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## **FORM 10-K**

**EMERSON ELECTRIC CO - EMR**

**Filed: November 21, 2006 (period: September 30, 2006)**

Annual report with a comprehensive overview of the company

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-278

**EMERSON ELECTRIC CO.**

(Exact name of registrant as specified in its charter)

**Missouri**

(State or other jurisdiction of  
incorporation or organization)

**43-0259330**

(I.R.S. Employer  
Identification No.)

**8000 W. Florissant Ave.**

**P.O. Box 4100**

**St. Louis, Missouri**

(Address of principal executive offices)

**63136**

(Zip Code)

Registrant's telephone number, including area code: **(314) 553-2000**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock of \$0.50 par value per share	New York Stock Exchange Chicago Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Chicago Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of close of business on March 31, 2006: \$34.3 billion.

Common stock outstanding at October 31, 2006: 401,184,390 shares.

#### **Documents Incorporated by Reference**

1. Portions of Emerson Electric Co. 2006 Annual Report to Stockholders (Parts I and II).
2. Portions of Emerson Electric Co. Notice of 2007 Annual Meeting of Stockholders and Proxy Statement (Part III).

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## PART I

### **Item 1. Business**

Emerson was incorporated in Missouri in 1890, and has grown from a regional manufacturer of electric motors and fans into a diversified global technology company. Having expanded its product lines through internal growth and acquisition, Emerson today is designing and supplying product technology and delivering engineering services in a wide range of industrial, commercial and consumer markets around the world.

Emerson is organized into the following business segments, based on the nature of the products and services rendered:

- Process Management, providing measurement, control and diagnostic capabilities for automated industrial processes producing items such as foods, medicines, power and fuels
- Industrial Automation, bringing integrated manufacturing solutions to diverse industries worldwide
- Network Power, providing power and environmental conditioning and reliability to help keep telecommunication systems, data networks and critical business applications continuously operating
- Climate Technologies, enhancing household and commercial comfort as well as food safety and energy efficiency through air-conditioning and refrigeration technology
- Appliance and Tools, providing uniquely designed motors for a broad range of applications, appliances and integrated appliance solutions, and tools for both homeowners and professionals, as well as home and commercial storage systems

Sales, earnings before interest and income taxes, and total assets attributable to each segment for the three years ended September 30, 2006, are set forth in Note 16 of Notes to Consolidated Financial Statements of the 2006 Annual Report, which note is hereby incorporated by reference. Sales by segment were Process Management 23 percent, Industrial Automation 18 percent, Network Power 21 percent, Climate Technologies 17 percent, and Appliance and Tools 21 percent in 2006. Sales by geographic destination were United States 53 percent, Europe 22 percent, Asia 14 percent and other regions 11 percent in 2006. Information with respect to acquisition and divestiture activities by Emerson is set forth in Note 3 of Notes to Consolidated Financial Statements of the 2006 Annual Report, which note is hereby incorporated by reference.

### **PROCESS MANAGEMENT**

The Process Management segment offers customers product technology as well as engineering and project management services for precision control, monitoring and asset optimization of plants that produce power or that process or treat such items as oil, natural gas and petrochemicals; food and beverages; pulp and paper; pharmaceuticals; and municipal water supplies. This array of products and services helps customers optimize their process plant capabilities in the areas of plant safety and reliability, and product quality and output. In 2006, sales by geographic destination for this segment were United States 36 percent, Europe 24 percent, Asia 19 percent and other regions 21 percent.

#### Process Management Systems and Software

Emerson's Process Management systems and software control plant processes by collecting and analyzing information from measurement devices in the plant, and by using that information to adjust valves, pumps, motors, drives and other control hardware in the plant for maximum product quality and process efficiency.

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## Measurement and Analytical Instrumentation

Measurement instrumentation measures the physical properties of liquids or gases in a process stream, such as pressure, temperature, level, or rate and amount of flow, and communicates this information to the control system. Measurement technologies provided by Emerson include Coriolis direct mass flow, magnetic flow, vortex flow, ultrasonic flow, differential pressure, ultralow-flow fluid measurement, temperature sensors and radar based tank gauging. Emerson measurement products also are used in custody transfer applications, such as the transfer of gasoline from a storage tank to a tanker truck, where precise metering of the amount of fluid transferred helps ensure accurate asset management.

Analytical instrumentation analyzes the chemical composition of process fluids and emissions to enhance quality and efficiency, as well as environmental compliance. Emerson's analytical technologies include process gas chromatographs, in-situ oxygen analyzers, infrared gas and process fluid analyzers, combustion analyzers and systems, and analyzers that measure pH, conductivity and water quality.

## Valves, Actuators and Regulators

Control valves respond to commands from the control system by continuously and precisely modulating the flow of process fluids to provide maximum process efficiency and product quality. Emerson provides sliding stem valves, rotary valves, butterfly valves and related valve actuators and controllers. Emerson also provides a line of industrial and residential regulators, whose function is to reduce the pressure of fluids such as natural gas and liquid petroleum gas for transfer from high-pressure supply lines to lower pressure systems.

## PlantWeb<sup>®</sup> Digital Plant Architecture

Emerson's PlantWeb digital plant architecture combines the technologies described above with the advantages of "intelligent" plant devices (valves and measurement instruments that have advanced diagnostic capabilities), open communication standards (non-proprietary digital protocols allowing the plant devices and the control system to "talk" with one another) and integrated modular software, not only to control the process better but also to collect and analyze valuable information about plant assets and processes. This capability gives customers the ability to detect or predict changes in equipment and process performance and the impact they can have on plant operations. The PlantWeb architecture provides the insight to improve plant availability and safety. PlantWeb also furnishes a platform to continually improve asset management and standards compliance, and to reduce startup, operations and maintenance costs.

## Industry Services and Solutions

Emerson's array of process automation and asset optimization services can improve automation project implementation time and costs, increase process availability and productivity, and reduce total cost of ownership. Global industry centers offer engineering and project management services to help customers extract maximum performance and reliability from their process equipment and automation assets. These centers serve industries such as oil and gas, pulp and paper, chemical, power, food and beverage, and life sciences. They also assist customers in diagnosing equipment problems and plant inefficiencies.

## Distribution

The principal worldwide distribution channel for the Process Management segment is a direct sales force, although a network of independent sales representatives, and to a lesser extent, independent distributors purchasing these products for resale are also utilized. The majority of sales in the United States are made through a direct sales force with the remainder primarily through independent sales representatives. In Europe and Asia, sales are almost exclusively made through a direct sales force with the remainder split evenly between independent sales representatives and distributors.

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## Brands

Brands, service/trademarks and trade names within the Process Management segment include Emerson Process Management, AMS Suite, Asset Optimization, Baumann, Bettis, Bristol, Brooks Instrument, CSI, Daniel, DeltaV, El-O-Matic, Fisher, Micro Motion, Mobrey, Ovation, PlantWeb, ROC, Rosemount, Saab Rosemount, Smart Process and Tescom.

## INDUSTRIAL AUTOMATION

The Industrial Automation segment provides integrated manufacturing solutions to our customers at the source of manufacturing their own products. Products include motors, transmissions, alternators, fluid controls and materials joining equipment. Through these offerings, Emerson brings technology and enhanced quality to the customer's final product. In 2006, sales by geographic destination for this segment were United States 45 percent, Europe 39 percent, Asia 8 percent and other regions 8 percent.

### Motors and Drives

Emerson provides a broad line of gear drives that can be coupled to electric motors and used in a wide variety of manufacturing operations and products, from automobile assembly lines to escalators in shopping malls or supermarket checkout stations. Products in this category include alternating current (AC) and direct current (DC) electronic variable speed drives, servo motors, pump motors, drive control systems, integral horsepower motors (1 HP and above), fractional horsepower motors (less than 1 HP) and gear drives.

### Power Transmission

Emerson's power transmission products include belt and chain drives, helical and worm gearing, gear motors, motor sheaves, pulleys, mounted and unmounted bearings, couplings, chains and sprockets. They are used to transmit power mechanically in a wide range of manufacturing and material handling operations and products. Our design and application experience enable us to provide both standard and customized automation and power transmission solutions to our customers.

### Power Generation

Emerson provides alternators (low, medium and high voltage) for use in diesel or gas powered generator sets, as well as high frequency alternators, AC motor/generator sets, traction generators and wind power generators.

### Fluid Power and Fluid Control

Products in this category control and power the flow of fluids (liquids and gases) in manufacturing operations such as automobile assembly, food processing, textile manufacturing and petrochemical processing. They include solenoid and pneumatic valves, valve position indicators, pneumatic cylinders, air preparation equipment, and pressure, vacuum and temperature switches.

### Materials Joining and Precision Cleaning

Emerson supplies both plastics joining technologies and equipment, and metal welding and joining processes to a diversified manufacturing customer base, including automotive, medical devices and toys. We also provide precision cleaning and liquid processing solutions to industrial and commercial manufacturers. Products include ultrasonic joining and cleaning equipment, linear and orbital vibration welding equipment, systems for hot plate welding, spin welding, and laser welding, and aqueous, semi-aqueous and vapor cleaning systems.

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## Electrical Distribution

Emerson's majority-owned EGS Electrical Group joint venture with SPX Corporation manufactures a broad line of components for current- and noncurrent-carrying electrical distribution devices. These products include conduit and cable fittings, plugs and receptacles, industrial lighting, and enclosures and controls. Products in this category are used in hazardous, industrial, commercial and construction environments, such as oil and gas drilling and production sites, pulp and paper mills and petrochemical plants.

### Distribution

On a worldwide basis, the primary distribution channel for the Industrial Automation segment is through direct sales forces. Most products sold worldwide to original equipment manufacturers are through a direct sales force. Independent distributors constitute the next significant sales channel, mostly to reach end users; and, to a lesser extent, independent sales representatives are utilized, particularly for electrical distribution products in the United States.

### Brands

Brands, service/trademarks and trade names within the Industrial Automation segment include Emerson Industrial Automation, Appleton, ASCO, ASCO Joucomatic, Branson Ultrasonics, Browning, Control Techniques, Emerson Power Transmission, Kato Engineering, Kop-Flex, KVT, Leroy Somer, McGill, Morse, Numatics and O-Z/Gedney.

## NETWORK POWER

Emerson's Network Power segment designs, manufactures, installs and maintains products providing "grid to chip" electric power conditioning, power reliability and environmental control for telecommunications networks, data centers and other critical applications. Products in this segment include power systems, embedded power supplies, precision cooling and inbound power systems, along with 24-hour service. In 2006, sales by geographic destination for this segment were United States 46 percent, Europe 19 percent, Asia 25 percent and other regions 10 percent.

### Power Systems

Emerson supplies uninterruptible AC and DC power systems, which provide reliable, conditioned power to telecommunication networks, data centers and other critical equipment in the event of a blackout or line surges and spikes. Power Systems' products range from stand-alone units to complete systems incorporating rectifiers, distribution units, surge protection, batteries and system supervision.

### Embedded Power Supplies

Embedded power supplies are installed by original equipment manufacturers to convert or condition power for microprocessors and peripherals in a wide range of telecommunication, health care, computer and industrial applications using standard or custom AC/DC or DC/DC designs. They are also used in consumer products, in the form of power adaptors for notebook computers and ink jet printers, and in chargers for mobile phones.

### Precision Cooling

Emerson's precision cooling products provide temperature and humidity control for computers, telecommunications and other sensitive equipment. These products range from 14,000 to 4 million BTUs in capacity and are available in up flow, down flow and overhead configurations.

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## Inbound Power Systems

Emerson inbound power technology provides reliable power systems which automatically transfer critical application loads from a utility to emergency back-up generators in the event of a blackout or brownout. Products include automatic transfer switches, paralleling and synchronizing gear and related distribution equipment and control systems.

## Service and Site Operations

Emerson staffs Energy Operation Centers in more than 30 countries, and deploys field service personnel worldwide to assist customers in managing their network support systems. Our services include on-site operations management, energy consumption monitoring, preventive maintenance, electrical testing, remote monitoring and management, and 24-hour service capability.

## Distribution

The Network Power segment sells primarily through worldwide direct sales force networks, particularly in Europe and Asia. The remainder of sales is handled by independent sales representatives, particularly in the United States, and independent distributors.

## Brands

Brands, service/trademarks and trade names within the Network Power segment include Emerson Network Power, Artesyn, ASCO, ASCO Power Technologies, Astec Power, Control Concepts, Emerson Energy Systems, Engineered Endeavors, Knürr, Liebert, Liebert Global Services, Liebert HIROSS, Lorain, Northern Technologies and VORTEX.

## CLIMATE TECHNOLOGIES

The Climate Technologies segment provides products and services for all areas of the climate control industry, including residential, commercial and industrial heating and air conditioning, and commercial refrigeration. Our technology enables homeowners and businesses to better control their heating, air-conditioning, and refrigeration systems for improved control and lower energy bills. This segment also digitally controls and remotely monitors refrigeration units in grocery stores and other food distribution outlets to enhance freshness and food safety. In 2006, sales by geographic destination for this segment were United States 64 percent, Europe 13 percent, Asia 14 percent and other regions 9 percent.

### Residential, Commercial and Industrial Heating and Air Conditioning

Emerson provides a full range of heating and air-conditioning products that help reduce operational and energy costs and create comfortable environments in all types of buildings. These products include reciprocating and scroll air-conditioning compressors, including an ultra-efficient residential scroll compressor with two stages of cooling capacity so as to run at full capacity only on the hottest days; standard and programmable thermostats; monitoring equipment and electronic flow controls for gas and electric heating systems; gas valves for furnaces and water heaters; nitride ignition systems for furnaces; sensors and thermistors for home appliances; and temperature sensors and controls.

