



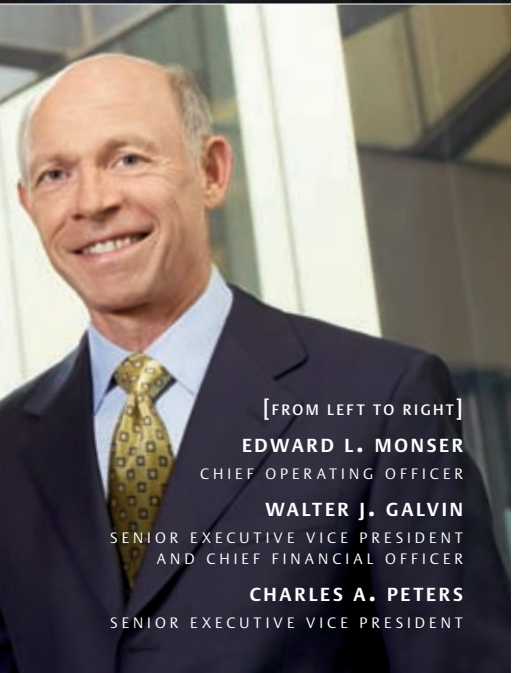
A PASSION FOR
progress

Dear Shareholders, Emerson had an excellent year in 2007. The company's performance over the last several years reinforces our belief that we have been pursuing the right core strategies. We made many tough decisions during the downturn of 2001 and 2002, including significant restructuring to improve our underlying cost position. Another key decision during that period was to push forward with increased investments in next-generation technologies while continuing to expand our global footprint and capabilities. These forward-thinking actions have been a key factor in Emerson's strong run over the last five years.

But is that enough? As investors, you understand that we always need to look forward. People often compliment us on how well the company has executed and performed, but then they are quick to ask whether Emerson has peaked.



DAVID N. FARR
CHAIRMAN, CHIEF EXECUTIVE OFFICER,
AND PRESIDENT



[FROM LEFT TO RIGHT]
EDWARD L. MONSER
CHIEF OPERATING OFFICER
WALTER J. GALVIN
SENIOR EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
CHARLES A. PETERS
SENIOR EXECUTIVE VICE PRESIDENT



[FROM LEFT TO RIGHT]

JIM LINDEMANN

EMERSON APPLIANCE SOLUTIONS

JOHN BERRA

EMERSON PROCESS MANAGEMENT

TOM BETTCHER

EMERSON CLIMATE TECHNOLOGIES

JAY GELDMACHER

EMERSON NETWORK POWER

JEAN-PAUL MONTUPET

EMERSON INDUSTRIAL AUTOMATION

PAT SLY

EMERSON TOOLS AND STORAGE

ED FEENEY

EMERSON NETWORK POWER

YOU CAN SEE PASSION FOR PROGRESS
THROUGHOUT EMERSON, WITH EMPLOYEES
ENERGIZED TO EXCEED EXPECTATIONS AND
COMMITTED TO THE HIGHEST LEVELS OF
INTEGRITY IN EVERY BUSINESS PROCESS.



No – Emerson has not peaked. That’s why the management team at Emerson is confident that our best days are still ahead, because our *passion for progress* keeps everyone focused on future trends and growth opportunities. Sure, there will be economic slowdowns or other events that could impact growth trends, but the key is to anticipate, act quickly and execute, while always maintaining a long-term perspective. That is what Emerson does best, and it makes us confident in the long-term potential of investing in this company.

“THE KEY IS TO ANTICIPATE, ACT QUICKLY AND EXECUTE, WHILE ALWAYS MAINTAINING A LONG-TERM PERSPECTIVE.”

Confidence about the future comes from a strong belief in the core strategies we pursue, which are keys to delivering superior performance. By maintaining a constant focus and not frequently shifting priorities, we can drive strong results through various business cycles. Speed and execution in carrying out the core strategies are integral to our success.

