the Company's stock price and the overlap of two stock plans in 2010, partially offset by cost reduction savings. The increase as a percent of sales was primarily the result of higher incentive stock compensation expense, partially offset by savings from cost reduction actions.

OTHER DEDUCTIONS, NET

Other deductions, net were \$375 million in 2011, a \$6 million increase from 2010 that primarily reflects higher amortization expense of \$85 million and a \$19 million impairment charge, partially offset by a decrease in rationalization expense of \$45 million, lower acquisition-related costs and a \$15 million gain related to the acquisition of full ownership of a Process Management joint venture in India. See Notes 4 and 5 for further details regarding other deductions, net and rationalization costs, respectively.

Other deductions, net were \$369 million in 2010, a \$105 million decrease from 2009 that primarily reflected decreased rationalization expense of \$158 million and lower foreign currency transaction losses compared to the prior year, partially offset by higher amortization expense of \$68 million and lower gains versus the prior year.

INTEREST EXPENSE, NET

Interest expense, net was \$223 million, \$261 million and \$220 million in 2011, 2010 and 2009, respectively. The decrease of \$38 million in 2011 was primarily due to lower average long-term borrowings. The \$41 million increase in 2010 was primarily due to higher average long-term borrowings, reflecting acquisitions.

INCOME TAXES

Income taxes were \$1,127 million, \$848 million and \$688 million for 2011, 2010 and 2009, respectively, resulting in effective tax rates of 31 percent, 29 percent and 28 percent. The higher 2011 effective tax rate primarily reflects a change in the mix of regional pretax income due to stronger earnings growth in the United States, where tax rates are generally higher than internationally, and lower benefits versus 2010 from non-U.S. tax holidays and a \$30 million capital loss tax benefit from restructuring at a foreign subsidiary. The higher effective tax rate in 2010 compared with 2009 primarily reflects changes in the mix of pretax income which increased in the United States and Europe, and the \$30 million capital loss benefit in 2010 compared to a \$44 million net operating loss carryforward benefit in 2009.

EARNINGS FROM CONTINUING OPERATIONS *(dollars in billions)*

Earnings from continuing operations common stockholders were \$2.5 billion in 2011, a 24 percent increase over the prior year.



EARNINGS FROM CONTINUING OPERATIONS

Earnings and earnings per share from continuing operations common stockholders were \$2.5 billion and \$3.24, respectively, for 2011, increases of 24 percent and 25 percent, compared with \$2.0 billion and \$2.60 for 2010. Earnings increased primarily due to higher sales and resulting leverage, cost reduction savings, a decrease in incentive stock compensation expense and lower interest expense, slightly offset by higher materials and wage costs. Earnings improved \$309 million in Process Management, \$239 million in Industrial Automation, \$18 million in Tools and Storage, and \$18 million in Climate Technologies, slightly offset by a \$44 million decrease in Network Power. See the Business Segments discussion that follows and Note 16 for additional information.

Earnings and earnings per share from continuing operations common stockholders were \$2.0 billion and \$2.60, respectively, for 2010, both increases of 15 percent, compared with \$1.7 billion and \$2.26 for 2009. Earnings increased in all segments, reflecting decreased rationalization expense, savings from cost reduction actions and favorable foreign currency translation. Earnings improved \$280 million in Climate Technologies, \$221 million in Network Power, \$121 million in Industrial Automation, \$81 million in Tools and Storage and \$33 million in Process Management. Earnings per share were negatively impacted \$0.10 per share by the Avocent and Chloride acquisitions, including acquisition accounting charges, the expensing of deal costs and interest expense.

DISCONTINUED OPERATIONS

In the fourth quarter of 2011, the Company sold its heating elements unit for \$73 million, resulting in an after-tax gain of \$21 million (\$30 million of income taxes). Fourth quarter 2011 heating elements sales were \$12 million and net earnings were \$1 million. The after-tax gain on divestiture and fourth quarter operating results for heating elements, and the impact of finalizing the 2010 Motors and LANDesk divestitures, have been classified as discontinued operations for 2011. Prior fiscal 2011 quarters and prior year results of operations for heating elements were inconsequential and have not been reclassified.