### Commercial Refrigeration

Emerson's technology is incorporated into equipment to refrigerate food and beverages in supermarkets, convenience stores, food service operations and refrigerated trucks and transport containers. Our refrigeration products are also used in industrial applications, such as environmental test chambers, and in medical applications, such as magnetic resonance imaging (MRI) machines. These products include compressors; precision flow controls; system diagnostics and controls that provide precise temperature management; and environmental control systems.



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## Services and Solutions

Emerson's services in this segment assist customers in improving their climate control systems for better control and efficiency relating to new refrigerants, energy efficiency standards, indoor air quality and food safety. We also provide remote monitoring of food refrigeration control systems, 24-hour energy supervision and service dispatch, and a process that audits food store mechanical systems to identify potential energy savings.

## Distribution

Climate Technologies segment sales, primarily to original equipment manufacturers and end users, are made predominately through worldwide direct sales force networks. The remaining sales are primarily through independent distributor networks throughout the world.

## Brands

Brands, service/trademarks and trade names within the Climate Technologies segment include Emerson Climate Technologies, Alco Controls, Clive Samuels & Associates, Computer Process Controls, Copeland, Design Services Network, Emerson Climate Technologies Distribution Services, Emerson Climate Technologies Educational Services, Emerson Climate Technologies Flow Controls, Emerson Climate Technologies Retail Services, Fusite, Therm-O-Disc and White-Rodgers.

## APPLIANCE AND TOOLS

Emerson's Appliance and Tools segment includes a broad range of products and solutions in motors, appliances and components, tools and storage. In 2006, sales by geographic destination for this segment were United States 78 percent, Europe 12 percent, Asia 3 percent and other regions 7 percent.

### Motors

Emerson provides a broad range of electric motors, controls and assemblies from fractional to several thousand horsepower output. Each of these products is designed to give our customers the quality, reliability, and energy efficiency needed in their specific applications. Emerson's electric motors are used in a variety of home appliances. They include variable, fixed and multi-speed motors used in horizontal and vertical axis washers, dryers, and dishwashers. Our motors are also used in residential and commercial pumps, such as those provided in spas, pools and golf course irrigation equipment; in HVAC equipment, such as furnaces, compressors, condenser fans, heat pumps, cooling towers and commercial air handlers; and in industrial, farming and mining applications, where we offer products such as explosion-proof motors, paint-free washdown motors and industrial severe duty motors.

### Appliances and Appliance Components

Emerson provides a number of appliances and appliance technology solutions, ranging from water valves and controls to heating elements and switches. Our appliance offering includes residential and commercial garbage disposers and ceiling fans, instant hot water dispensers, and compact electric water heaters. Our appliance solutions provide integrated systems, sub-systems and components for appliances that include electronic and electromechanical controls for washers, dryers, dishwashers, refrigerators and other home appliances as well as heating elements for dishwashers, electric ovens and water heaters.

### Professional and Do-It-Yourself Tools

Our pipe-working tools are used by plumbing and mechanical professionals to install and repair piping systems. These tools include pipe wrenches, pipe cutters, pipe threading and roll grooving equipment; a time-saving system that joins tubing through mechanical crimping; drain cleaners; diagnostic systems including closed-circuit television pipe inspection and locating equipment; and tubing

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tools. Other professional tools include water jetters, wet-dry vacuums, rolling storage boxes, truck work boxes, bolt cutters, and van and truck ladder racks. Do-it-yourself tools, available at home improvement retail outlets, include drain cleaning equipment, pipe and tube working tools, and wet-dry vacuums.

#### Storage Solutions

Emerson provides a wide variety of freestanding, fixed and mobile storage products for residential, commercial, healthcare and food service applications. Our products for the home include wall-mounted and freestanding shelving systems, cabinet and closet organizers, home office storage, and drawer systems and containers, available in wire, stainless steel and laminate. Our storage solutions also help commercial customers utilize space in the most efficient manner. These solutions include storage and display shelving, stock-picking and kitting carts, cabinets, totes, bins, workstations, and merchandising and inventory storage racks. Products provided to the healthcare industry assist in medical response and treatment; they include emergency and operating room carts, medication carts, polymer and wire shelving systems, and sterile worktables. Our food service equipment helps meet the storage needs of the food service and hospitality industries, such as restaurants and hotels. This equipment includes polymer and wire storage systems, busing carts, pan and tray racks, transport carts and workstations.

#### Distribution

The principal worldwide distribution channel for the Appliance and Tools segment is direct sales forces. Motors and appliance components and solutions for original equipment manufacturers are sold almost exclusively worldwide through direct sales force networks. Independent distributors constitute the next most significant sales channel, with professional tools sold almost exclusively worldwide through distributors; and, to a lesser extent, independent sales representatives are utilized, particularly for storage solutions.

#### Brands

Brands, service/trademarks and trade names within the Appliance and Tools segment include Emerson Appliance Solutions, Emerson Heating Products, Emerson Motor Technologies, Emerson Professional Tools, Emerson Storage Solutions, ClosetMaid, Digital Appliance Controls, Do+Able, Emerson, Flo Healthcare, In-Sink-Erator, Knaack, Mallory, METRO, RIDGID, Stack-A-Shelf, U.S. Electrical Motors and Weather Guard.

#### PRODUCTION

Emerson utilizes various production operations and methods. The principal production operations are metal stamping, forming, casting, machining, welding, plating, heat treating, painting and assembly. In addition, Emerson uses specialized production operations, including automatic and semiautomatic testing, automated material handling and storage, ferrous and nonferrous machining and special furnaces for heat treating and foundry applications. Management believes the equipment, machinery and tooling used in these processes are of modern design and are well maintained.

## RAW MATERIALS AND ENERGY

Emerson's major requirements for basic raw materials include steel, copper, cast iron, electronics, aluminum and brass and, to a lesser extent, plastics and other petroleum-based chemicals. Emerson has multiple sources of supply for each of its major requirements and is not significantly dependent on any one or a few suppliers.

The raw materials and various purchased components required for its products have generally been available in sufficient quantities. Emerson uses various forms of energy, principally natural gas and electricity, obtained from public utilities. A majority of the Company's plants have the capability of being converted to use alternative sources of energy.

## PATENTS, TRADEMARKS AND LICENSES

The Company has a number of patents, trademarks and licenses, obtained over a number of years and expiring at various times. While proprietary intellectual property is important to the Company, management believes the loss or expiration of any intellectual property right would not materially impact the Company or any of its segments.

## BACKLOG

The estimated consolidated order backlog of the Company was \$4,054 million and \$3,229 million at September 30, 2006 and 2005, respectively. Nearly all of the September 30, 2006 consolidated backlog amount is expected to be shipped within one year. The estimated backlog by business segment at September 30, 2006 and 2005 follows:

(dollars in millions)	<u>2005</u>	<u>2006</u>
Process Management	\$ 1,478	1,883
Industrial Automation	390	523
Network Power	645	867
Climate Technologies	412	423
Appliance and Tools	304	358
Consolidated Order Backlog	<u>\$3,229</u>	<u>4,054</u>

## COMPETITION

Emerson's businesses operate in markets that are highly competitive, and Emerson competes on product performance, quality, service and/or price across the industries and markets served. A significant element of the Company's competitive strategy is to deliver solutions to our customers by manufacturing high quality products at the lowest relevant global cost. Although no single company competes directly with Emerson in all of the Company's product lines, various companies compete in one or more product lines. Some of these companies have substantially greater sales and assets than Emerson, and Emerson also competes with many smaller companies. The number of Emerson's competitors varies by product line, and management believes that Emerson has a market leadership position in many of these product lines.

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## RESEARCH AND DEVELOPMENT

Costs associated with Company-sponsored research and development activities were \$356 million, \$303 million and \$280 million in 2006, 2005 and 2004, respectively.

## ENVIRONMENT

The Company's manufacturing locations generate waste, the treatment, storage, transportation and disposal of which are subject to federal, state and/or local laws and regulations relating to the protection of the environment. Compliance with laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has not had a material effect upon Emerson's capital expenditures, earnings or competitive position. It is not anticipated that Emerson will have material capital expenditures for environmental control facilities during the next fiscal year.

## EMPLOYEES

Emerson and its subsidiaries had an average of approximately 127,800 employees during 2006. Management believes that the Company's employee relations are favorable. Some of the Company's employees are represented under collective bargaining agreements, but none of these agreements is considered significant.

## DOMESTIC AND FOREIGN OPERATIONS

International sales were \$9,545 million in 2006, \$8,179 million in 2005 and \$7,353 million in 2004, including U.S. exports of \$1,127 million, \$998 million and \$939 million in 2006, 2005 and 2004, respectively. Although there are additional risks attendant to foreign operations, such as possible nationalization of facilities, currency fluctuations and restrictions on the movement of funds, Emerson's financial position has not been materially affected thereby to date. See Note 16 of Notes to Consolidated Financial Statements of the 2006 Annual Report for further information with respect to foreign operations, which note is hereby incorporated by reference.

## INTERNET ACCESS

Emerson's Forms 10-K, 10-Q, 8-K and all amendments to those reports are available without charge through Emerson's web site on the Internet as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. They may be accessed as follows: [www.gotoemerson.com](http://www.gotoemerson.com), Investor Relations, SEC Filings.

The information set forth under "Item 1A. Risk Factors" is hereby incorporated by reference.

### **Item 1A. Risk Factors**

Investing in our securities involves risks. We may amend or supplement the risk factors described below from time to time by other reports we file with the SEC in the future.

#### **We Operate In Businesses That Are Subject To Competitive Pressures That Could Affect Prices Or Demand For Our Products**

Our businesses operate in markets that are highly competitive, and we compete on the basis of product performance, quality, service and/or price across the industries and markets served. A significant element of our competitive strategy is to deliver solutions to our customers by manufacturing high quality products at the lowest relevant global cost. Some of our competitors have greater sales, assets and financial resources than our Company. Competitive pressures could affect prices or customer demand for our products, impacting our profit margins and/or resulting in a loss of market share.

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Our Operating Results Depend In Part On Continued Successful Research, Development And Marketing Of New And/Or Improved Products And Services, And There Can Be No Assurance That We Will Continue To Successfully Introduce New Products And Services

The success of new and improved products and services depends on their initial and continued acceptance by our customers. Our businesses are affected by varying degrees of technological change and corresponding shifts in customer demand, which result in unpredictable product transitions, shortened life cycles and increased importance of being first to market with new products and services. We may experience difficulties or delays in the research, development, production and/or marketing of new products and services which may negatively impact our operating results and prevent us from recouping or realizing a return on the investments required to bring new products and services to market.

We Engage In Acquisitions, And May Encounter Difficulties In Integrating These Businesses And Therefore We May Not Realize The Anticipated Benefits Of The Acquisitions

We are a company that, from time to time, seeks to grow through strategic acquisitions. In the past several years, we have made various acquisitions and entered into joint venture arrangements intended to complement or expand our business, and may continue to do so in the future. The success of these transactions will depend on our ability to integrate assets and personnel acquired in these transactions and to cooperate with our strategic partners. We may encounter difficulties in integrating acquisitions with our operations, and in managing strategic investments. Furthermore, we may not realize the degree, or timing, of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations.

Access To Funding Through The Capital Markets Is Essential To The Execution Of Our Business Plan And If We Are Unable To Maintain Such Access We Could Experience A Material Adverse Effect On Our Business And Financial Results

Our ability to invest in our businesses, make strategic acquisitions and refinance maturing debt obligations requires access to the capital markets and sufficient bank credit lines to support short-term borrowings. If we are unable to continue to access the capital markets, we could experience a material adverse effect on our business and financial results.

We Use A Variety Of Raw Materials And Components In Our Businesses, And Significant Shortages Or Price Increases Could Increase Our Operating Costs And Adversely Impact The Competitive Positions Of Our Products

Our major requirements for raw materials include steel, copper, cast iron, electronics, aluminum and brass and, to a lesser extent, plastics and other petroleum based chemicals. Emerson has multiple sources of supply for each of its major requirements and is not significantly dependent on any one or a few suppliers. Significant shortages or price increases could affect the prices our affected businesses charge, their operating costs and the competitive position of their products and services, which could adversely affect our results of operations.

Our Operations Depend On Production Facilities Throughout The World, A Majority Of Which Are Located Outside The United States And Subject To Increased Risks Of Disrupted Production Causing Delays In Shipments And Loss Of Customers And Revenue

We manage businesses with manufacturing facilities worldwide, a majority of which are located outside the United States. Serving a global customer base requires that we place more production in emerging markets to capitalize on market opportunities and maintain our best-cost position. Our international production facilities and operations could be disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity or public health concerns, particularly in emerging countries that are not well-equipped to handle such occurrences.

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Our manufacturing facilities abroad also may be more susceptible to changes in laws and policies in host countries and economic and political upheaval than our domestic facilities. Any such disruption could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate us.

**Our Substantial Sales Abroad Subject Us To Economic Risk As Our Results Of Operations May Be Adversely Affected By Foreign Currency Fluctuations And Changes In Local Government Regulations And Policies**

We sell, manufacture, engineer, and purchase products in overseas markets. A significant portion of our sales is outside the United States, and we expect sales from non - U.S. markets to continue to represent a significant portion of our total sales. International sales and operations are subject to changes in local government regulations and policies, including those related to tariffs and trade barriers, investments, taxation, exchange controls, and repatriation of earnings. Changes in the relative values of currencies occur from time to time and could affect our operating results. While we monitor our exchange rate exposures and attempt to reduce this exposure through hedging activities, this risk could adversely affect our operating results.