For the past several years we have focused on four strategic imperatives: (1) investing early in market-leading technologies to differentiate ourselves, (2) being a global company so that we can capture growth wherever it may occur, (3) strengthening our business platforms to better serve our customers and help them achieve success, and (4) managing our asset base more efficiently to achieve high cash flow and returns on capital, which is the ultimate measure of how much value we are creating for shareholders.

These are Emerson’s strategic imperatives. We annually benchmark each of our business platforms on their performance relative to these imperatives and also look for opportunities to reach new levels of performance. The objective is to set high hurdles for each of our businesses, and then to help them clear these hurdles. As we are successful in doing this, our shareholders will benefit. The past five years’ success is evidence of this.

2007 Financial and Operating Highlights

As I mentioned, Emerson had an exceptional year in 2007. The first area to highlight is net sales, which were a record \$22.6 billion. Reported sales grew by 12 percent and underlying sales grew 7 percent, a strong performance and in line with our goal to achieve 5 to 7 percent underlying sales growth through long-term business cycles. The sales performance this year demonstrates Emerson's strong growth profile, which results from industry-leading businesses that serve attractive, global end markets. Of note in 2007 is that for the first time, more than half of the company's revenues were to countries outside the United States, an important milestone that highlights the increasingly global scope of Emerson. Our growth profile has also been enhanced by our continued focus on eight specific growth initiatives, which delivered a strong 18 percent growth in 2007.

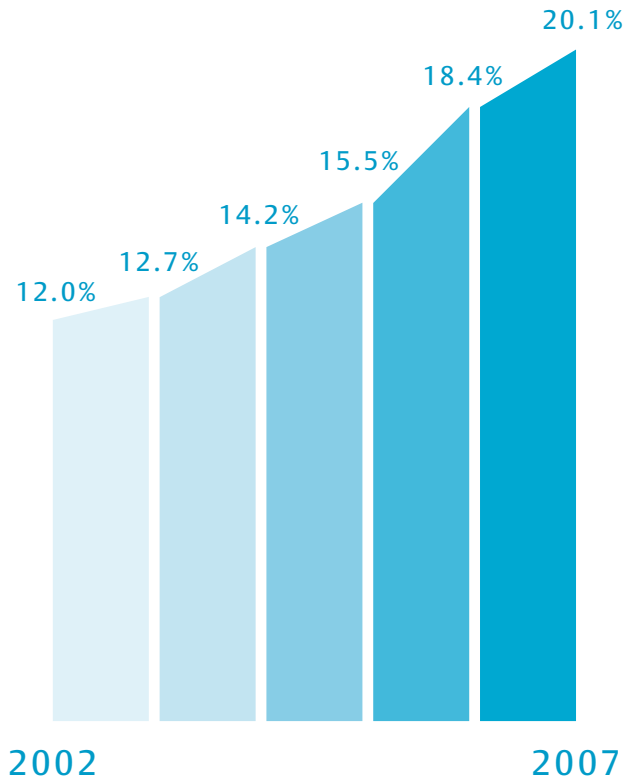
Earnings per share (EPS) for fiscal 2007 was \$2.66, another record and an increase of 19 percent from the previous year. Strong sales performance and continued focus on productivity and operational excellence programs were key factors in achieving the record levels of EPS. Operating profit margins improved 40 basis points to 15.6 percent, as we continued to make progress toward the long-term target range of 16 to 17 percent.

“FOR THE FIRST TIME, MORE THAN HALF OF THE COMPANY’S REVENUES WERE TO COUNTRIES OUTSIDE THE UNITED STATES, AN IMPORTANT MILESTONE THAT HIGHLIGHTS THE INCREASINGLY GLOBAL SCOPE OF EMERSON.”