LANDesk (acquired with Avocent in 2010) was sold in the fourth quarter of 2010 for proceeds of approximately \$230 million, resulting in an after-tax gain of \$12 million (\$10 million of income taxes). LANDesk was classified as discontinued operations throughout 2010. Also in the fourth quarter of 2010, the Company sold its appliance motors and U.S. commercial and industrial motors businesses (Motors) for proceeds of \$622 million, resulting in an after-tax gain of \$155 million (\$126 million of income taxes). Motors had total annual sales of \$827 million and \$813 million and net earnings, excluding the divestiture gain, of \$38 million and \$9 million in 2010 and 2009, respectively. Results of operations for Motors have been reclassified into discontinued operations for 2010 and prior.

As noted above, 2011 income from discontinued operations includes the fourth quarter operating results and gain on disposition for heating elements. Income from discontinued operations in 2010 reflects the Motors and LANDesk divestitures and includes both operating results for the year and the gains on disposition. The income from discontinued operations reported for 2009 relates only to the operations of the Motors businesses. See Acquisitions and Divestitures discussion in Note 3 for additional information regarding discontinued operations.

NET EARNINGS, RETURN ON EQUITY AND RETURN ON TOTAL CAPITAL

Net earnings common stockholders were \$2.5 billion and net earnings per share common stockholders were \$3.27 for 2011, both increases of 15 percent compared with 2010, due to the same factors discussed previously, plus \$26 million related to discontinued operations. Net earnings common stockholders as a percent of net sales were 10.2 percent and 10.3 percent in 2011 and 2010. Return on common stockholders' equity (net earnings common stockholders divided by average common stockholders' equity) was 24.6 percent in 2011 compared with 23.6 percent in 2010. Return on total capital was 19.6 percent in 2011 compared with 18.9 percent in 2010, and is computed as net earnings common stock-

holders excluding after-tax net interest expense, divided by average common stockholders' equity plus short- and long-term debt less cash and short-term investments.

Net earnings common stockholders were \$2.2 billion and net earnings per share common stockholders were \$2.84 for 2010, increases of 26 percent and 25 percent compared with 2009, respectively, including both the Motors and LANdesk divestiture gains. Net earnings common stockholders as a percent of net sales were 10.3 percent and 8.6 percent in 2010 and 2009. Return on common stockholders' equity was 23.6 percent in 2010 compared with 19.5 percent in 2009. Return on total capital was 18.9 percent in 2010 compared with 16.2 percent in 2009. Net earnings common stockholders in all years included the aforementioned results from discontinued operations.

Business Segments

Following is an analysis of segment results for 2011 compared with 2010, and 2010 compared with 2009. The Company defines segment earnings as earnings before interest and income taxes.

PROCESS MANAGEMENT

(DOLLARS IN MILLIONS)	2009	2010	2011	CHANGE '09 - '10	CHANGE '10 - '11
Sales	\$6,135	6,022	7,000	(2)%	16%
Earnings	\$1,060	1,093	1,402	3 %	28%
Margin	17.3%	18.1%	20.0%		

2011 vs. 2010 – Process Management sales were \$7.0 billion in 2011, an increase of \$978 million as all businesses reported higher sales, led by very strong results for the measurement and flow business, valves business and systems and solutions business as a result of growth in the oil and gas, chemical, power and refining end markets. Underlying sales increased 14 percent on higher volume, which includes some market penetration gains, and foreign currency translation had a 2 percent (\$120 million) favorable impact. Underlying sales increased in all major geographic regions, including the United States (14 percent), Asia (18 percent), Europe (8 percent), Canada (38 percent), Latin America (15 percent) and Middle East/Africa (7 percent). Earnings increased 28 percent, to \$1,402 million, and margin increased approximately 2 percentage points, primarily due to higher sales volume and resulting leverage, savings from prior period cost reductions, \$24 million lower restructuring expense, and an \$8 million favorable impact from foreign currency transactions compared to prior year, partially offset by increased business development investments, wages and other costs.

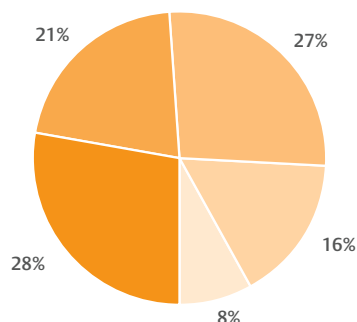
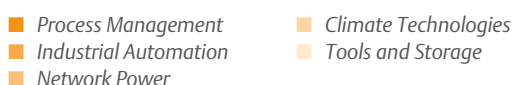
EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Earnings per share from continuing operations common stockholders were \$3.24 in 2011, a 25 percent increase over the prior year.



