



David N. Farr  
Chairman, Chief Executive  
Officer, and President

## Dear Shareholders,

We are emerging from one of the harshest economic declines in memory – an economic event that punished nearly every business in virtually every global market. As many reacted to the recession by retrenching and digging in, Emerson met the challenge by doing what we do best: innovating and moving forward.

We focused on investing in our core businesses, looking ahead to where growth would be strongest: infrastructure projects in the developing world, power generation and distribution, enhancing energy efficiency, and network integrity and data center connectivity. We also took rapid steps to reposition our operations for greater efficiency in a long-term, best-cost structure. These quick actions, along with key growth strategies in place before the downturn, have positioned us well along the path of recovery – although we expect the recovery to be slow and gradual, especially in the United States and Western Europe.

### **A review of 2009**

Emerson's ability to respond quickly to changing business cycles and conditions, while also investing for the long term, continues to be a powerful advantage for creating a unique competitive edge. Even so, this deep recession was much worse than our most pessimistic scenarios. Although



*From left: Edward L. Monser, Chief Operating Officer; Charles A. Peters, Senior Executive Vice President; David N. Farr, Chairman, Chief Executive Officer, and President; Craig W. Ashmore, Executive Vice President Planning and Development; Walter J. Galvin, Vice Chairman and Chief Financial Officer; Charles A. Peters, David N. Farr.*

we responded quickly, rapidly falling customer demand and significant inventory reductions negatively impacted profit margins. As a result, fiscal 2009 net earnings per share declined 26 percent to \$2.27 on a 16 percent decline in net sales.

Underlying sales (excluding the impact of acquisitions and foreign currency translation) declined 13 percent, impacted heavily by the global recession. This compares with a decline in global G7 gross fixed investment (GFI) of 12 percent during the same time period. GFI is an economic indicator reflecting demand for many of our products and services, and while it is showing encouraging signs of stabilization, we expect continued challenging end-market demand – and lower sales – in the first half of fiscal 2010.

Because the sales decline and our aggressive inventory reduction created underutilized capacity, our operating profit margin declined to 15.1 percent, down from 16.5 percent in 2008, which was our highest level in more than 30 years. Our after-tax return on total capital was 16.2 percent, down from 21.8 percent in fiscal 2008.

Cash flow from operations was strong at \$3.1 billion. Strong cash flow remains a high priority, enabling us to pursue acquisitions, develop new technologies, and return cash to shareholders through stock repurchases and dividends. I am pleased to note that 2009 marked Emerson's 53rd consecutive annual dividend increase, and the board of directors has acted to increase the dividend again by 1.5 percent, to an annual rate of \$1.34.



*New products will continue to be a major driver of growth for Emerson — we constantly push innovation and technology forward to better serve our customers.*

#### **Investing for the future**

Emerson's strong financial position enables us to continually invest in value creation, with a goal of delivering 5 to 7 percent underlying sales growth through long-term business cycles. An unwavering focus on the following strategic imperatives, even during challenging times, makes this goal a reality.

We work tirelessly to **strengthen our business platforms**. Down cycles always create new, unique opportunities, and we invested \$1 billion in excellent acquisitions in fiscal 2009. These acquisitions fill gaps or extend capabilities in markets with significant growth opportunities. For example, the acquisition of Dixell and Vilter in Emerson Climate Technologies expanded our connectivity and energy-efficient control offerings and strengthened our presence in commercial refrigeration. The addition of Roxar in Emerson Process Management strengthened our ability to meet customer needs in offshore energy recovery. Already in fiscal 2010 we have announced three additional acquisitions: Avocent (data center infrastructure management), EIM (electric valve actuation) and SSB (electrical pitch control for wind turbines), representing an additional investment of \$1.4 billion.

Emerson relentlessly pursues **technology leadership** by developing game-changing products and innovations that provide a competitive advantage. Here, too, down cycles are often the best times for such investments, *when others are hesitating and pulling back*. New products will continue to drive growth as we constantly push innovation and technology forward to better serve our customers. In fact, Emerson averages about 2.5 new patents every working day. A great example of our technology leadership is our next-generation DeltaV digital automation system. The new



*Our ability to respond quickly to changing business conditions while continuing to invest for the long term has been essential.*



S-series platform with “I/O on Demand” gives customers unparalleled adaptability to implement and update complex process control systems. We are also introducing significant new ways to apply wireless technology to process monitoring and control.

We continue to **globalize assets**, generating 55 percent of revenue outside the United States in 2009. We launched new shared services, engineering and technology centers in China, Japan, the Middle East and Mexico. We are making substantial infrastructure investments in emerging markets, which are expected to lead the global recovery. Our sales in emerging markets now represent 32 percent of total revenue. We are well positioned *for significant growth* in emerging markets, with a near-term goal of 40 percent of total revenue in these key growth markets.