Operating cash flow exceeded \$3.0 billion in 2007, also a new record. We often say at Emerson that we control our own destiny, and focusing on cash generation is a big part of enabling us to do just that. With high levels of cash generation, we are able to make significant investments in our core businesses, allowing them to pursue a variety of growth strategies. In addition, we also returned significant amounts of cash to shareholders in the form of dividends and share repurchases. In fact, over the last five years Emerson has generated \$11.7 billion of operating cash flow, and \$6.1 billion of that has been returned to shareholders, a payout ratio of 53 percent.

RETURN ON TOTAL CAPITAL

(PERCENT)



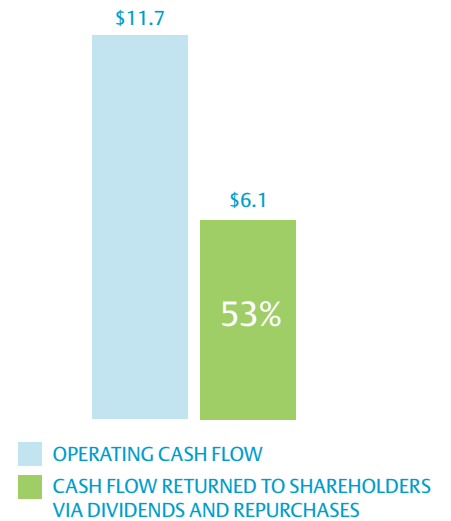
NET SALES

(DOLLARS IN BILLIONS)



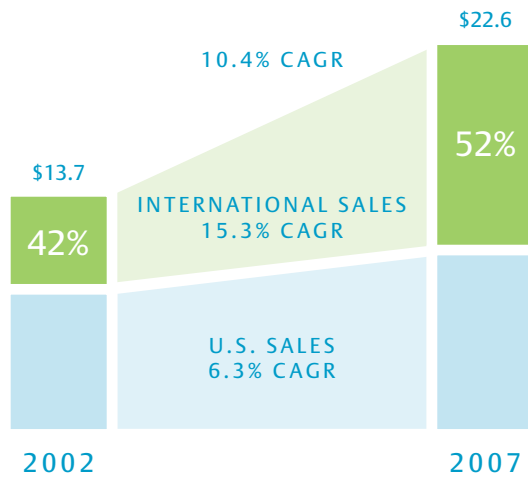
CUMULATIVE FIVE-YEAR OPERATING CASH FLOW

(DOLLARS IN BILLIONS)



U.S. & INTERNATIONAL SALES

(DOLLARS IN BILLIONS)



Progress on key financial metrics has been significant over the last five years, with strong sales, cash generation, and return on total capital performance.

The Path Forward

We are proud of our accomplishments, but we feel even better about the future. The business world continues to be a dynamic and evolving place that creates opportunities for our entire portfolio of businesses – Process Management, Industrial Automation, Network Power, Climate Technologies and Appliance and Tools. These platforms provide a strong foundation for future growth, good end-market diversification, and a global base from which to operate. We will continue to invest in and modify the composition of these global business platforms and will strive to lead the industries we serve.

Two years ago, our focus on the future led to discussion of major global trends that were impacting Emerson and the broader economy. These trends continue to evolve and shape the world where we live, work, and invest: energy responsibility, resources for the world, communications revolution and business without borders. Our ongoing challenge is to continue capitalizing on the opportunities these trends afford, while also addressing new issues that will emerge.

So we move forward with confidence and a deeply engrained *passion for progress*. We continue to look for new ways to innovate, to grow with a conscience, to be motivated by our customers' success, to find ways to anticipate the demands of tomorrow, and to maintain stability and confidence for customers and shareholders alike.

I would like to thank our employees, shareholders and the board of directors for their support and insights. In particular, I want to thank Gerald "Jerry" Lodge for more than 32 years of service on Emerson's board of directors. Jerry retired from the board in 2007, and we are sincerely grateful for his decades of guidance, insights, and service to Emerson.



David N. Farr

*Chairman, Chief Executive
Officer, and President*



innovation
conscience
motivation
anticipation
confidence