**Downturns In The End Markets That We Serve May Negatively Impact Our Segment Revenues And Profitability**

Our segment revenues, operating results and profitability have varied in the past and may vary significantly from quarter to quarter in the future. Profitability can be negatively impacted by volatility in the end markets that we serve. Future downturns in any of the markets that we serve could adversely affect our overall sales and operating results.

**We Are Subject To Litigation And Environmental Regulations That Could Adversely Impact Our Operating Results**

We are, and may in the future be, a party to a number of legal proceedings and claims, including those involving product liability and environmental matters, several of which claim significant damages. Given the inherent uncertainty of litigation, we can offer no assurance that existing litigation or a future adverse development will not have a material adverse impact. We also are subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment, and we could incur substantial costs as a result of the noncompliance with or liability for cleanup or other costs or damages under environmental laws.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

At September 30, 2006, Emerson had approximately 275 manufacturing locations worldwide, of which approximately 170 were located outside the United States, primarily in Europe and to a lesser extent in Asia, Canada and Latin America. The approximate numbers of manufacturing locations by business segment are: Process Management, 55; Industrial Automation, 95; Network Power, 40; Climate Technologies, 35; and Appliance and Tools, 50. The majority of the locations are owned, with the remainder occupied under operating or capital leases. The Company considers its facilities suitable and adequate for the purposes for which they are used.

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**Item 3. Legal Proceedings**

The information regarding legal proceedings set forth in Note 12 of Notes to Consolidated Financial Statements of the 2006 Annual Report is hereby incorporated by reference.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the quarter ended September 30, 2006.

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**Executive Officers of the Registrant**

The following sets forth certain information as of December 2006 with respect to Emerson's executive officers. Fiscal Year column indicates the first year the executive served as an officer of the Company. These officers have been elected or appointed to terms which will expire February 6, 2007:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Fiscal Year</u>
D. N. Farr*	Chairman of the Board, Chief Executive Officer and President	51	1985
W. J. Galvin	Senior Executive Vice President and Chief Financial Officer	60	1984
E. L. Monser	Chief Operating Officer	56	2002
C. A. Peters	Senior Executive Vice President	51	1990
R. J. Schlueter	Vice President and Chief Accounting Officer	52	1992
W. W. Withers	Executive Vice President, Secretary and General Counsel	66	1989

\* Also chairman of the Executive Committee of the Board of Directors.

There are no family relationships among any of the executive officers and directors.

David N. Farr has been Chief Executive Officer since October 2000 and was also appointed Chairman of the Board in September 2004 and appointed President in November 2005. Walter J. Galvin was appointed Senior Executive Vice President in October 2004 and has been Chief Financial Officer since 1993. Prior to his current position, Mr. Galvin was Executive Vice President from February 2000 to October 2004. Edward L. Monser was appointed Chief Operating Officer in November 2001. Charles A. Peters has been Senior Executive Vice President since October 2000. Richard J. Schlueter has been Vice President Accounting since 1999 and was also appointed Chief Accounting Officer in February 2003. W. Wayne Withers was appointed Executive Vice President in October 2004. Prior to his current position, Mr. Withers was Senior Vice President from 1989 to October 2004, and he has been Secretary and General Counsel since November 1989.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The information regarding the market for the Company's common stock, quarterly market price ranges and dividend payments set forth in Note 18 of Notes to Consolidated Financial Statements of the 2006 Annual Report is hereby incorporated by reference. There were approximately 27,065 stockholders of record at September 30, 2006.

Repurchases of equity securities during the fourth quarter of 2006 are listed in the following table.

Period	(a) Total Number of Shares Purchased (000s)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (000s)	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (000s)
July 2006	1,800	\$ 79.27	1,800	20,662
August 2006	2,125	\$ 80.66	2,125	18,537
September 2006	1,700	\$ 81.91	1,700	16,837
Total	5,625	\$ 80.59	5,625	16,837

The Company's Board of Directors authorized the repurchase of up to 40 million shares under the November 2001 program. The maximum number of shares that may yet be purchased under this program is 16.8 million.

### **Item 6. Selected Financial Data**

Years ended September 30

(dollars in millions, except per share amounts)

	2002 (a)	2003	2004	2005 (b)	2006
Net sales	\$ 13,748	13,958	15,615	17,305	20,133
Earnings from continuing operations	\$ 1,076	1,013	1,257	1,422	1,845
Earnings before cumulative effect of change in accounting principle	\$ 1,060	1,089	1,257	1,422	1,845
Earnings from continuing operations per common share (basic)	\$ 2.57	2.42	3.00	3.43	4.52
Earnings from continuing operations per common share (diluted)	\$ 2.56	2.41	2.98	3.40	4.48
Earnings before cumulative effect of change in accounting principle per common share (diluted)	\$ 2.52	2.59	2.98	3.40	4.48
Cash dividends per common share	\$ 1.55	1.57	1.60	1.66	1.78
Long-term debt	\$ 2,990	3,733	3,136	3,128	3,128
Total assets	\$ 14,545	15,194	16,361	17,227	18,672



The operating results of Dura-Line are classified as discontinued operations for 2002-2003 in the table above. See Note 3 of Notes to Consolidated Financial Statements of the 2006 Annual Report for information regarding the Company's acquisition and divestiture activities. Information presented in the selected financial data does not reflect the impact of a two-for-one stock split declared by the Company's Board of Directors in November 2006. See Note 19 of Notes to Consolidated Financial Statements of the 2006 Annual Report, which note is hereby incorporated by reference.

(a) Fiscal 2002 earnings and per share amounts are before a cumulative effect of a change in accounting principle of \$938 million (\$2.24 per basic share, or \$2.23 per diluted share) related to the adoption of FAS 142.

(b) Fiscal 2005 includes a tax expense of \$63 million (\$0.15 per share) related to the one-time opportunity to repatriate foreign earnings under the American Jobs Creation Act of 2004. See Note 13 of Notes to Consolidated Financial Statements of the 2006 Annual Report for additional information, which note is hereby incorporated by reference.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Information appearing under "Results of Operations," "Financial Position, Capital Resources and Liquidity," "Critical Accounting Policies" and the "Safe Harbor Statement" in the 2006 Annual Report are hereby incorporated by reference.

### **Fiscal 2007 Outlook**

The outlook for Emerson remains positive moving into fiscal 2007. Many of Emerson's end markets remain strong, but a moderation in growth rates is expected when compared to 2006. Underlying sales growth for fiscal 2007 is expected to be in the range of 5 to 7 percent, excluding the expected 2 to 4 percent favorable impact from foreign currency translation, acquisitions and divestitures. Reported sales growth is expected to be in the range of 7 to 11 percent. Based on this level of sales growth, the Company expects to generate 2007 earnings per share growth in the range of 12 to 15 percent above the \$4.48 per share earned in 2006.

### **Non-GAAP Financial Measures**

To supplement Emerson's financial information presented in accordance with generally accepted accounting principles (GAAP), management uses additional measures, including non-GAAP financial measures as such term is defined in Regulation G under the rules of the Securities and Exchange Commission, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. For example, these financial measures may exclude the impact of certain unique items such as acquisitions, divestitures, one-time gains and losses or items outside of management's control (e.g., foreign currency exchange rates). Management believes that the following non-GAAP financial measures provide investors and analysts useful insight into Emerson's financial position and performance.

Underlying sales, which exclude the impact of acquisitions and divestitures during the periods presented, and fluctuations in foreign currency exchange rates, are provided to facilitate relevant period-to-period comparisons of sales growth by excluding these unique items that impact the overall comparability. Underlying sales should be viewed in addition to, and not as an alternative to net sales as determined in accordance with U.S. GAAP.

Operating profit (defined as net sales less cost of sales and selling, general and administrative expenses) and operating profit margin (defined as operating profit divided by net sales) are indicative of short-term operational performance and ongoing profitability.

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Management closely monitors operating profit and operating profit margin of each business to evaluate past performance and actions required to improve profitability. Operating profit and operating profit margin should be viewed in addition to, and not as an alternative to pretax earnings or profit margin as determined in accordance with U.S. GAAP.

Earnings, earnings per share, return on equity and return on total capital excluding one-time gains and losses (for example, 2005 tax expense for earnings repatriation or 2003 gains from divestitures) provide additional insight into the underlying, ongoing operating performance of the Company and facilitate period-to-period comparisons by excluding the earnings impact of these items. Given the unique nature of these items, management believes that presenting earnings, earnings per share, return on equity and return on total capital excluding them is more representative of the Company's operational performance and may be more useful for investors. However, these financial measures are not intended to replace earnings, earnings per share, return on equity or return on total capital as determined in accordance with U.S. GAAP.

Free cash flow (operating cash flow less capital expenditures) is an indicator of the Company's cash generating capabilities after considering investments in capital assets which are necessary to maintain and enhance existing operations. Operating cash flow adds back non-cash depreciation expense to earnings and thereby does not reflect a charge for necessary capital expenditures. Although management believes that free cash flow is useful to both management and investors as a measure of the Company's ability to generate cash, it is not intended to replace operating cash flow as determined in accordance with U.S. GAAP.

Overall, while Emerson believes these non-GAAP financial measures are useful in evaluating the Company, this information should be considered as supplemental in nature and not as a substitute for or superior to the related financial information prepared in accordance with GAAP. Further, the calculation of these non-GAAP financial measures may differ from the calculation of similarly titled financial measures presented by other companies, and therefore they may not be comparable among companies.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Information appearing under "Financial Instruments" in the 2006 Annual Report is hereby incorporated by reference.

**Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements of the Company and its subsidiaries and the report thereon of KPMG LLP in the 2006 Annual Report are hereby incorporated by reference.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Emerson maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation performed, the Company's certifying officers have concluded that the disclosure controls and procedures were effective as of September 30, 2006, to provide reasonable assurance of the achievement of these objectives.

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Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to report material information otherwise required to be set forth in the Company's reports.

There was no change in the Company's internal control over financial reporting during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on internal control over financial reporting, and the related report of the Company's auditor, KPMG LLP, an independent registered public accounting firm, appearing in the 2006 Annual Report are hereby incorporated by reference.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Information regarding nominees and directors appearing under "Nominees and Continuing Directors" in the Emerson Electric Co. Notice of Annual Meeting of Stockholders and Proxy Statement for the February 2007 annual stockholders' meeting (the "2007 Proxy Statement") is hereby incorporated by reference. Information regarding executive officers is set forth in Part I of this report. Information appearing under "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2007 Proxy Statement is hereby incorporated by reference. Information regarding the Audit Committee and Audit Committee Financial Expert appearing under "Board of Directors and Committees" in the 2007 Proxy Statement is hereby incorporated by reference.

Emerson has adopted a Code of Ethics that applies to the Company's chief executive officer, chief financial officer, chief accounting officer and controller; has posted such Code of Ethics on its Internet web site; and intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting such information on its Internet web site. Emerson has adopted Charters for its Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee and a Code of Business Ethics for directors, officers and employees, which are available on its Internet web site and are available in print to any shareholder who requests them. Emerson has also adopted Corporate Governance Principles and Practices, which are available on its Internet web site and are available in print to any shareholder who requests them. The Company's Internet web site may be accessed as follows: [www.gotoemerson.com](http://www.gotoemerson.com), Investor Relations, Corporate Governance.

**Item 11. Executive Compensation**

Information appearing under "Director Compensation" and "Executive Compensation" in the 2007 Proxy Statement is hereby incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information regarding beneficial ownership of shares by nominees and continuing directors, named executive officers and by all directors and executive officers as a group appearing under "Nominees and Continuing Directors" in the 2007 Proxy Statement is hereby incorporated by reference.

### Equity Compensation Plan Information

The following table sets forth aggregate information regarding the Company's equity compensation plans as of September 30, 2006:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u> (a)	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u> (b)	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u> (c)
Equity compensation plans approved by security holders(1)	10,257,930	\$ 57.30	18,631,499
Equity compensation plans not approved by security holders(2)	—	—	—
<b>Total</b>	<b>10,257,930</b>	<b>\$ 57.30</b>	<b>18,631,499</b>

- (1) Includes the Company's Stock Option and previously approved Incentive Shares Plans. Included in column (a) are 2,364,630 shares reserved for performance share awards (awarded primarily in 2004), which represent the right to receive common shares contingent upon the Company achieving certain financial objectives by the end of fiscal year 2007. As provided by the Company's Incentive Shares Plans, performance share awards represent a commitment to issue such shares without cash payment by the employee, contingent upon achievement of such objectives and the performance of services by the employee. The price in column (b) represents the weighted-average exercise price for outstanding options. Included in column (c) are 10,653,447 shares remaining available for award under the previously approved 2006 Incentive Shares Plan and 227,048 shares remaining available under the previously approved Restricted Stock Plan for Non-Management Directors.
- (2) Excludes 10,355 outstanding options assumed in connection with acquisitions with a weighted-average exercise price of \$35.27.

Information regarding stock option plans and incentive shares plans set forth in Note 14 of Notes to Consolidated Financial Statements of the 2006 Annual Report is hereby incorporated by reference.

#### **Item 13. Certain Relationships and Related Transactions**

Information appearing under "Certain Business Relationships and Transactions" in the 2007 Proxy Statement is hereby incorporated by reference.

#### **Item 14. Principal Accounting Fees and Services**

Information appearing under "Fees Paid to KPMG LLP" in the 2007 Proxy Statement is hereby incorporated by reference.

