

Second Quarter 2008 Earnings Conference Call

May 6, 2008

Safe Harbor Statement

Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the remainder of the year, and Emerson undertakes no obligation to update any such statement to reflect later developments. Information on factors that could cause actual results to vary materially from those discussed today is available in our most recent Annual Report on Form 10-K as filed with the SEC.

Non-GAAP Measures

In this call we will discuss some non-GAAP measures (denoted with *) in talking about our company's performance, and the reconciliation of those measures to the most comparable GAAP measures is contained within this presentation or available at our website www.emerson.com under investor relations.



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Second Quarter 2008 Highlights

- Second quarter sales up 12% to \$6.0 billion with increases in 4 of 5 business segments
 - Underlying sales* growth of 6%, led by strong international growth
 - Excludes European appliance motor and pump business
- Operating profit margin* improved 100 basis points to 16.4%; Pretax earnings increased 90 basis points to 14.5%
- Earnings Per Share from continuing operations of \$0.75, up 23% compared to \$0.61 in the prior year quarter
- Operating cash flow of \$748 million and free cash flow* of \$569 million, an increase of 37% and 45% respectively
- Balance sheet strong, progress on operational efficiency measures
 - Average Days-In-The-Cash-Cycle decreased to 66 days from 68 days
 - Trade Working Capital as a % of sales from 18.8% to 18.7%
 - Operating Cash Flow to Total Debt strong at 67%

Another Strong Quarter and Great First Half of 2008



Emerson Second Quarter Results

(\$Mil excl. EPS)	<u>2007</u>	<u>2008</u>	
Sales	\$5,394	\$6,023	→ Up 12% <ul style="list-style-type: none"> • Increases in 4 of 5 business segments • Underlying* up 6%; FX +4 pts; Acq/Div +2 pts • Excludes European appl. motor & pump sales of \$111M in Q208 and \$119M in Q207
Operating Profit*	\$830	\$990	→ Up 19% <ul style="list-style-type: none"> • Improvement driven by cost containment programs, volume leverage and \$30M mark-to-market benefit related to commodity hedging
OP%*	15.4%	16.4%	
Earnings - Continuing Ops.	\$493	\$598	→ Up 21%
Earnings%	9.1%	9.9%	
Dil. Avg. Shares	<u>804.9</u>	<u>792.0</u>	
EPS – Continuing Ops.	\$0.61	\$0.75	→ Up 23%
Discontinued Ops.	-	<u>(\$0.06)</u>	→ (\$52M) impairment charge relating to the European appliance motor & pump business
EPS	\$0.61	\$0.69	

The European Appliance Motor & Pump Business Likely to be Sold in Next 12 Months--Reclassified to Discontinued Ops.



Underlying Sales Analysis

Second Quarter Results

United States	1%
Europe	2%
Asia	18%
Latin America	18%
Canada	2%
Middle East/Africa	19%
Total International	10%

Underlying Sales*	+6%
Currency	4 pts
Acquisitions/Divestitures	2 pts
Consolidated Sales	+12%

U.S. Slowed as Expected;
International Sales Remain Solid



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Second Quarter Detail

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>	
Gross Profit	\$1,939	\$2,242	→ Up 16%
GP%	35.9%	37.2%	→ Driven by leverage on higher sales volume, cost containment actions
SG&A%	20.5%	20.8%	→ Includes a mark-to-market benefit relating to commodity hedging
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Operating Profit*	\$830	\$990	→ Up 19%
OP%*	15.4%	16.4%	
- Other Deductions, Net	\$39	\$67	→ \$24M in gains in Q2 2007
- Interest Expense, Net	<u>\$58</u>	<u>\$51</u>	
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Pretax Earnings	\$733	\$872	→ Up 19%
Earnings%	13.6%	14.5%	
- Taxes	\$240	\$274	
- Tax Rate	32.8%	31.4%	→ The tax rate is still expected to be approximately 32% for the fiscal year

Cash Flow & Balance Sheet

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>	
Operating Cash Flow	\$548	\$748	→ Up 37% → Driven by higher earnings and good working capital improvement
Capital Expenditures	<u>(\$155)</u>	<u>(\$179)</u>	
Free Cash Flow*	\$393	\$569	→ Up 45%
Cash Flow/Total Debt	53.3%	67.0%	→ Continued strong performance
Inventories	\$2,388	\$2,532	} → Sequential improvement in ratio from 19.7% in 1 st Qtr
Receivables	\$3,888	\$4,377	
Payables	<u>(\$2,137)</u>	<u>(\$2,403)</u>	
Trade WC	\$4,139	\$4,506	
TWC % to sales	18.8%	18.7%	

Balance Sheet is Strong Allowing Great Flexibility for Investments and Shareholder Returns



Business Segment Earnings Second Quarter Results

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>	
Business Segment EBIT* Margin	\$811 14.6%	\$925 14.9%	→ Up 14% - Volume leverage and cost containment programs - Price increases offset by material and other inflation
Diff. In Accounting Methods	\$52	\$57	→ Up \$5 million
Corporate & Other	(\$72)	(\$59)	→ Down \$13 million - \$30M mark-to-market gain related to commodity hedging in Q2 2008 - \$24M of one-time gains in Q2 2007
Interest Expense, Net	<u>(\$58)</u>	<u>(\$51)</u>	→ Down \$7 million
Pretax Earnings	\$733	\$872	→ Up 19%



Process Management Second Quarter Results

(\$Mil)	<u>2007</u>	<u>2008</u>
Sales	\$1,345	\$1,597

→ Up 19%

- Underlying* up 16%; FX +5 pts; Acq/Div -2 pts
 - U.S. up 13%, Asia up 20%, Europe up 12%, Middle East/Africa up 20%
- Energy Sectors remain very favorable