2010 vs. 2009 – Process Management sales were \$6.0 billion in 2010, a decrease of \$113 million, reflecting a 7 percent decline in underlying sales on lower volume, a 3 percent (\$178 million) favorable impact primarily from the Roxar acquisition and a 2 percent (\$121 million) favorable impact from foreign currency translation. The valves business reported lower sales primarily as a result of weakness in the chemical, refining and marine markets. Sales for the systems and solutions and measurement and flow businesses were down slightly, while sales for the regulators business were up slightly. Regionally, underlying sales declined in all geographic areas, including 1 percent in the United States, 9 percent each in Asia, Europe and Middle East/Africa, 11 percent in Canada and 10 percent in Latin America. Earnings increased \$33 million, to \$1,093 million, and margin increased, reflecting savings from significant cost reduction actions, materials cost containment, lower restructuring costs of \$20 million and a \$17 million favorable impact from foreign currency transactions, partially offset by deleverage on lower sales volume and higher wage costs.

SALES BY SEGMENT



INDUSTRIAL AUTOMATION

(DOLLARS IN MILLIONS)	2009	2010	2011	CHANGE '09 - '10	CHANGE '10 - '11
Sales	\$4,172	4,289	5,294	3%	23%
Earnings	\$ 470	591	830	26%	40%
Margin	11.3%	13.8%	15.7%		

2011 vs. 2010 – Industrial Automation sales increased \$1,005 million to \$5.3 billion in 2011, reflecting improvement in the capital goods end markets. Sales increased in all businesses led by very strong growth in the power generating alternators, fluid automation, electrical drives and power transmission businesses. Underlying sales increased 21 percent and foreign currency translation had a 2 percent (\$92 million) favorable impact. The underlying sales growth reflects approximately 18 percent higher volume and an estimated 3 percent benefit from higher selling prices. Underlying sales increased in all regions, including 19 percent in the United States, 21 percent in both Europe and Asia, 49 percent in Middle East/Africa and 36 percent in Latin America. Earnings increased \$239 million, to \$830 million, and margin increased approximately 2 percentage points, reflecting higher sales volume and resulting leverage, savings from prior period cost reductions, and lower restructuring costs of \$16 million, slightly offset by a \$9 million unfavorable impact from foreign currency transactions. Higher materials costs were substantially offset by higher selling prices.

2010 vs. 2009 – Industrial Automation sales increased \$117 million to \$4.3 billion in 2010. Sales results reflected a decline in the power generating alternators and motors business due to weakness in capital spending, while sales increased in all other businesses, including strong growth in the electrical drives and hermetic motors businesses and solid growth in the fluid automation business. An underlying sales decline of 1 percent from lower prices was offset by the System Plast, Trident Power and SSB acquisitions contributing 3 percent (\$101 million) and favorable foreign currency translation adding 1 percent (\$54 million). Underlying sales decreased 4 percent in Europe and 2 percent in the United States, partially offset by increases in Asia (9 percent) and Latin America (17 percent). Earnings increased \$121 million to \$591 million for 2010 and margin increased over 2 percentage points as savings from cost reduction efforts were partially offset by unfavorable product mix. Price decreases were offset by lower materials costs.

NETWORK POWER

(DOLLARS IN MILLIONS)	2009	2010	2011	CHANGE '09 - '10	CHANGE '10 - '11
Sales	\$5,456	5,828	6,811	7%	17%
Earnings	\$ 579	800	756	38%	(6)%
Margin	10.6%	13.7%	11.1%		