## PART IV

### **Item 15. Exhibits and Financial Statement Schedules**

A) Documents filed as a part of this report:

1. The consolidated financial statements of the Company and its subsidiaries and the report thereon of KPMG LLP in the 2006 Annual Report.
2. Financial Statement Schedules

All schedules are omitted because they are not required, not applicable or the information is given in the financial statements or notes thereto contained in the 2006 Annual Report.

3. Exhibits (Listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).

3(a) Restated Articles of Incorporation of Emerson Electric Co., incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 2001, File No. 1-278, Exhibit 3(a); Termination of Designated Shares of Stock and Certificate of Designation, Preferences and Rights of Series B Junior Participating Preferred Stock, incorporated by reference to Emerson Electric Co. 1998 Form 10-K, File No. 1-278, Exhibit 3(a).

3(b) Bylaws of Emerson Electric Co., as amended through October 4, 2005, incorporated by reference to Emerson Electric Co. Form 8-K dated October 4, 2005, Exhibit 3.1.

4(a) Indenture dated as of April 17, 1991, between Emerson Electric Co. and The Boatmen's National Bank of St. Louis, Trustee, incorporated by reference to Emerson Electric Co. Registration Statement on Form S-3, File No. 33-62545, Exhibit 4.1.

4(b) Indenture dated as of December 10, 1998, between Emerson Electric Co. and The Bank of New York, Trustee, incorporated by reference to Emerson Electric Co. 1998 Form 10-K, File No. 1-278, Exhibit 4(b).

No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of Emerson Electric Co. and its subsidiaries on a consolidated basis. Emerson Electric Co. agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

4(c) Rights Agreement dated as of November 1, 1998, between Emerson Electric Co. and ChaseMellon Shareholder Services, L.L.C., incorporated by reference to Emerson Electric Co. Form 8-A, dated October 6, 1998, File No. 1-278, Exhibit 1.

10(a)\* 1991 Stock Option Plan, as amended, incorporated by reference to Emerson Electric Co. 1997 Form 10-K, File No. 1-278, Exhibit 10(e) and Amendment No. 1 thereto, incorporated by reference to Emerson Electric Co. 2000 Form 10-K, File No. 1-278, Exhibit 10(c).

10(b)\* Third Amendment to the Emerson Electric Co. 1993 Incentive Shares Plan, as restated, incorporated by reference to Emerson Electric Co. 1996 Form 10-K, File No. 1-278, Exhibit 10(g), and Fourth Amendment thereto, incorporated by reference to Emerson Electric Co. 2001 Form 10-K, File No. 1-278, Exhibit 10(d).

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- 10(c)\* Emerson Electric Co. Continuing Compensation Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended June 30, 2002, File No. 1-278, Exhibit 10(e).
  - 10(d)\* Deferred Compensation Plan for Non-Employee Directors, as amended, incorporated by reference to Emerson Electric Co. 1994 Form 10-K, File No. 1-278, Exhibit 10(k).
  - 10(e)\* First Amendment to the Emerson Electric Co. Supplemental Executive Retirement Plan, incorporated by reference to Emerson Electric Co. 1999 Form 10-K, File No. 1-278, Exhibit 10(h), and Form of Change of Control Election, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.9.
  - 10(f)\* Fifth Amendment to the Supplemental Executive Savings Investment Plan, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 1999, File No. 1-278, Exhibit 10(j), and Form of Participation Agreement and Form of Annual Election, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.8.
  - 10(g)\* Annual Incentive Plan incorporated by reference to Emerson Electric Co. 2000 Proxy Statement dated December 8, 1999, File No. 1-278, Appendix A, and Form of Deferral and Change of Control Election, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.7.
  - 10(h)\* 1997 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 1997 Proxy Statement dated December 6, 1996, File No. 1-278, Exhibit A, and First Amendment thereto, incorporated by reference to Emerson Electric Co. 2001 Form 10-K, File No. 1-278, Exhibit 10(j), Form of Performance Share Award Certificate and Form of Acceptance of Award and Change of Control Election, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.5, and Form of Restricted Shares Award Agreement, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.6.
  - 10(i)\* 1998 Stock Option Plan, incorporated by reference to Emerson Electric Co. 1998 Proxy Statement dated December 12, 1997, File No. 1-278, Appendix A, and Amendment No. 1 thereto, incorporated by reference to Emerson Electric Co. 2000 Form 10-K, File No. 1-278, Exhibit 10(l), Form of Notice of Grant of Stock Options and Option Agreement and Form of Incentive Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.1, and Form of Notice of Grant of Stock Options and Option Agreement and Form of Nonqualified Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.2.
  - 10(j)\* 2001 Stock Option Plan, incorporated by reference to Emerson Electric Co. 2002 Proxy Statement dated December 12, 2001, File No. 1-278, Appendix A, Form of Notice of Grant of Stock Options and Option Agreement and Form of Incentive Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.3, and Form of Notice of Grant of Stock Options and Option Agreement and Form of Nonqualified Stock Option Agreement, incorporated by reference to Emerson Electric Co. Form 8-K dated October 1, 2004, Exhibit 10.4.
  - 10(k)\* Emerson Electric Co. Description of Split Dollar Life Insurance Program Transition, incorporated by reference to Emerson Electric Co. Form 8-K dated August 31, 2005, Exhibit 10.1.

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- 10(l)\* Emerson Electric Co. Restricted Stock Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. 2005 Proxy Statement dated December 8, 2004, Appendix B, and Form of Award Letter under the Emerson Electric Co. Restricted Stock Plan for Non-Management Directors, incorporated by reference to Emerson Electric Co. Form 8-K dated February 1, 2005, Exhibit 10.2.
- 10(m)\* Description of Non-Management Director Compensation, incorporated by reference to Emerson Electric Co. Form 8-K dated October 4, 2005, Exhibit 10.1.
- 10(n)\* Description of Named Executive Officer Compensation, incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended December 31, 2004, Exhibit 10.1.
- 10(o)\* Letter Agreement effective as of November 1, 2005, by and between Emerson Electric Co. and James G. Berges, incorporated by reference to Emerson Electric Co. Form 8-K dated November 1, 2005, Exhibit 10.1.
- 10(p)\* Consulting Contract made and entered into as of November 1, 2005, by and between Emerson Electric Co. and James G. Berges, incorporated by reference to Emerson Electric Co. Form 8-K dated November 1, 2005, Exhibit 10.2.
- 10(q)\* Emerson Electric Co. 2006 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 2006 Proxy Statement dated December 16, 2005, Appendix C.
- 10(r) Long-Term Credit Agreement dated as of April 28, 2006, incorporated by reference to Emerson Electric Co. Form 8-K dated May 2, 2006, Exhibit 10.1.
- 12 Ratio of Earnings to Fixed Charges.
- 13 Portions of Emerson Electric Co. Annual Report to Stockholders for the year ended September 30, 2006, incorporated by reference herein.
- 21 Subsidiaries of Emerson Electric Co.
- 23 Consent of Independent Registered Public Accounting Firm.
- 24 Power of Attorney.
- 31 Certifications pursuant to Exchange Act Rule 13a-14(a).
- 32 Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
- \* Management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMERSON ELECTRIC CO.

By /s/ W. J. Galvin

W. J. Galvin  
Senior Executive Vice President  
and Chief Financial Officer

Date: November 20, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on November 20, 2006, by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ D. N. Farr</u> D. N. Farr	Chairman of the Board, Chief Executive Officer, President and Director
<u>/s/ W. J. Galvin</u> W. J. Galvin	Senior Executive Vice President, Chief Financial Officer and Director
<u>/s/ R. J. Schlueter</u> R. J. Schlueter	Vice President and Chief Accounting Officer
<u>*</u> A. A. Busch III	Director
<u>*</u> D. C. Farrell	Director
<u>*</u> C. Fernandez G.	Director
<u>*</u> A. F. Golden	Director
<u>*</u> R. B. Horton	Director



*	Director
G. A. Lodge	
*	Director
V. R. Loucks, Jr.	
*	Director
J. B. Menzer	
*	Director
C. A. Peters	
*	Director
J. W. Prueher	
*	Director
R. L. Ridgway	
*	Director
R. L. Stephenson	

\* By /s/ W. J. Galvin  
W. J. Galvin  
Attorney-in-fact

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## INDEX TO EXHIBITS

Exhibits are listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K.

<u>Exhibit No.</u>	<u>Exhibit</u>
12	Ratio of Earnings to Fixed Charges
13	Portions of Emerson Electric Co. Annual Report to Stockholders for the year ended September 30, 2006, incorporated by reference herein
21	Subsidiaries of Emerson Electric Co.
23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney
31	Certifications pursuant to Exchange Act Rule 13a – 14(a)
32	Certifications pursuant to Exchange Act Rule 13a – 14(b) and 18 U.S.C. Section 1350

See Item 15(A) 3. for a list of exhibits incorporated by reference.

**EMERSON ELECTRIC CO. AND SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(Dollars in Millions)

	YEAR ENDED SEPTEMBER 30.				
	2002	2003	2004	2005	2006
<b>Earnings:</b>					
Earnings before income taxes (a)	\$ 1,622	1,452	1,893	2,200	2,749
Fixed charges	321	322	311	323	313
Earnings, as defined	<u>\$ 1,943</u>	<u>1,774</u>	<u>2,204</u>	<u>2,523</u>	<u>3,062</u>
<b>Fixed Charges:</b>					
Interest expense	\$ 250	246	234	243	225
One-third of all rents	71	76	77	80	88
Total fixed charges	<u>\$ 321</u>	<u>322</u>	<u>311</u>	<u>323</u>	<u>313</u>
Ratio of Earnings to Fixed Charges	<u>6.1x</u>	<u>5.5x</u>	<u>7.1x</u>	<u>7.8x</u>	<u>9.8x</u>

- (a) Represents earnings from continuing operations before income taxes, cumulative effect of change in accounting principle and minority interests in the income of consolidated subsidiaries with fixed charges.

## 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, 2006, 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 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 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 which 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, 2006.

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

/s/ David N. Farr  
David N. Farr  
Chairman of the Board,  
Chief Executive Officer, and President

/s/ Walter J. Galvin  
Walter J. Galvin  
Senior Executive Vice President  
and Chief Financial Officer

## RESULTS OF OPERATIONS

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

	2004	2005	2006	Change '04 - '05	Change '05 - '06
Net sales	\$ 15,615	17,305	<b>20,133</b>	11%	<b>16%</b>
Gross profit	\$ 5,566	6,183	<b>7,168</b>	11%	<b>16%</b>
<i>Percent of sales</i>	<i>35.6%</i>	<i>35.7%</i>	<i>35.6%</i>		
SG&A	\$ 3,281	3,595	<b>4,099</b>		
<i>Percent of sales</i>	<i>21.0%</i>	<i>20.7%</i>	<i>20.4%</i>		
Other deductions, net	\$ 223	230	<b>178</b>		
Interest expense, net	\$ 210	209	<b>207</b>		
Earnings before income taxes	\$ 1,852	2,149	<b>2,684</b>	16%	<b>25%</b>
Net earnings	\$ 1,257	1,422	<b>1,845</b>	13%	<b>30%</b>
<i>Percent of sales</i>	<i>8.1%</i>	<i>8.2%</i>	<i>9.2%</i>		
Earnings per share	\$ 2.98	3.40	<b>4.48</b>	14%	<b>32%</b>

Net earnings and earnings per share for 2005 include a \$63 million tax expense (\$0.15 per share) for repatriation under the American Jobs Creation Act.

### Overview

Emerson achieved record sales, earnings and earnings per share in the fiscal year ended September 30, 2006. All of the business segments generated higher sales and earnings compared to the prior year. The Network Power, Process Management and Industrial Automation businesses drove gains in a favorable economic environment as gross fixed investment expanded moderately during 2006. Strong growth in the United States and Asia, solid growth in Europe and acquisitions contributed to these results. Profit margins remained strong primarily due to leverage on higher sales volume and benefits derived from previous cost reduction actions. Emerson's financial position remains strong and the Company continues to generate substantial cash flow.

### Net Sales

Net sales for fiscal 2006 were a record \$20.1 billion, an increase of approximately \$2.8 billion, or 16 percent, over fiscal 2005, with both U.S. and international sales contributing to this growth. The consolidated results reflect increases in all five business segments with an underlying sales (which exclude acquisitions, divestitures and foreign currency translation) increase of more than 12 percent (\$2,119 million), an approximate 4 percent (\$766 million) contribution from acquisitions and a slightly unfavorable impact (\$57 million) from foreign currency translation. The underlying sales increase of more than 12 percent was driven by 12 percent growth in the United States and a total international sales increase of 13 percent. The U.S. market growth was very strong in the first half of 2006 and began to moderate toward the end of the fiscal year, while Europe grew stronger as the year progressed and finished very strong in the fourth quarter. The international sales increase primarily reflects growth in Asia (20 percent) and Europe (7 percent). The Company estimates that the underlying sales growth primarily reflects a nearly 9 percent gain from volume, an approximate 3 percent impact from market penetration gains and a less than 1 percent impact from higher sales prices.

Net sales for fiscal 2005 were \$17.3 billion, an increase of approximately \$1.7 billion, or 11 percent, over fiscal 2004, with growth in both the U.S. and international markets. Continued strength in commercial and industrial demand and increases in all of the business segments drove the consolidated results, with an underlying sales increase of 6 percent (\$895 million), a 2 percent (\$257 million) favorable impact from a stronger Euro and other currencies, and an over 3 percent (\$552 million) positive impact from acquisitions. The underlying sales increase of 6 percent was driven by 6 percent growth in the United States (including a strong finish to the year with 10 percent growth in the fourth quarter) and a total international sales growth of 6 percent, which primarily reflects 11 percent growth in Asia. The Company estimates that the underlying sales growth primarily reflects an approximate 4 percent gain from volume, an approximate 1 percent impact from market penetration gains and an approximate 1 percent impact from higher sales prices.