EBIT	\$239	\$286
Margin	17.7%	17.9%

→ Up 20%

- Investments continue in new products and globalization
- Primarily volume leverage

Restructuring	\$4	\$3
EBIT Excl. Rest.*	\$243	\$289
Margin*	18.0%	18.1%

- ✓ ***Jiangxi, the largest copper producer in China, selected Emerson as the Digital Automation Supplier for their Guixi smelter expansion***
- ✓ ***Project wins and penetration gains continued globally***

Order Growth Remained Double-Digit and Continued to Accelerate During Quarter



Industrial Automation Second Quarter Results

(\$Mil)	2007	2008	
Sales	\$1,057	\$1,176	→ Up 11% - Underlying* up 5%; FX +6 pts · U.S. up 4%, Asia up 16%, Europe up 3%
EBIT Margin	\$151 14.3%	\$171 14.5%	→ Up 13% - Margin up 20 basis points - Primarily volume leverage
Restructuring	\$3	\$3	
EBIT Excl. Rest.* Margin*	\$154 14.5%	\$174 14.8%	

- ✓ **Increased sales for all businesses resulting from continued demand from the global capital goods markets**
- ✓ **Good geographic balance of sales growth, with international +5% and U.S. +4%**

Continued Strong Growth by the Power Generating Alternator Business



Network Power Second Quarter Results

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>
Sales	\$1,191	\$1,520

→ Up 27%

- Underlying* up 11%; Acq +12 pts, FX +4 pts
 - U.S. up 10%, Asia up 22%, Europe down 1%
- Strength from China power systems, UPS and precision cooling businesses

EBIT	\$146	\$187
Margin	12.3%	12.3%

→ Up 28%

- Core business margin performance good, dilutive impact from Motorola Embedded Communications Computing acquisition

Restructuring	\$5	\$5
EBIT Excl. Rest.*	\$151	\$192
Margin*	12.7%	12.7%

- ✓ **Telecom infrastructure demand remains robust in China**
- ✓ **Acquisition of Aperture Technologies closed in quarter, a provider of software to manage the physical infrastructure of datacenters**

Global Communication Needs Continue to Drive Growth



Climate Technologies Second Quarter Results

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>
Sales	\$945	\$956

→ Up 1%

- Underlying* down 2%; FX +3 pts
 - U.S. down 3%
 - Europe down 14% driven by the decline of heat pump compressor sales
 - Asia up 10%, with penetration gains achieved

EBIT	\$141	\$142
Margin	15.0%	14.9%

→ Flat

- Margin down 10 basis points
- Positive pricing actions offset by material inflation pressures

Restructuring	\$4	\$4
EBIT Excl. Rest.*	\$145	\$146
Margin*	15.4%	15.3%

✓ ***Growth prospects for China remain strong, driven by energy efficiency regulation and continued market penetration***

Weak U.S. Residential Market



Appliance and Tools Second Quarter Results

<u>(\$Mil)</u>	<u>2007</u>	<u>2008</u>
Sales	\$1,014	\$956

→ Down 6%

- Underlying* down 6%; Acq/Div -1 pt; FX +1 pt
- U.S. down 8%, Europe up 3%, Asia up 25%
- Excludes European appl. motor & pump sales of \$111M in Q208 and \$119M in Q207

EBIT Margin	\$134 13.2%	\$139 14.6%
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→ Up 5%

- Margin increase of 140 basis points
- Benefits from restructuring, cost containment programs, and effective management of price/cost exposure
- European appliance motor and pump business reclassified to discontinued ops. for 07 and 08

Restructuring	\$4	\$1
EBIT Excl. Rest.*	\$138	\$140
Margin*	13.6%	14.7%

- ✓ **Residential construction and discretionary consumer markets continued to decline**
- ✓ **Solid growth in new technology products in the locating, inspection and pressing areas of the professional tools business**

Actively Pursuing Divestiture of European Appliance
Motor and Pump Business



European Appliance Motor & Pump Business

- Actively pursuing sale of this business
 - Follows strategic initiative to divest certain slower growth businesses
 - Annual sales ~\$450M and low single digit profitability
 - Results for this business reclassified from the Appliance and Tools business segment into discontinued operations
 - Dilution to earnings per share of \$0.06 due to \$52M impairment charge recorded in quarter
- Sale of this business expected in next 12 months



Summary and Outlook

- Strong second quarter
 - Underlying sales* growth of 6% driven by international strength
 - Operating profit margin* improvement of 100 basis points
 - Order trends are in line with expectations
 - Good first half of 2008
- Expect Full Year Underlying Sales Growth* of 5% to 7% and Reported Sales of approximately \$25 billion, up 11% to 13% (from \$22.1 billion in 2007, excluding discontinued operations)
- Expect Full Year Earnings per Share from continuing operations in the range of \$3.00 to \$3.10 – a 13% to 17% increase over 2007
- Expect Full Year Operating Cash Flow of \$3.2 billion, Capital Expenditures of \$0.8 billion and Free Cash Flow* of \$2.4 billion
- Expect 2008 Return on Total Capital of ~ 21%



Emerson Business Summary Reconciliation of Non-GAAP Financial Measures

<u>Expected FY 2008 Sales Growth %</u>	
Underlying Sales *	5% - 7%
<u>Currency / Acq. / Div.</u>	~ <u>6 pts</u>
Total Sales	11% - 13%

This information reconciles each non-GAAP measure in the presentation with the most directly comparable GAAP measure (\$M)



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