2011 vs. 2010 – Sales for Network Power increased \$983 million to \$6.8 billion, on underlying sales growth of 6 percent, a positive contribution from the Chloride and Avocent acquisitions of 10 percent (\$598 million) and favorable foreign currency translation of 1 percent (\$77 million). Led by strong results in the network power systems business worldwide, underlying sales grew 7 percent on higher volume, less an estimated 1 percent decline in pricing. Strong growth in the North American uninterruptible power supply and precision cooling business and the embedded power business was slightly offset by a decrease in the embedded computing business. Underlying sales increased 6 percent in Asia, 3 percent in the United States, 19 percent in Latin America, 5 percent in Europe and 40 percent in Middle East/Africa. Earnings decreased \$44 million to \$756 million, and margin decreased 2.6 percentage points. Amortization of intangibles increased \$67 million due to the Chloride and Avocent acquisitions, and other Chloride acquisition-related costs negatively impacted earnings \$24 million. The margin was also reduced by higher labor-related costs in China, unfavorable product mix, higher materials cost, aggressive competitive pricing in the China telecommunications sector, and investment spending on next-generation data center technologies. Earnings benefited from volume leverage and savings from prior period cost reductions.

2010 vs. 2009 – Sales for Network Power increased \$372 million to \$5.8 billion in 2010, primarily from the Avocent acquisition, a strong increase in the embedded power business and a moderate increase in the network power systems business in Asia, partially offset by decreases in the uninterruptible power supply and precision cooling, energy systems, embedded computing and inbound power systems businesses. Underlying sales declined 2 percent on lower prices, acquisitions had a 7 percent (\$370 million) favorable impact and foreign currency translation had a 2 percent (\$90 million) favorable impact. Geographically, underlying sales were flat in the United States, while sales decreased in Europe (13 percent), Latin America (5 percent), Canada (17 percent) and Middle East/Africa (34 percent). Sales increased in Asia (6 percent). Earnings increased \$221 million to \$800 million, and margin increased over 3 percentage points largely as a result of cost savings from aggressive restructuring actions taken in 2009, particularly in the embedded computing and energy systems businesses, as well as lower restructuring expense of \$93 million and a \$17 million favorable impact from foreign currency transactions. Lower selling prices were partially offset by materials cost containment.

CLIMATE TECHNOLOGIES

(DOLLARS IN MILLIONS)	2009	2010	2011	CHANGE '09 - '10	CHANGE '10 - '11
Sales	\$3,197	3,801	3,995	19%	5%
Earnings	\$ 411	691	709	68%	3%
Margin	12.9%	18.2%	17.8%		

2011 vs. 2010 – Climate Technologies reported sales of \$4.0 billion for 2011, a \$194 million increase that reflects a strong increase in the compressor business, partially offset by share loss in the temperature controls business and a decrease in the temperature sensors business. The North American refrigeration and air conditioning end markets experienced solid growth while results in Asia were strong despite prior year growth that benefited from stimulus programs in China. Sales growth reflects a 3 percent underlying increase, including an estimated 2 percent from higher selling prices and approximately 1 percent from higher volume, a 1 percent (\$42 million) favorable impact from foreign currency translation and a 1 percent (\$28 million) positive contribution from acquisitions. Underlying sales increased 7 percent internationally, including 7 percent in Asia, 26 percent in Latin America and 3 percent in Europe, while sales were flat in the United States due to the decline in the temperature controls business. Earnings increased 3 percent to \$709 million, due to savings from prior period cost reductions and higher sales volume in the compressor business. The margin was diluted by higher materials and other

costs, which were partially offset by higher selling prices, and deleverage in the temperature controls business.

2010 vs. 2009 – Climate Technologies reported sales of \$3.8 billion for 2010, a \$604 million increase, reflecting increases across all businesses, including compressors, temperature sensors and heater controls. Sales growth was strong in Asia and North America, aided by stimulus programs in support of mandated higher efficiency standards in China, growth in U.S. air conditioning and refrigeration markets and a change in refrigerant requirements in the U.S. Underlying sales increased approximately 16 percent on higher volume, which included slight new product penetration gains, acquisitions added 2 percent (\$55 million) and foreign currency translation had a 1 percent (\$22 million) favorable impact. The underlying sales increase reflected a 12 percent increase in the United States and 22 percent internationally, including increases of 47 percent in Asia and 21 percent in Latin America, partially offset by a decline of 4 percent in Europe. Earnings increased \$280 million to \$691 million, primarily due to higher sales volume, savings from cost reduction actions, lower restructuring expense of \$35 million and a \$15 million commercial litigation charge included in 2009 costs. The margin increase in excess of 5 percentage points reflected leverage on higher sales volume, savings from cost reduction actions in prior periods and materials cost containment, partially offset by lower prices and unfavorable product mix.