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## International Sales

International destination sales, including U.S. exports, increased approximately 17 percent, to \$9.5 billion in 2006, representing 47 percent of the Company's total sales. U.S. exports were up 13 percent compared to 2005, at \$1,127 million. International subsidiary sales, including shipments to the United States, were \$8.7 billion in 2006, up 17 percent over 2005. Excluding the net 1 percent unfavorable impact from acquisitions and foreign currency translation, international subsidiary sales increased 18 percent compared to 2005. Underlying destination sales grew 20 percent in Asia during the year, driven mainly by 19 percent growth in China, and 21 percent in Latin America and the Middle East, while sales grew 7 percent in Europe.

International destination sales, including U.S. exports, increased approximately 11 percent, to \$8.2 billion in 2005, representing 47 percent of the Company's total sales. U.S. exports were up 6 percent compared to 2004, at \$998 million. International subsidiary sales, including shipments to the United States, were \$7.4 billion in 2005, up 12 percent over 2004. Excluding the net 4 percent impact from acquisitions and favorable foreign currency translation, international subsidiary sales increased 8 percent compared to 2004. Underlying destination sales grew 11 percent in Asia during the year, driven mainly by 14 percent growth in China, while sales grew 15 percent in Latin America and 10 percent in the Middle East and sales in Europe were flat compared to 2004.

## Acquisitions and Divestitures

The Company acquired Artesyn Technologies, Inc. (Artesyn), Knürr AG (Knürr) and Bristol Babcock (Bristol), as well as several smaller businesses during 2006. Artesyn is a global manufacturer of advanced power conversion equipment and board-level computing solutions for infrastructure applications in telecommunication and data-communication systems. Knürr is a manufacturer of indoor and outdoor enclosure systems and cooling technologies for telecommunications, electronics and computing equipment. Bristol is a manufacturer of control and measurement equipment for oil and gas, water and wastewater, and power industries. Total cash paid for these businesses (net of cash and equivalents acquired of approximately \$120 million and debt assumed of approximately \$90 million) was approximately \$752 million. Annualized sales for acquired businesses were \$920 million in 2006.

In 2006, the Company divested or had plans to divest several small business units, including the materials testing business. These businesses had total annual sales of \$171 million, \$174 million and \$204 million for fiscal years 2006, 2005 and 2004, respectively, and earnings were approximately break-even. The Company recorded an after-tax gain of \$22 million from the sale of the materials testing business in the fourth quarter of 2006. The sales of the other businesses are expected to close in 2007. These businesses were not reclassified as discontinued operations due to immateriality.

During 2005, the Company acquired Do+Able, a manufacturer of ready-to-assemble storage products, and Numatics, a manufacturer of pneumatic and motion control products, and several smaller businesses. Total cash paid for these businesses (including assumed debt of approximately \$100 million, which was repaid in October 2005) was approximately \$466 million. During 2004, the Company acquired the North American outside plant and power systems business of Marconi Corporation PLC, as well as several other smaller businesses for a total of approximately \$414 million in cash. Annualized sales for acquired businesses were \$430 million in both 2005 and 2004. See Note 3 for additional information regarding acquisitions and divestitures.

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## Cost of Sales

Cost of sales for fiscal 2006 and 2005 were \$12.9 billion and \$11.1 billion, respectively. Cost of sales as a percent of net sales was 64.4 percent for 2006, compared with 64.3 percent in 2005. Gross profit was \$7.2 billion and \$6.2 billion for fiscal 2006 and 2005, respectively, resulting in gross profit margins of 35.6 percent and 35.7 percent. The increase in the gross profit primarily reflects higher sales volume and acquisitions. The gross profit margin was unfavorably impacted as leverage on higher sales and benefits realized from productivity improvements were more than offset by higher costs for wages and benefits (pension), negative product mix, as well as the lower profit margin on recent acquisitions. Sales price increases initiated over the past year, together with the benefits received from commodity hedging of approximately \$130 million, offset the higher level of raw material costs, but the margin was diluted. Assuming commodity costs remain at these levels, the Company will need to address commodity inflation pressures (particularly copper and steel) with additional procurement initiatives and sales price actions.

Cost of sales for fiscal 2005 and 2004 were \$11.1 billion and \$10.0 billion, respectively. Cost of sales as a percent of net sales was 64.3 percent for 2005, compared with 64.4 percent in 2004. The gross profit margin increased from 35.6 percent in 2004 to 35.7 percent for 2005 primarily as a result of increased volume and leverage on higher sales, as well as benefits realized from prior rationalization and productivity improvements. Across the Company, higher costs for raw materials were substantially recovered through increases in sales prices, which partially offset these improvements.

## Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for 2006 were \$4.1 billion, or 20.4 percent of net sales, compared with \$3.6 billion, or 20.7 percent of net sales for 2005. The increase of approximately \$0.5 billion was primarily due to the increase in variable costs on higher sales and acquisitions. The reduction in SG&A as a percent of sales was primarily the result of leveraging fixed costs on higher sales.

SG&A expenses for 2005 were \$3.6 billion compared with \$3.3 billion for 2004. As a percent of net sales, SG&A expenses were 20.7 percent in 2005 and 21.0 percent in 2004. Leverage on higher sales and the benefits realized from prior rationalization efforts were partially offset by higher costs for wages and benefits.

## Other Deductions, Net

Other deductions, net were \$178 million in 2006, a \$52 million decrease from the \$230 million in 2005. The decrease primarily reflects \$42 million of higher gains in 2006 compared to 2005 and lower rationalization costs. Gains in 2006 included approximately \$31 million related to the divestiture of the materials testing business and approximately \$26 million related to the sale of shares in MKS Instruments, Inc. (MKS). The Company expects to continue liquidating its remaining MKS investment valued at approximately \$90 million (cost basis approximately \$70 million). Ongoing costs for the rationalization of operations were \$84 million in 2006, down from \$110 million in 2005, reflecting lower costs, particularly for the Network Power segment. The higher gains and lower rationalization costs were partially offset by higher amortization of intangibles related to acquisitions.

Other deductions, net were \$230 million in 2005 compared to \$223 million in 2004. In 2005, ongoing costs for the rationalization of operations were \$110 million, down from \$129 million in 2004, primarily reflecting lower costs in the Process Management and Appliance and Tools segments. The decrease in rationalization costs was more than offset by higher amortization of intangibles, a litigation settlement in 2005 and a 2004 insurance recovery and interest refund. See Notes 4 and 5 for further details regarding other deductions, net and rationalization costs.

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### **Interest Expense, Net**

Interest expense, net was \$207 million, \$209 million and \$210 million in 2006, 2005 and 2004, respectively. During 2006, \$250 million of 6.3% notes matured. During 2005, the Company issued \$250 million of 4.75% ten-year notes due October 2015, and \$600 million of 7 <sup>7</sup>/<sub>8</sub>% notes matured.

### **Earnings Before Income Taxes**

Earnings before income taxes were \$2.7 billion for 2006, an increase of 25 percent, compared to \$2.1 billion for 2005. The earnings results reflect increases in all five business segments, including \$207 million in Process Management, \$111 million in Network Power and \$105 million in Industrial Automation. The higher earnings also reflect leverage from higher sales, benefits realized from productivity improvements, and higher sales prices, partially offset by higher raw material, wage and benefit costs.

Earnings before income taxes were \$2.1 billion for 2005, an increase of 16 percent, compared to \$1.9 billion for 2004. The earnings results reflect increases in four of the five business segments, with particular strength in the Network Power, Process Management and Industrial Automation businesses. The higher earnings also reflect increased volume and leverage from the higher sales, savings from cost reduction efforts, and higher sales prices, partially offset by higher raw material costs, higher wage and benefit costs and other items.

### **Income Taxes**

Income taxes for 2006 were \$839 million compared to \$727 million for 2005. The effective tax rate decreased from 34 percent in 2005 to approximately 31 percent in 2006. The change in the tax rate is primarily due to a 3 percentage point decrease resulting from a \$63 million tax expense in 2005 related to the one-time opportunity during 2005 to repatriate foreign earnings at a favorable rate under the American Jobs Creation Act of 2004 (the Act).

Income taxes for 2005 were \$727 million compared to \$595 million for 2004. The effective tax rate increased from 32 percent in 2004 to approximately 34 percent in 2005. The change in the tax rate is primarily due to the tax expense in 2005 related to the Act as discussed above. See Note 13 for further discussion regarding the impact of the Act.

### **Net Earnings and Return on Equity**

Net earnings and earnings per share for 2006 increased 30 percent and 32 percent, respectively, to a record \$1.8 billion and a record \$4.48 per share, compared to \$1.4 billion and \$3.40 per share in 2005. Net earnings as a percent of net sales were 9.2 percent in 2006 compared to 8.2 percent in 2005. Net earnings for 2005 included a tax expense of \$63 million, or \$0.15 per share, related to the one-time opportunity to repatriate foreign earnings. The 32 percent increase in earnings per share also reflects the purchase of treasury shares. Return on average stockholders' equity was 23.7 percent and 19.4 percent for 2006 and 2005, respectively.

Net earnings and earnings per share for 2005 increased 13 percent and 14 percent, respectively, to \$1.4 billion and \$3.40 per share, compared to \$1.3 billion and \$2.98 per share in 2004. Net earnings as a percent of net sales were 8.2 percent in 2005 compared to 8.1 percent in 2004. Net earnings for 2005 include a tax expense of \$63 million, or \$0.15 per share, related to the one-time opportunity to repatriate foreign earnings. The 14 percent increase in earnings per share also reflects the purchase of treasury shares. Return on average stockholders' equity was 19.4 percent and 18.4 percent for 2005 and 2004, respectively.



## Business Segments

### Process Management

<i>(dollars in millions)</i>	2004	2005	2006	Change '04 - '05	Change '05 - '06
Sales	\$3,703	4,200	<b>4,875</b>	13%	<b>16%</b>
Earnings	\$ 476	671	<b>878</b>	41%	<b>31%</b>
Margin	12.9%	16.0%	<b>18.0%</b>		

2006 vs. 2005 - Sales in the Process Management segment were \$4.9 billion in 2006, an increase of \$675 million, or 16 percent, over 2005, reflecting higher volume and acquisitions. All of the businesses, including measurement, valves and systems, reported higher sales and earnings (defined as earnings before interest and taxes for the business segments discussion) due to worldwide growth in oil and gas and power projects, as well as expansion in China. The increasing demand for energy is driving capacity expansion and upgrades to existing facilities in the energy sector. Underlying sales increased 13 percent, excluding a 3 percent (\$147 million) contribution from the Bristol, Tescom and Mobrey acquisitions, driven by the strong market demand and aided by approximately 2 percent from penetration gains and price. The underlying sales increase reflects growth in all major geographic regions, including the United States (15 percent), Asia (15 percent), Latin America (20 percent) and Europe (6 percent), compared with the prior year. Earnings increased 31 percent to \$878 million from \$671 million in the prior year, primarily reflecting higher sales volume, as well as acquisitions. The margin increase was primarily due to leverage on higher sales. Sales price increases and material cost containment were offset by higher wages.

2005 vs. 2004 - Sales in the Process Management segment were \$4.2 billion in 2005, up \$497 million, or 13 percent, over 2004, reflecting stronger market demand for capital goods (including process automation products and systems), penetration gains in excess of 1 percent and acquisitions. Nearly all of the businesses reported sales increases, with sales and earnings particularly strong for the valves and measurement businesses due to growth in oil and gas projects, and expansion in China. Underlying sales increased 9 percent, excluding a 2 percent (\$84 million) positive contribution from the Metran, Tescom and Mobrey acquisitions and a 2 percent (\$79 million) favorable impact from foreign currency translation. The increase in underlying sales reflects 22 percent growth in Asia, 29 percent growth in Canada, 13 percent growth in Latin America and 5 percent growth in the United States, while sales in Europe increased 1 percent compared with 2004. Volume growth, leverage on the higher sales of approximately 2 percentage points and savings from prior cost reduction efforts drove a 41 percent increase in earnings from \$476 million in 2004 to \$671 million for 2005.

### Industrial Automation

<i>(dollars in millions)</i>	2004	2005	2006	Change '04 - '05	Change '05 - '06
Sales	\$2,936	3,242	<b>3,767</b>	10%	<b>16%</b>
Earnings	\$ 391	464	<b>569</b>	19%	<b>23%</b>
Margin	13.3%	14.3%	<b>15.1%</b>		

2006 vs. 2005 - Sales in the Industrial Automation segment were \$3.8 billion in 2006, an increase of 16 percent compared to 2005. Sales grew in all of the major geographic regions and in nearly all of the businesses, reflecting the continued favorable economic environment for capital goods. Underlying sales grew 11 percent, excluding a 6 percent (\$208 million) contribution from the Numatics, Safronics and Jaure acquisitions and a 1 percent (\$41 million) unfavorable impact from foreign currency translation. Underlying sales grew 12 percent in the United States and 11 percent internationally. The increase in international sales primarily reflects growth in Europe (10 percent) and Asia (13 percent). The results reflect growth in nearly all of the businesses, with particular strength in the power generating alternator and electrical distribution businesses. The underlying growth reflects both increased global industrial demand and a nearly 3 percent positive impact from price and penetration gains. In addition, the electrical distribution business's strong growth was driven by increased demand in North America, particularly along the Gulf Coast of the United States. Earnings increased 23 percent to \$569 million for 2006, compared with \$464 million in 2005, reflecting higher sales volume and prices, as well as acquisitions. The margin increase was primarily due to leverage on higher sales volume. Sales price increases and benefits from prior cost reduction efforts were offset by higher material, wage and benefit (pension) costs, as well as dilution from acquisitions. The earnings increase was also aided by an approximate \$18 million payment received by the power transmission business from dumping duties related to the U.S. Continued Dumping and Subsidy Offset Act (Offset Act) in the current year, compared with a \$13 million payment received in 2005, and lower litigation settlement costs compared to the prior year.