We constantly drive **business efficiency**, in good times and bad. In this recession we have made difficult decisions to close and consolidate facilities, eliminate marginal products and redundancies, and increase production in best-cost regions that are close to customers. This focus on profitable returns on our investments is key to Emerson’s ability to compete globally. In 2009, we significantly reduced inventory levels by about \$500 million and aggressively repositioned assets in anticipation of the megatrends that will drive growth in the world economy. During the past year we spent \$295 million on restructuring efforts that impacted approximately 25 facilities. This will further our best-cost, balanced geographical positioning.

### **Addressing the world’s resource and energy needs head on**

Perhaps no issue is more critical to the world than energy. Our future depends on more efficient use of existing energy sources and on accelerating the availability and viability of new, renewable sources. Emerson’s solutions address these challenges, which are shaping the future in *all* of our business segments.

We envision that **power generation and distribution** can become a \$3 billion sales opportunity over the next several years, served by technologies and services across several Emerson businesses. **Renewables**, while still a small part of the world’s energy supply, are becoming more important. Emerson serves the **wind power, solar and bio-fuels** industries, where we see significant potential for growth. **Nuclear power** is more established in the world’s energy mix. It is estimated that more than 150 new reactors will come on line through 2020, and we are one of the few certified nuclear-instrument and control suppliers. Emerson is addressing **commercial/retail energy management**



*From left: Ed Feeney, Emerson Network Power; Ed Purvis, Emerson Climate Technologies; Jay Geldmacher, Emerson Network Power; Jean-Paul Montupet, Emerson Industrial Automation; Jim Lindemann, Emerson Appliance and Tools; Steve Sonnenberg, Emerson Process Management; Pat Sly, Emerson Appliance and Tools.*

through our integrated electronics and industry expertise. For example, we can help supermarkets achieve energy savings of between \$50,000 and \$100,000 per store per year – *and there are 33,000 supermarkets in the U.S. alone!*

We are also addressing the rapidly growing demand for information, networking and connectivity. We expect worldwide **data center infrastructure investment** to generate sales of Emerson solutions totaling \$4 billion by 2013. These trends were a driving force behind our recently announced acquisition of Avocent. When Avocent is joined with Emerson Network Power's extensive product breadth, technology leadership and experience, we will bring new solutions to data center infrastructure management that were not possible before. Hospitals and medical centers are another opportunity. These facilities require greater amounts of data center power and localized cooling to support wireless deployment, electronic records, picture archiving and communications systems, and RFID (radio-frequency identification) tracking of pharmaceuticals.

**Water and wastewater infrastructure** projects have generated more than \$150 million in contract wins annually over the past several years. This includes our recent contract at Chicago's Stickney wastewater treatment facility – the world's largest sewage treatment plant. Our Ovation expert control system will handle 1.4 billion gallons of wastewater daily, serving 5.4 million residents.

Unique **wireless technologies** provided by Emerson Process Management improve connectivity and uptime; provide a foundation for efficient, fast upgrades; and promote greater productivity and safety in process facilities. In fact, Emerson Smart Wireless orders doubled from last year, with the potential for substantial increases over time.

## *New-to-the-world solutions are possible only in a company that values individual effort in a collaborative environment.*

Our innovations are adding value in many new ways. We drove that point home this year in a bold “It’s Never Been Done Before” global advertising campaign. Emerson innovations address critical customer issues and enable customers and entire industries to overcome challenges with new-to-the-world solutions.

### **Our people**

New-to-the-world solutions are possible only in a company that values individual effort in a collaborative environment and strong global teamwork. We inspire and reward initiative, and we work together as a global team, driving innovation in each of our markets. Every person at Emerson understands that he or she plays an essential role in our success. This creates a motivating, competitive and high-energy atmosphere that ensures we execute quickly and precisely for our customers and shareholders.

One of my top priorities is to ensure that we recruit, develop and retain the best talent. Developing people is an area where Emerson has always excelled. In fact, our talent-development success allows us to fill 90 percent of our key global management positions from within the company. There is tremendous expertise on our management team and among our highly skilled employees, and I am proud of their hard work and their commitment to excellence – they make Emerson successful and globally strong.

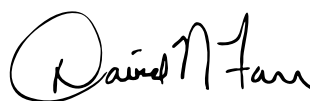
Our sustained progress also reflects the leadership of our board of directors. These capable individuals provide deep, relevant insight into our global challenges and opportunities. On behalf of our shareholders, I thank them for their commitment and support in making Emerson stronger in a challenging 2009.

I especially thank David C. Farrell, who retired last February after 20 years of service on the board. David’s counsel has been instrumental in building shareholder value during his tenure, and we will miss his contributions. We also welcome our newest board member, Clemens A.H. Boersig, who brings us a strong global perspective from Deutsche Bank AG, where he is Chairman of the Supervisory Board.

### **Looking ahead**

The pace of change continues to accelerate. Businesses that will win in the marketplace and reward their shareholders must exhibit ever-increasing speed, flexibility and creativity. These are Emerson strengths. Our people are focused on solving problems quickly and in ways that have never been done before. As global businesses begin to rebound from the recession, we are well positioned, especially with our unique position in emerging markets.

Thank you for your support. I look forward to reporting on our continued progress and value creation.



David N. Farr  
Chairman, Chief Executive  
Officer, and President