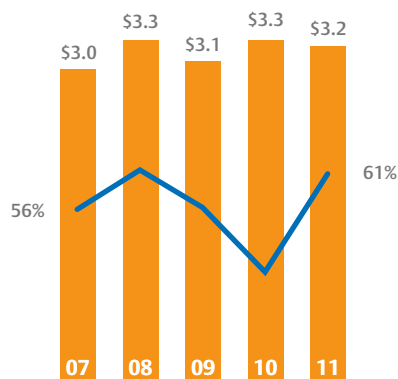
TOOLS AND STORAGE

(DOLLARS IN MILLIONS)	2009	2010	2011	CHANGE '09 - '10	CHANGE '10 - '11
Sales	\$1,725	1,755	1,837	2%	5%
Earnings	\$ 276	357	375	29%	5%
Margin	16.0%	20.3%	20.4%		

2011 vs. 2010 – Sales for Tools and Storage were \$1.8 billion in 2011, an \$82 million increase. Sales growth reflects an underlying increase of 5 percent, including approximately 4 percent from higher volume and an estimated 1 percent from higher selling prices, and favorable foreign currency translation of 1 percent (\$13 million), partially offset by a negative 1 percent (\$21 million) impact from the heating elements unit divestiture. The sales increase was led by very strong growth in the professional tools and commercial storage businesses and modest growth in the food waste disposers business, partially offset by decreases in the consumer-related wet/dry vacuums and residential storage businesses due to continued weak U.S. residential construction markets. Underlying sales increased 5 percent in the United States and 11 percent

OPERATING CASH FLOW AND PAYOUT PERCENT *(dollars in billions)*

Operating cash flow returned to common stockholders through dividends and share repurchases increased to 61 percent in 2011.



internationally. Earnings for 2011 were \$375 million, an increase of \$18 million, reflecting earnings growth in the professional tools business partially offset by lower earnings in the wet/dry vacuums, residential storage and food waste disposers businesses. The margin increased on higher sales volume and resulting leverage in the professional tools business as well as savings from prior period cost reductions, largely offset by higher freight costs and unfavorable product mix. Higher materials costs were substantially offset by price increases.

2010 vs. 2009 – Sales for Tools and Storage were \$1.8 billion in 2010, a \$30 million increase from 2009. Strong growth in the tools and food waste disposers businesses was partially offset by a decline in the residential storage business, due to weakness in the U.S. residential construction markets. The sales increase reflected a 1 percent decrease in underlying sales on lower volume, due to the Company outsourcing its freight operations, with favorable impacts from acquisitions of 2 percent (\$34 million) and foreign currency translation of 1 percent (\$14 million). Underlying sales in the United States decreased 1 percent while underlying international sales increased 4 percent. Earnings for 2010 were \$357 million, an increase of \$81 million, and margin increased over 4 percentage points, reflecting earnings growth in the tools, appliances and storage businesses, benefits of cost reduction and restructuring actions in 2009, product mix, lower restructuring expense of \$11 million and savings from materials cost containment.

Financial Position, Capital Resources and Liquidity

The Company continues to generate substantial cash from operations, is in a strong financial position with total assets of \$24 billion and common stockholders' equity of \$10 billion, and has the resources available to reinvest in existing businesses, pursue strategic acquisitions and manage its capital structure on a short- and long-term basis.

CASH FLOW

(DOLLARS IN MILLIONS)	2009	2010	2011
Operating Cash Flow	\$3,086	3,292	3,233
<i>Percent of sales</i>	14.8%	15.6%	13.3%
Capital Expenditures	\$ 531	524	647
<i>Percent of sales</i>	2.6%	2.5%	2.7%
Free Cash Flow (Operating Cash Flow less Capital Expenditures)	\$2,555	2,768	2,586
<i>Percent of sales</i>	12.2%	13.1%	10.6%
Operating Working Capital	\$1,714	1,402	1,705
<i>Percent of sales</i>	8.2%	6.7%	7.0%

Emerson generated operating cash flow of \$3.2 billion in 2011, a decrease of 2 percent compared to 2010, reflecting an increase in operating working capital partially offset by higher net earnings. With resumption of growth in the current year, additional investment in working capital has been necessary. Operating cash flow of \$3.3 billion in 2010 was a 7 percent increase from \$3.1 billion in 2009, reflecting higher earnings in 2010 and continued improvement in working capital management. At September 30, 2011, operating working capital as a percent of sales was 7.0 percent, compared with 6.7 percent and 8.2 percent in 2010 and 2009, respectively. Pension contributions were \$142 million, \$247 million and \$303 million in 2011, 2010 and 2009, respectively. Operating cash flow fully funded capital expenditures, dividends and share repurchases in all years presented and fully funded acquisitions in 2011.