2005 vs. 2004 - Sales in the Industrial Automation segment increased 10 percent compared to 2004 to \$3.2 billion in 2005, with sales increases in all of the businesses and major geographic areas, reflecting the favorable economic environment for capital goods. Underlying sales grew nearly 8 percent, excluding a nearly 3 percent (\$78 million) favorable impact from foreign currency translation. The underlying sales growth reflects an 11 percent increase in the United States and a 5 percent increase in international sales, with 4 percent growth in Europe, 4 percent growth in Asia and 25 percent growth in the Middle East. The results reflect solid improvements across all the businesses, with particular strength in the power generating alternator and the power transmission businesses, reflecting increased global industrial demand and an estimated 2 percent positive impact from higher sales prices. Earnings increased 19 percent to \$464 million for 2005, compared with \$391 million in 2004, due to higher sales volume and leverage, while sales price increases nearly offset higher material costs (particularly for steel and copper). The earnings increase was aided by a \$13 million payment received by the power transmission business from dumping duties related to the Offset Act in 2005, compared with a \$2 million payment received in 2004, partially offset by a litigation settlement related to the electrical products business.

#### Network Power

<i>(dollars in millions)</i>	2004	2005	2006	Change '04 - '05	Change '05 - '06
Sales	\$2,692	3,317	<b>4,350</b>	23%	<b>31%</b>
Earnings	\$ 297	373	<b>484</b>	26%	<b>30%</b>
Margin	11.0%	11.2%	<b>11.1%</b>		

2006 vs. 2005 - The Network Power segment sales increased 31 percent to \$4.4 billion in 2006 compared to \$3.3 billion in 2005. End markets were strong across the segment with particular strength in the computing and data-center markets, which led to strong growth in the AC power system and precision cooling businesses. The sales increase reflects 21 percent growth in underlying sales and a 10 percent (\$341 million) contribution from the Artesyn and Knürr acquisitions. The underlying sales increase of 21 percent reflects higher volume of approximately 23 percent, of which more than one-third is estimated to be from market penetration gains. These increases were partially offset by an estimated 2 percent impact from lower sales prices. Geographically, underlying sales reflect a 22 percent increase in the United States, a 37 percent increase in Asia (primarily China) and a 3 percent increase in Europe. The Company continues to build upon its Emerson Network Power China division resulting in market penetration in China and other Asian markets. Earnings increased 30 percent, or \$111 million, to \$484 million, compared with \$373 million in 2005, primarily due to higher sales volume. The margin was primarily diluted by the Artesyn acquisition and declines in sales prices, partially offset by material cost containment. Negative product mix in the embedded power business and higher costs related to inventory and warranty in the North American DC power business in the fourth quarter also diluted the margin. Leverage on higher sales volume, savings from prior period cost reduction efforts and a \$16 million reduction in rationalization costs versus the prior year mitigated the margin decline.

2005 vs. 2004 - Network Power segment sales increased 23 percent to \$3.3 billion in 2005 compared to \$2.7 billion in 2004, reflecting acquisitions and continued demand for power systems and precision cooling products, as well as uninterruptible power supplies and original equipment manufacturers (OEM) embedded power modules. Acquisitions added approximately 14 percent (\$366 million) to the increase, foreign currency translation had a 1 percent favorable impact, and underlying sales grew 8 percent. The underlying sales increase reflects higher

volume of approximately 7 percent and estimated penetration gains of approximately 4 percent, offset by an estimated 3 percent impact from lower sales prices. Geographically, underlying sales reflect an 11 percent increase in the United States and a 14 percent increase in Asia (primarily China), offset by a 2 percent decrease in Europe. The growth in the United States reflects strong market demand for communications and enterprise computer equipment in 2005. Growth in Asia was driven by increased demand for communications and power equipment, supported by a robust economic environment. Earnings increased 26 percent, or \$76 million, to \$373 million, compared with \$297 million in 2004, primarily reflecting higher sales volume, leverage of approximately 2 percentage points and benefits from prior cost reductions. The earnings increase and margin were impacted by negative price, partially offset by material cost containment. In addition, negative product mix in the embedded power business, as well as integration costs related to the Marconi acquisition, impacted profitability.

### Climate Technologies

<i>(dollars in millions)</i>	2004	2005	2006	Change '04 - '05	Change '05 - '06
Sales	\$2,983	3,041	<b>3,424</b>	2%	<b>13%</b>
Earnings	\$ 467	453	<b>523</b>	(3%)	<b>15%</b>
Margin	15.7%	14.9%	<b>15.3%</b>		

2006 vs. 2005 -Sales in the Climate Technologies segment were \$3.4 billion in 2006, an increase of 13 percent compared to 2005. Underlying sales grew 13 percent, which reflects a 14 percent increase in the United States, a 20 percent increase in Europe and a 1 percent increase in Asia. The underlying sales growth was largely due to strong demand in the air-conditioning compressor business and an estimated 1 percent positive impact from higher sales prices. The volume increase of 12 percent, one-fourth of which is estimated to be from market share gains, was primarily related to scroll compressors. The air-conditioning compressor business was very strong during the year primarily due to demand relating to the transition in the United States to higher efficiency standards that became effective January 23, 2006, as well as weather related demand. Earnings increased 15 percent to \$523 million in 2006 compared to \$453 million in 2005, primarily due to higher volume. The margin increase reflects leverage on higher sales and savings from prior period cost reduction efforts, partially offset by higher wages and benefits (pension). The margin increase was negatively impacted as the higher sales prices were more than offset by higher material costs. The Company has begun capacity expansion in Mexico where the next generation scroll compressor design and hermetic motors for the North American market will be produced.

2005 vs. 2004 -Climate Technologies segment sales were \$3.0 billion in 2005, an increase of 2 percent compared to 2004. Excluding a 1 percent positive impact from foreign currency translation, underlying sales grew 1 percent versus strong 2004 results. Higher sales prices of approximately 2 percent and market share gains were substantially offset by volume decreases due to inventory reductions in the supply chain in the United States and China, as well as decreased wholesaler exports from Europe due to the strong Euro. Sales results for 2005 were mixed across the businesses, with strong growth in U.S. air-conditioning compressors during the fourth quarter driving the overall increase. The growth in the compressor business reflects replenishment of inventories in the distribution channel in the fourth quarter due to late season, warm weather in the United States, as well as anticipatory demand due to the pending transition in the United States to higher efficiency standards. The underlying sales reflect a 3 percent increase in the United States, an 8 percent decline in Europe and a 4 percent decline in Asia, while sales in Latin America increased 35 percent off a smaller base. Earnings from Climate Technologies decreased 3 percent to \$453 million in 2005 compared to \$467 million in 2004, primarily due to negative impacts from lower sales volume, product mix and higher wage costs, partially offset by benefits from prior cost reduction efforts and lower rationalization costs compared to 2004. Higher sales prices substantially offset higher material costs, which had a dilutive impact on the margin.

### Appliance and Tools

<i>(dollars in millions)</i>	2004	2005	2006	Change '04 - '05	Change '05 - '06
Sales	\$3,749	4,008	<b>4,313</b>	7%	<b>8%</b>
Earnings	\$ 530	534	<b>550</b>	1%	<b>3%</b>
Margin	14.1%	13.3%	<b>12.8%</b>		

2006 vs. 2005 -The Appliance and Tools segment sales increased 8 percent to \$4.3 billion for 2006. This increase reflects 6 percent growth in underlying sales and a 2 percent (\$62 million) contribution from the Do+Able acquisition. Sales grew in nearly all of the businesses with most experiencing moderate to strong growth. Particular strength in the tools, storage and hermetic motors

businesses was partially offset by softness in the appliance component business. The hermetic motors business was very strong due to the air-conditioning demand during the year. In addition, the storage businesses showed strong growth driven by the U.S. market. Strength in U.S. residential investment in the first half of 2006 and increased demand at major retailers resulted in continued growth in the storage businesses. The underlying sales increase reflects an estimated 3 percent growth from volume and an approximate 3 percent positive impact from price and penetration gains. Geographically, underlying sales increased 6 percent in the United States and 8 percent internationally. Earnings for 2006 were \$550 million, an increase of 3 percent from 2005. The overall increase in profit was partially offset by declines in certain tools, storage and motors businesses, reflecting new product introduction costs in the disposer business, foreign currency losses in the tools and residential storage businesses and restructuring inefficiencies, including costs related to plant shutdown and ramp up of Mexican capacity in the tools and motors businesses. Overall, increases in sales prices were offset by higher raw material (particularly copper, steel and plastics), wage and benefit (pension) costs and negative product mix, diluting the profit margin.

2005 vs. 2004 -Appliance and Tools segment sales increased 7 percent to \$4.0 billion for 2005. This increase reflects a 3 percent growth in underlying sales, a 1 percent favorable impact from foreign currency translation and a 3 percent (\$101 million) positive impact from Do+Able and a smaller acquisition. Geographically, underlying sales increased 3 percent in the United States and 3 percent internationally. The underlying sales increase primarily reflects an approximate 3 percent positive impact from higher sales prices. The results were mixed across the segment with gains in most of the businesses, particularly strong growth in storage and hermetic motors, and softness in the appliance motor and component businesses. Strong growth in the storage businesses primarily resulted from strength in new and existing home markets as reflected in U.S. residential investment in 2005, and increased demand at major retailers. Earnings of the Appliance and Tools segment for 2005 of \$534 million were up 1 percent from 2004, primarily due to \$23 million in lower rationalization costs compared to 2004, partially offset by a \$12 million negative impact from a quality issue with an appliance component in 2005. Higher sales prices were more than offset by higher raw material costs (particularly steel and copper in the motors business), which together with acquisitions diluted the margin.

### FINANCIAL POSITION, CAPITAL RESOURCES AND LIQUIDITY

The Company continues to generate substantial cash from operations and is in a strong financial position with total assets of \$19 billion and stockholders' equity of \$8 billion, and has the resources available for reinvestment in existing businesses, strategic acquisitions and managing the capital structure on a short- and long-term basis.

#### Cash Flow

<i>(dollars in millions)</i>	2004	2005	2006
Operating Cash Flow	\$2,216	2,187	<b>2,512</b>
<i>Percent of sales</i>	14.2%	12.6%	<b>12.5%</b>
Capital Expenditures	\$ 400	518	<b>601</b>
<i>Percent of sales</i>	2.6%	3.0%	<b>3.0%</b>
Free Cash Flow (Operating Cash Flow Less Capital Expenditures)	\$1,816	1,669	<b>1,911</b>
<i>Percent of sales</i>	11.6%	9.6%	<b>9.5%</b>
Operating Working Capital	\$ 1,633	1,643	<b>2,044</b>
<i>Percent of sales</i>	10.5%	9.5%	<b>10.1%</b>

Emerson generated operating cash flow of \$2.5 billion in 2006, a 15 percent increase from 2005. Higher net earnings were partially offset by additional working capital necessary to support the higher level of sales. Cash flow in 2006 reflects continued improvements in operating working capital management, including a 2 percent increase in days payable outstanding. Operating

cash flow was \$2.2 billion in 2005, a 1 percent decrease from 2004. Higher net earnings were more than offset by additional working capital necessary to support the higher level of sales and the \$140 million tax refund in 2004 related to the sale of Jordan stock including its Dura-Line operations in 2003. At September 30, 2006, operating working capital as a percent of sales was 10.1 percent, compared with 9.5 percent and 10.5 percent in 2005 and 2004, respectively. Operating cash flow was decreased by pension contributions of \$124 million, \$124 million and \$167 million in 2006, 2005 and 2004, respectively. Pension contributions are expected to be approximately \$100 million to \$150 million in 2007.

Free cash flow (operating cash flow less capital expenditures) was \$1.9 billion in 2006, compared to \$1.7 billion and \$1.8 billion in 2005 and 2004, respectively. The 15 percent increase in free cash flow in 2006 compared to 2005 reflects the increase in operating cash flow, primarily due to higher net earnings, partially offset by higher capital spending. The 8 percent decrease in 2005 compared to 2004 was primarily due to higher capital expenditures. Capital expenditures were \$601 million, \$518 million and \$400 million in 2006, 2005 and 2004, respectively. The increase in capital expenditures during 2006 compared to the prior year includes capacity expansion and acquisitions in the Network Power segment, while the increase in 2005 compared to 2004 was primarily driven by unitary air-conditioning scroll compressor capacity expansion in the United States and Asia. In 2007, the Company is targeting capital spending of approximately 3 percent of net sales. Cash paid in connection with Emerson's acquisitions was \$752 million, \$366 million and \$414 million in 2006, 2005 and 2004, respectively.

Dividends were \$730 million (\$1.78 per share, up 7 percent) in 2006, compared with \$694 million (\$1.66 per share) in 2005, and \$675 million (\$1.60 per share) in 2004. In November 2006, the Board of Directors voted to increase the quarterly cash dividend 18 percent to an annualized rate of \$2.10 per share. Also in November 2006, the Company's Board of Directors declared a two-for-one split of the Company's common stock effected in the form of a 100 percent stock dividend to shareholders of record as of November 17, 2006, with a distribution date of December 11, 2006 (shares begin trading on a post-split basis on December 12, 2006). In 2006, approximately 10,726,000 shares were repurchased under the 2002 Board of Directors' authorization; in 2005, approximately 10,035,000 shares were repurchased under the 2002 authorization, and in 2004, approximately 2,630,000 shares were repurchased under the fiscal 1997 and 2002 Board of Directors' authorizations; 16.8 million shares remain available for repurchase under the 2002 authorization and none remain under the 1997 authorization. Purchases of treasury stock totaled \$871 million, \$671 million and \$157 million in 2006, 2005 and 2004, respectively.

### Leverage/Capitalization

<i>(dollars in millions)</i>	2004	2005	2006
Total Assets	\$16,361	17,227	<b>18,672</b>
Long-term Debt	\$ 3,136	3,128	<b>3,128</b>
Stockholders' Equity	\$ 7,238	7,400	<b>8,154</b>
Total Debt-to-Capital Ratio	35.8%	35.6%	<b>33.1%</b>
Net Debt-to-Net Capital Ratio	27.0%	27.7%	<b>28.1%</b>
Operating Cash Flow-to-Debt Ratio	54.9%	53.4%	<b>62.4%</b>
Interest Coverage Ratio	8.9	9.8	<b>12.9</b>

Total debt was \$4.0 billion, \$4.1 billion and \$4.0 billion for 2006, 2005 and 2004, respectively. The total debt-to-capital ratio was 33.1 percent at year-end 2006, compared with 35.6 percent for 2005 and 35.8 percent for 2004. At September 30, 2006, net debt (total debt less cash and equivalents and short-term investments) was 28.1 percent of net capital, compared with 27.7 percent of net capital in 2005 and 27.0 percent of net capital in 2004. The operating cash flow-to-debt ratio was 62.4 percent, 53.4 percent and 54.9 percent in 2006, 2005 and 2004, respectively. The Company's interest coverage ratio (earnings before income taxes and interest expense, divided by interest expense) was 12.9 times in 2006, compared with 9.8 times in 2005 and 8.9 times in 2004. The increase in the interest coverage ratio over the last three years reflects higher

earnings and lower average borrowings. See Notes 3, 8 and 9 for additional information. The Company's strong financial position supports long-term debt ratings of A2 by Moody's Investors Service and A by Standard and Poor's.

At year-end 2006, the Company maintained a five-year revolving credit facility effective until April 2011 amounting to \$2.8 billion to support short-term borrowings. The credit facility does not contain any financial covenants, and is not subject to termination based upon a change in credit ratings or a material adverse change. In addition, as of September 30, 2006, the Company could issue up to \$2.25 billion in debt securities, preferred stock, common stock, warrants, share purchase contracts and share purchase units under the shelf registration statement filed with the Securities and Exchange Commission.

### Contractual Obligations

At September 30, 2006, the Company's contractual obligations, including estimated payments due by period, are as follows:

<i>(dollars in millions)</i>	<i>Payments Due By Period</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>More Than 5 years</i>
Long-term Debt	\$ 3,130	2	726	637	1,765
Operating Leases	509	143	174	89	103
Purchase Obligations	815	676	128	11	—
Total	\$4,454	821	1,028	737	1,868

Purchase obligations consist primarily of inventory purchases made in the normal course of business to meet operational requirements. The above table does not include \$2.0 billion of other noncurrent liabilities recorded in the balance sheet, as summarized in Note 17, which consist primarily of deferred income tax and retirement and postretirement plan liabilities, because it is not certain when these liabilities will become due. See Notes 10, 11 and 13 for additional information.

### Financial Instruments

The Company is exposed to market risk related to changes in interest rates, copper and other commodity prices and European and other 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 evaluate these impacts. Based on a hypothetical ten-percent increase in interest rates, ten-percent decrease in commodity prices or ten-percent weakening in the U.S. dollar across all currencies, the potential losses in future earnings, fair value and cash flows are immaterial. This method 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, 7, 8 and 9.

### CRITICAL ACCOUNTING POLICIES

Preparation of the Company's financial statements requires management to make judgments, assumptions and estimates regarding uncertainties that affect the reported amounts of assets, liabilities, stockholders' equity, revenues and expenses. Note 1 of the Notes to Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described in the following paragraphs. Actual results in these areas could differ materially from management's estimates under different assumptions or conditions.

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## Revenue Recognition

The Company recognizes nearly all of its revenues through the sale of manufactured products and records the sale when products are shipped and title passes to the customer and collection is reasonably assured. In certain instances, revenue is recognized on the percentage-of-completion method, when services are rendered, or in accordance with AICPA Statement of Position No. 97-2, "Software Revenue Recognition." Sales sometimes include multiple items including services such as installation. In such instances, revenue assigned to each item is based on that item's objectively determined fair value, and revenue is recognized individually for delivered items only if the delivered items have value to the customer on a standalone basis, performance of the undelivered items is probable and substantially in the Company's control and the undelivered items are inconsequential or perfunctory. Management believes that all relevant criteria and conditions are considered when recognizing sales.

## Inventories

Inventories are stated at the lower of cost or market. The majority of inventory values are based upon standard costs which approximate average costs, while the remainder are principally valued on a first-in, first-out basis. Standard costs are revised at the beginning of each fiscal year. The effects of resetting standards and operating variances incurred during each period are allocated between inventories and cost of sales. Management regularly reviews inventory for obsolescence to determine whether a write-down is necessary. Various factors are considered in making this determination, including recent sales history and predicted trends, industry market conditions and general economic conditions. See Note 1.

## Long-lived Assets

Long-lived assets, which include primarily goodwill and property, plant and equipment, are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. 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. Fair value is generally measured based on a discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. The estimates of cash flows and discount rate are subject to change due to the economic environment, including such factors as interest rates, expected market returns and volatility of markets served. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates could materially affect the evaluations. See Notes 1, 3 and 6.

## Retirement Plans

Defined benefit plan expense and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rate, rate of compensation increases and expected return on plan assets. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's retirement plan obligations and future expense. Effective for 2007, the discount rate for the U.S. retirement plans was adjusted to 6.5 percent based on the changes in market interest rates. Defined benefit pension plan expense is expected to decrease approximately \$20 million in 2007. The Company is analyzing the impact of adopting Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (FAS 158), and estimates that if the provisions of FAS 158 were applied as of September 30, 2006, an after-tax charge to equity of approximately \$500 million (\$800 million pretax) would have been reported. See further discussion of

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FAS 158 under the New Accounting Pronouncements section below. The Company contributed \$124 million to defined benefit plans in 2006 and expects to contribute approximately \$100 million to \$150 million in 2007. See Note 10.

### **Income Taxes**

Income tax expense and deferred tax assets and liabilities reflect management's assessment of actual future taxes to be paid on items reflected in the financial statements. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the 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 are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. No provision is made for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries. These earnings are 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 Note 13.

The American Jobs Creation Act of 2004 (the Act) was signed into law on October 22, 2004. The Act repeals an export tax benefit, provides for a 9 percent deduction on U.S. manufacturing income, and allows the repatriation of foreign earnings at a reduced rate for one year, subject to certain limitations. When fully phased-in, management estimates that the repeal of the export tax benefit will be offset by the deduction on manufacturing income. During 2005, the Company repatriated approximately \$1.4 billion (\$1.8 billion in total) of cash from undistributed earnings of non-U.S. subsidiaries under the Act. As a result, the Company recorded a tax expense of \$63 million, or \$0.15 per share, in 2005.

### **New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109" (FIN 48). FIN 48 addresses the accounting for uncertain tax positions that a company has taken or expects to take on a tax return. The Company is in the process of analyzing the impact of FIN 48, which is required to be adopted by the first quarter of fiscal 2008. FIN 48 is not expected to have a material impact on the financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. The Company is in the process of analyzing the impact of FAS 157, which is effective for fiscal years beginning after November 15, 2007.

In September 2006, the Financial Accounting Standards Board issued FAS 158. FAS 158 requires employers to recognize the over- or under-funded status of defined benefit plans and other postretirement plans in the statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. In addition, FAS 158 requires employers to measure the funded status of plans as of the date of the year-end statement of financial position. The recognition and disclosure provisions of FAS 158 are effective for fiscal years ending after December 15, 2006, while the requirement to measure plan assets and benefit obligations as of a company's year-end date is effective for fiscal years ending after December 15, 2008. The Company is currently in the process of analyzing the impact of FAS 158; however, see the previous discussion under Critical Accounting Policies for the potential impact on the Company's financial statements upon adoption.



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**Consolidated Statements of Earnings****EMERSON ELECTRIC CO. & SUBSIDIARIES***Years ended September 30 | Dollars in millions, except per share amounts*

	<i>2004</i>	<i>2005</i>	<i>2006</i>
<b>Net sales</b>	<b>\$15,615</b>	<b>17,305</b>	<b>20,133</b>
Costs and expenses:			
Cost of sales	10,049	11,122	<b>12,965</b>
Selling, general and administrative expenses	3,281	3,595	<b>4,099</b>
Other deductions, net	223	230	<b>178</b>
Interest expense (net of interest income: 2004, \$24; 2005, \$34; 2006, \$18)	210	209	<b>207</b>
<b>Earnings before income taxes</b>	<b>1,852</b>	<b>2,149</b>	<b>2,684</b>
Income taxes (2005 includes a \$63 expense for repatriation under the American Jobs Creation Act)	595	727	<b>839</b>
<b>Net earnings</b>	<b>\$ 1,257</b>	<b>1,422</b>	<b>1,845</b>
<b>Basic earnings per common share</b>	<b>\$ 3.00</b>	<b>3.43</b>	<b>4.52</b>
<b>Diluted earnings per common share</b>	<b>\$ 2.98</b>	<b>3.40</b>	<b>4.48</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Consolidated Balance Sheets****EMERSON ELECTRIC CO. & SUBSIDIARIES***September 30 | Dollars in millions, except per share amounts*

ASSETS	2005	2006
<b>Current assets</b>		
Cash and equivalents	\$ 1,233	810
Receivables, less allowances of \$76 in 2005 and \$74 in 2006	3,256	3,716
Inventories:		
Finished products	711	887
Raw materials and work in process	1,102	1,335
Total inventories	1,813	2,222
Other current assets	535	582
<b>Total current assets</b>	<b>6,837</b>	<b>7,330</b>
<b>Property, plant and equipment</b>		
Land	185	188
Buildings	1,426	1,536
Machinery and equipment	5,442	5,811
Construction in progress	303	354
	7,356	7,889
Less accumulated depreciation	4,353	4,669
<b>Property, plant and equipment, net</b>	<b>3,003</b>	<b>3,220</b>
<b>Other assets</b>		
Goodwill	5,479	6,013
Other	1,908	2,109
<b>Total other assets</b>	<b>7,387</b>	<b>8,122</b>
	<b>\$17,227</b>	<b>18,672</b>

*See accompanying Notes to Consolidated Financial Statements.*

LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2006
<b>Current liabilities</b>		
Short-term borrowings and current maturities of long-term debt	\$ 970	898
Accounts payable	1,841	2,305
Accrued expenses	1,839	1,933
Income taxes	281	238
Total current liabilities	4,931	5,374
<b>Long-term debt</b>	3,128	3,128
<b>Other liabilities</b>	1,768	2,016
<b>Stockholders' equity</b>		
Preferred stock of \$2.50 par value per share		
Authorized 5,400,000 shares; issued – none	—	—
Common stock of \$0.50 par value per share		
Authorized 1,200,000,000 shares; issued 476,677,006 shares; outstanding 410,651,564 shares in 2005 and 402,346,899 shares in 2006	238	238
Additional paid-in capital	120	161
Retained earnings	10,199	11,314
Accumulated other comprehensive income	(65)	306
	10,492	12,019
Less cost of common stock in treasury, 66,025,442 shares in 2005 and 74,330,107 shares in 2006	3,092	3,865
Total stockholders' equity	7,400	8,154
	\$ 17,227	18,672

**Consolidated Statements of Stockholders' Equity**

**EMERSON ELECTRIC CO. & SUBSIDIARIES**

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

	2004	2005	2006
<b>Common stock</b>	\$ 238	238	<b>238</b>
<b>Additional paid-in capital</b>			
Beginning balance	65	87	<b>120</b>
Stock plans and other	22	33	<b>41</b>
Ending balance	87	120	<b>161</b>
<b>Retained earnings</b>			
Beginning balance	8,889	9,471	<b>10,199</b>
Net earnings	1,257	1,422	<b>1,845</b>
Cash dividends (per share: 2004, \$1.60; 2005, \$1.66; 2006, \$1.78)	(675)	(694)	<b>(730)</b>
Ending balance	9,471	10,199	<b>11,314</b>
<b>Accumulated other comprehensive income</b>			
Beginning balance	(386)	(88)	<b>(65)</b>
Foreign currency translation	264	11	<b>175</b>
Minimum pension liability (net of tax of: 2004, \$(24); 2005, \$10; 2006, \$(71))	32	(18)	<b>121</b>
Cash flow hedges and other (net of tax of: 2004, \$(2); 2005, \$(17); 2006, \$(43))	2	30	<b>75</b>
Ending balance	(88)	(65)	<b>306</b>
<b>Treasury stock</b>			
Beginning balance	(2,346)	(2,470)	<b>(3,092)</b>
Acquired	(157)	(671)	<b>(871)</b>
Issued under stock plans and other	33	49	<b>98</b>
Ending balance	(2,470)	(3,092)	<b>(3,865)</b>
<b>Total stockholders' equity</b>	\$ 7,238	7,400	<b>8,154</b>
<b>Comprehensive income</b>			
<b>(Net earnings and changes in Foreign currency translation, Minimum pension liability and Cash flow hedges)</b>	\$1,555	1,445	<b>2,216</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Consolidated Statements of Cash Flows**  
**EMERSON ELECTRIC CO. & SUBSIDIARIES**  
*Years ended September 30 | Dollars in millions*

	2004	2005	2006
<b>Operating Activities</b>			
Net earnings	\$ 1,257	1,422	1,845
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	557	562	607
Changes in operating working capital	322	110	(152)
Pension funding	(167)	(124)	(124)
Other	247	217	336
Net cash provided by operating activities	2,216	2,187	2,512
<b>Investing activities</b>			
Capital expenditures	(400)	(518)	(601)
Purchases of businesses, net of cash and equivalents acquired	(414)	(366)	(752)
Other	126	(12)	137
Net cash used in investing activities	(688)	(896)	(1,216)
<b>Financing activities</b>			
Net increase (decrease) in short-term borrowings	(106)	320	89
Proceeds from long-term debt	29	251	6
Principal payments on long-term debt	(16)	(625)	(266)
Dividends paid	(675)	(694)	(730)
Purchases of treasury stock	(149)	(668)	(862)
Other	(1)	15	32
Net cash used in financing activities	(918)	(1,401)	(1,731)
Effect of exchange rate changes on cash and equivalents	40	(3)	12
<b>Increase (decrease) in cash and equivalents</b>	<b>650</b>	<b>(113)</b>	<b>(423)</b>
Beginning cash and equivalents	696	1,346	1,233
<b>Ending cash and equivalents</b>	<b>\$ 1,346</b>	<b>1,233</b>	<b>810</b>
<b>Changes in operating working capital</b>			
Receivables	\$ (134)	(261)	(246)
Inventories	(8)	8	(274)
Other current assets	202	(44)	36
Accounts payable	123	161	324
Accrued expenses	114	77	71
Income taxes	25	169	(63)
	\$ 322	110	(152)

See accompanying Notes to Consolidated Financial Statements.