Capital expenditures were \$647 million, \$524 million and \$531 million in 2011, 2010 and 2009, respectively. The increase in capital expenditures in 2011 was primarily due to capacity expansion in the Process Management and Industrial Automation segments. Free cash flow was \$2.6 billion in 2011, compared with \$2.8 billion in 2010, primarily reflecting higher capital expenditures in 2011. Free cash flow increased in 2010 from \$2.6 billion in 2009, reflecting higher net earnings in 2010. In 2012, the Company is targeting capital spending of approximately \$700 million, including \$100 million already authorized by the Board of Directors to build, expand or renovate

office and manufacturing facilities in the United States, China and Brazil. Net cash paid in connection with acquisitions was \$232 million, \$2,843 million and \$776 million in 2011, 2010 and 2009, respectively. Proceeds from divestitures in those years were \$103 million, \$846 million and \$4 million, respectively.

Dividends were \$1,039 million (\$1.38 per share) in 2011, compared with \$1,009 million (\$1.34 per share) in 2010 and \$998 million (\$1.32 per share) in 2009. In November 2011, the Board of Directors voted to increase the quarterly cash dividend 16 percent to an annualized rate of \$1.60 per share. In 2008, the Board of Directors approved a program for the repurchase of up to 80 million common shares, under which 18.7 million shares, 2.1 million shares and 21.0 million shares were repurchased in 2011, 2010 and 2009, respectively; 30.7 million shares remain available for repurchase under the 2008 authorization. Purchases of Emerson common stock totaled \$958 million, \$100 million and \$695 million in 2011, 2010 and 2009, respectively, at an average price paid per share of \$51.31, \$48.15 and \$33.09, respectively.

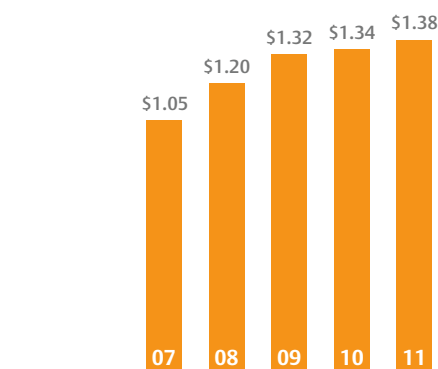
LEVERAGE/CAPITALIZATION

(DOLLARS IN MILLIONS)	2009	2010	2011
Total Assets	\$19,763	22,843	23,861
Long-term Debt	\$ 3,998	4,586	4,324
Common Stockholders' Equity	\$ 8,555	9,792	10,399
Total Debt-to-Capital Ratio	34.8%	34.1%	33.3%
Net Debt-to-Net Capital Ratio	25.7%	26.2%	23.2%
Operating Cash Flow-to-Debt Ratio	67.5%	65.0%	62.2%
Interest Coverage Ratio	11.0X	11.3X	15.8X

Total debt, which includes long-term debt, current maturities of long-term debt, commercial paper and other short-term borrowings, was \$5.2 billion, \$5.1 billion and \$4.6 billion for 2011, 2010 and 2009, respectively. Short-term borrowings increased \$398 million in 2010, primarily reflecting incremental commercial paper borrowings associated with the mix of funding for the Avocent and Chloride acquisitions, which also included issuance of long-term debt, proceeds from divestitures and operating cash flow. See Note 3 for additional information. During 2010, the Company issued \$300 million each of 4.25% notes due November 2020 and 5.25% notes due November 2039 and repaid \$500 million of 7.125% notes that matured in August 2010. During 2009, the Company issued \$250 million each of 4.125% notes due April 2015, 5.0% notes due April 2019 and 6.125% notes due April 2039 and \$500 million of 4.875% notes due October 2019, and repaid \$175 million of 5.0% notes and \$250 million of 5.85% notes that matured in October 2008 and March 2009, respectively.

DIVIDENDS PER SHARE

Annual dividends increased to a record \$1.38 per share in 2011, representing the 55th consecutive year of increases.

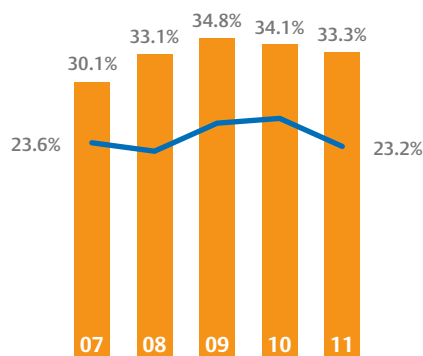


The total debt-to-capital ratio was 33.3 percent at year end 2011, compared with 34.1 percent for 2010 and 34.8 percent for 2009. At September 30, 2011, net debt (total debt less cash and short-term investments) was 23.2 percent of net capital, compared with 26.2 percent in 2010 and 25.7 percent in 2009. Both ratios improved in 2011, reflecting higher equity. The operating cash flow-to-debt ratio was 62.2 percent, 65.0 percent and 67.5 percent in 2011, 2010 and 2009, respectively. The Company's interest coverage ratio (earnings before income taxes plus interest expense, divided by interest expense) was 15.8 times in 2011, compared with 11.3 times and 11.0 times in 2010 and 2009. The increase in interest coverage from 2010 to 2011 reflects higher earnings and lower average borrowings, while the increase from 2009 to 2010 was primarily due to higher earnings. See Notes 8 and 9 for additional information.

In December 2010 the Company entered into a \$2.75 billion four-year revolving backup credit facility to support short-term borrowings, which replaced a \$2.83 billion five-year revolving credit facility dated April 2006. The Company did not draw upon either facility in 2011, 2010 or 2009. The credit facility contains no financial covenants and is not subject to termination based on a change in credit ratings or material adverse changes. The Company also maintains a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (SEC) under which it can issue debt securities, preferred stock, common stock, warrants, share purchase contracts and 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.

DEBT AS A PERCENT OF CAPITAL AND NET DEBT AS A PERCENT OF NET CAPITAL

Total debt was 33.3 percent of total capital and net debt was 23.2 percent of net capital at year-end 2011.



Emerson maintains a conservative financial structure which provides the strength and 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. Substantially all of the Company's cash is held outside the U.S., in Europe and Asia, and is 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, 2011, the Company's contractual obligations, including estimated payments, are as follows:

(DOLLARS IN MILLIONS)	AMOUNTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term Debt (including interest)	\$6,687	496	1,204	1,072	3,915
Operating Leases	806	245	297	132	132
Purchase Obligations	1,176	1,090	79	7	-
Total	\$8,669	1,831	1,580	1,211	4,047

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The above table does not include \$2.5 billion of other noncurrent liabilities recorded in the balance sheet and summarized in Note 17, which consist essentially of pension and postretirement plan liabilities and deferred income taxes (including unrecognized tax benefits), because it is not certain when these amounts will become due. See Notes 10 and 11 for estimated future benefit payments and Note 13 for additional information on deferred income taxes.

FINANCIAL INSTRUMENTS

The Company is exposed to market risk related to changes in interest rates, commodity prices and foreign currency exchange rates, and selectively uses derivative financial instruments, including forwards, swaps and purchased options, to manage these risks. The Company does not hold derivatives for trading purposes. The value of market risk sensitive derivative and other financial instruments is subject to change as a result of movements in market rates and prices. Sensitivity analysis is one technique used to 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 and cash flows are immaterial. 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 7 through 9.

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 nearly all of its revenues through the sale of manufactured products and records the sale when products are shipped or delivered, and title passes to the customer with collection reasonably assured. In certain limited 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, including services such as installation. In these instances, the revenue assigned to each element is based on its vendor-specific objective evidence, third-party evidence or management estimate of the relative selling price, with revenue recognized individually for delivered elements only if they have value to the customer on a stand-alone basis, the performance of 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. 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 values are based on standard costs, which approximate average costs, while the remainder are 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 between inventories and cost of sales. 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.

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 the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Reporting units are also reviewed for possible goodwill impairment at least annually, in the fourth quarter, by comparing the fair value of each unit to its carrying value. Fair value is generally measured based on a discounted future cash flow method using a discount rate 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 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 esti-

mates due to variance from assumptions could materially affect the evaluations.

At the end of 2011, Emerson's total market value based on its exchange-traded stock price was approximately \$31 billion and common stockholders' equity was \$10 billion. The carrying value of the Industrial Automation wind turbine pitch control business was reduced by a \$19 million charge to earnings. The Company's fourth quarter goodwill impairment testing determined the carrying value exceeded the fair value, reflecting a slowdown in investment for alternative energy in the current economic environment. In the Process Management segment, there is a unit recently acquired in 2009 with \$216 million of goodwill for which the estimated fair value exceeds the carrying value by approximately 5 percent. The fair value of this unit assumes successful execution of plans to expand and integrate the business, and recovery in the demand for energy; in particular, the subsea extraction of oil and gas. There are two units in the Network Power segment with \$367 million of goodwill where estimated fair value exceeds the carrying value by approximately 10 percent. Assumptions used in determining fair value include continued successful execution of business plans and growth in served markets, primarily network communications and connectivity. There are two units in the Tools and Storage segment with \$250 million of goodwill, where estimated fair value exceeds carrying value by more than 25 percent and assumes execution of business plans and recovery in the residential and construction-related markets.

RETIREMENT PLANS

While the Company continues to focus on a prudent long-term investment strategy for its pension-related assets, the calculations of defined benefit plan expense and obligations are dependent on assumptions made regarding the expected annual return on plan assets, the discount rate and rate of annual compensation increases. In accordance with U.S. generally accepted accounting principles (U.S. GAAP), actual results that differ from the assumptions are accumulated as deferred actuarial losses and amortized in future periods. Management believes that the assumptions used are appropriate; however, differences versus actual experience or changes in assumptions may affect the Company's retirement plan obligations and future expense. As of September 30, 2011, combined U.S. and non-U.S. pension plans were underfunded by \$732 million. Funded status decreased for the U.S. plans, which were underfunded by \$462 million, and improved slightly for non-U.S. plans, which were underfunded by \$270 million. The Company contributed \$142 million to defined benefit plans in 2011 and expects to contribute approximately \$150 million in 2012. The discount rate for U.S. plans was reduced to 4.75 percent in 2011 compared with 5.0 percent in 2010. The Company

expects to reduce the assumed investment return on plan assets to 7.75 percent for 2012 compared with the current 8.0 percent. Deferred actuarial losses, which will be amortized into earnings in future years, were \$1,899 million (\$1,217 million after-tax) as of September 30, 2011. Defined benefit pension plan expense for 2012 is expected to be approximately \$170 million, up from \$145 million in 2011. See Notes 10 and 11.

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. Uncertainty exists regarding tax positions taken in previously filed tax returns still under examination and positions expected to be taken in future returns. Deferred tax assets and liabilities arise because of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. 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. 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 13.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued updates to ASC 820, *Fair Value Measurement*, resulting in common fair value measurement and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. These updates are effective January 1, 2012 for quarterly and annual reporting. Adoption of this update is not expected to have a material impact on the Company's financial statements.

In June 2011, the FASB issued updates to ASC 220, *Comprehensive Income*, eliminating the option to present other comprehensive income in the statement of equity. These updates require an entity to present comprehensive income as part of one continuous financial statement that includes net earnings and other comprehensive income or as a separate financial statement immediately following the statement of earnings. There is no change to the items to be reported in other comprehensive income or when those items should be reclassified into net earnings. These updates are effective for the first quarter of fiscal 2013. Adoption of this update will affect presentation only; there is no expected impact on the Company's financial results.

In September 2011, the FASB issued updates to ASC 350, *Intangibles – Goodwill and Other*, providing an option for companies to perform a qualitative analysis to determine if it is more likely than not the fair value of a reporting unit is less than its carrying amount. If the analysis determines the fair value exceeds the carrying amount, more extensive valuation and impairment testing need not be performed. These updates are effective for the first quarter of fiscal 2013; adoption of this update is not expected to have a material impact on the Company's financial statements.