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## Notes to Consolidated Financial Statements

### EMERSON ELECTRIC CO. & SUBSIDIARIES

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

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled affiliates. All significant intercompany transactions, profits and balances are eliminated in consolidation. Other investments of 20 percent to 50 percent are accounted for by the equity method. Investments in nonpublicly-traded companies of less than 20 percent are carried at cost. 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.

##### Foreign Currency Translation

The functional currency of a vast majority of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from the translation of financial statements 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 values are based upon standard costs which approximate average costs, while the remainder are principally valued on a first-in, first-out basis. Standard costs are revised at the beginning of each fiscal year. The effects of resetting standards and operating variances incurred during each period are allocated between inventories and cost of sales.

##### 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. Service lives for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment. Long-lived 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 fair value if expected future cash flows of the related assets are less than their carrying values.

##### Goodwill and Intangible Assets

Assets and liabilities acquired in business combinations are accounted for using the purchase 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 Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," or a business one level below an operating segment if discrete financial information is prepared and regularly reviewed by the segment manager. The Company conducts a formal impairment test of goodwill on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Under the impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, a goodwill impairment is recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill. Fair values of reporting units are estimated using discounted cash flows and market multiples.

All of the Company's intangible assets (other than goodwill) are subject to amortization. Intangibles consist of intellectual property (such as patents and trademarks), customer relationships and capitalized software and are amortized on a straight-line basis. These intangibles are also subject to evaluation for potential impairment if an event occurs or circumstances change that indicate the carrying amount may not be recoverable.

##### Warranty

The Company's product warranties vary by each of its product lines and are competitive for the markets in which it operates. Warranty generally extends 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 1 percent of sales.

## Revenue Recognition

The Company recognizes nearly all of its revenues through the sale of manufactured products and records the sale when products are shipped and title passes to the customer and collection is reasonably assured. In certain instances, revenue is recognized on the percentage-of-completion method, when services are rendered, or in accordance with AICPA Statement of Position No. 97-2, "Software Revenue Recognition." Sales sometimes include multiple items including services such as installation. In such instances, revenue assigned to each item is based on that item's objectively determined fair value, and revenue is recognized individually for delivered items only if the delivered items have value to the customer on a standalone basis, performance of the undelivered items is probable and substantially in the Company's control and the undelivered items are inconsequential or perfunctory. Management believes that all relevant criteria and conditions are considered when recognizing sales.

## Stock-based Compensation

Effective October 1, 2002, Emerson adopted the fair value method provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Under the Standard's prospective method of adoption, options granted, modified, or settled after September 30, 2002, are expensed based on their fair value at date of grant over the vesting period, generally three years. Previously, the Company accounted for options pursuant to Accounting Principles Board Opinion No. 25, and no expense was recognized. Effective July 1, 2005, Emerson adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS 123R), under the Standard's modified prospective method, and FAS 123R did not have a material impact on the financial statements. The following table illustrates the effect on 2005 and 2004 net earnings and earnings per share if the fair value based method had been applied to all outstanding and unvested awards. The adoption of FAS 123R did not have an impact in 2006.

	2004	2005
Net earnings, as reported	\$ 1,257	1,422
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	42	65
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	48	67
Pro forma net earnings	\$ 1,251	1,420
Earnings per share:		
Basic - as reported	\$ 3.00	3.43
Basic - pro forma	\$ 2.99	3.42
Diluted - as reported	\$ 2.98	3.40
Diluted - pro forma	\$ 2.97	3.39

See Note 14 for more information regarding stock-based compensation.

## Financial Instruments

All derivative instruments are reported on the balance sheet at fair value. For each derivative instrument designated as a cash flow hedge, the gain or loss on the derivative is deferred in accumulated other comprehensive income until recognized in earnings with the underlying hedged item. For each derivative instrument designated as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item are recognized immediately in earnings. Currency fluctuations on non-U.S. dollar obligations that have been designated as hedges on non-U.S. net asset exposures are included in accumulated other comprehensive income.

## Income Taxes

No provision is made for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries (approximately \$2.5 billion at September 30, 2006). These earnings are 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. During 2005, the Company repatriated approximately \$1.4 billion (\$1.8 billion in total) of cash from undistributed earnings of non-U.S. subsidiaries under the American Jobs Creation Act of 2004 and recorded a tax expense of \$63.

## Comprehensive Income

Comprehensive income is primarily comprised of net earnings and changes in foreign currency translation, minimum pension liability and cash flow hedges. Accumulated other comprehensive income, after-tax, consists of foreign currency translation credits of \$269 and \$94, minimum pension liability charges of \$57 and \$178, and cash flow hedges and other credits of \$94 and \$19 at September 30, 2006 and 2005, respectively.

## Financial Statement Presentation

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

### (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 consider the dilutive effects of stock options, incentive shares and convertible securities. Options to purchase approximately 0.5 million, 2.6 million and 1.0 million shares of common stock were excluded from the computation of diluted earnings per share in 2006, 2005 and 2004, respectively, because their effect would have been antidilutive. Reconciliations of weighted average common shares for basic earnings per common share and diluted earnings per common share follow:

<i>(shares in millions)</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Basic	419.3	414.9	<b>408.3</b>
Dilutive shares	2.9	4.0	<b>3.9</b>
Diluted	422.2	418.9	<b>412.2</b>

### (3) ACQUISITIONS AND DIVESTITURES

The Company acquired Artesyn Technologies, Inc. (Artesyn) during the third quarter of fiscal 2006, and Knürr AG (Knürr) and Bristol Babcock (Bristol) during the second quarter of fiscal 2006. Artesyn is a global manufacturer of advanced power conversion equipment and board-level computing solutions for infrastructure applications in telecommunication and data-communication systems and is included in the Network Power segment. Knürr is a manufacturer of indoor and outdoor enclosure systems and cooling technologies for telecommunications, electronics and computing equipment and is included in the Network Power segment. Bristol is a manufacturer of control and measurement equipment for oil and gas, water and wastewater, and power industries and is included in the Process Management segment. In addition to Artesyn, Knürr and Bristol, the Company acquired several smaller businesses during 2006 mainly in the Industrial Automation and Appliance and Tools segments. Total cash paid for these businesses (net of cash and equivalents acquired of approximately \$120 and debt assumed of approximately \$90) and annualized sales were approximately \$752 and \$920, respectively. Goodwill of \$481 (\$54 of which is expected to be deductible for tax purposes) and identifiable intangible assets (primarily technology and customer relationships) of \$189, which are being amortized on a straight-line basis over a weighted-average life of nine years, were recognized from these transactions in 2006. Third-party valuations of assets are in-process; purchase price allocations are subject to refinement.

In 2006, the Company divested or had plans to divest several business units, including the materials testing business. These businesses had total annual sales of \$171, \$174 and \$204 for fiscal years 2006, 2005 and 2004, respectively, and earnings were approximately break-even. The Company recorded a pretax gain of \$31 (\$22 after-tax) from the sale of the materials testing business in the fourth quarter of 2006. The sales of the other business units are expected to close in 2007, and the units were written down to their net realizable values, which resulted in a charge of \$14 (\$2 after-tax) in the fourth quarter of 2006. These businesses were not reclassified as discontinued operations due to immateriality.

The Company acquired Do+Able, a manufacturer of ready-to-assemble wood and steel home and garage organization and storage products, which is included in the Appliance and Tools segment, in the second quarter of 2005 and Numatics, a manufacturer of pneumatic and motion control products for industrial applications, which is included in the Industrial Automation segment, in the fourth quarter of 2005. In addition to Do+Able and Numatics, the Company acquired several smaller businesses during 2005, mainly in the Process Management and Appliance and Tools segments. Total cash paid (including assumed debt of approximately \$100, which was



repaid in October 2005) and annualized sales for these businesses were approximately \$466 and \$430, respectively. Goodwill of \$236 (\$58 of which is expected to be deductible for tax purposes) and identifiable intangible assets of \$122, which are being amortized on a straight-line basis over a weighted-average useful life of ten years, were recognized from these transactions in 2005.

In the fourth quarter of 2004, the Company acquired the outside plant and power systems business of Marconi Corporation PLC, a leading provider of DC power products and engineering and installation services to major telecommunication carriers throughout North America, which is included in the Network Power segment. Marconi (renamed Emerson Network Power Energy Systems – North America) and several smaller businesses acquired during 2004 for a total of \$414 in cash (net of cash and equivalents acquired) had annualized sales of approximately \$430. Goodwill of \$224 (substantially all of which is expected to be deductible for tax purposes) and identifiable intangible assets of \$120 (all of which is being amortized on a straight-line basis with a weighted-average life of 14 years) were recognized from these transactions.

The results of operations of these businesses have been included in the Company's consolidated results of operations since the respective dates of acquisition and prior to the respective dates of divestiture.

#### (4) OTHER DEDUCTIONS, NET

Other deductions, net are summarized as follows:

	2004	2005	2006
Rationalization of operations	\$ 129	110	84
Amortization of intangibles (intellectual property and customer relationships)	21	28	47
Other	100	118	115
Gains, net	(27)	(26)	(68)
<b>Total</b>	<b>\$ 223</b>	<b>230</b>	<b>178</b>

Other is comprised of several items which are individually immaterial, including minority interest expense, foreign currency gains and losses, bad debt expense, equity investment income and losses, as well as one-time items, such as litigation and disputed matters, insurance recoveries and interest refunds.

Gains, net for 2006 includes the following items. The Company recorded gains of approximately \$26 in 2006 related to the sale of 4.4 million shares of MKS Instruments, Inc. (MKS), a publicly-traded company, and continues to hold 4.5 million shares at September 30, 2006. In the fourth quarter of 2006, the Company recorded a pretax gain of approximately \$31 related to the divestiture of the materials testing business. Also during the fourth quarter of 2006, the Company recorded a pretax charge of \$14 related to the write-down of two businesses expected to be sold in early 2007 to their net realizable values. The Company also recorded a gain of approximately \$18 in 2006 for payments received under the U.S. Continued Dumping and Subsidy Offset Act (Offset Act).

Gains, net for 2005 and 2004 include the following items. An approximate \$13 gain from the sale of a manufacturing facility and an approximate \$13 gain for a payment received under the Offset Act were recorded in 2005. In January 2004, the Company sold 2 million shares of MKS. The Company also sold its investment in the Louisville Ladder joint venture in 2004. The Company recorded a pretax gain of \$27 in the second quarter of 2004 from these transactions.

#### (5) RATIONALIZATION OF OPERATIONS

The change in the liability for the rationalization of operations during the years ended September 30 follows:

	2005	Expense	Acquisitions	Paid / Utilized	2006
Severance and benefits	\$ 22	38	16	45	31
Lease/contract terminations	11	5	4	8	12
Fixed asset writedowns	—	2	—	2	—
Vacant facility and other shutdown costs	—	9	—	8	1
Start-up and moving costs	—	30	—	29	1
	\$ 33	84	20	92	45

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	2004	Expense	Paid / Utilized	2005
Severance and benefits	\$ 23	50	51	22
Lease/contract terminations	18	12	19	11
Fixed asset writedowns	—	3	3	—
Vacant facility and other shutdown costs	3	13	16	—
Start-up and moving costs	2	32	34	—
	\$ 46	110	123	33

Rationalization of operations by segment is summarized as follows:

	2004	2005	2006
Process Management	\$ 31	20	14
Industrial Automation	14	15	12
Network Power	26	35	19
Climate Technologies	17	15	14
Appliance and Tools	47	24	25
Corporate	(6)	1	—
Total	\$ 129	110	84

Rationalization of operations comprises expenses associated with the Company's efforts to continuously improve operational efficiency and to expand globally in order to remain competitive on a worldwide basis. These expenses result from numerous individual actions implemented across the divisions on a routine basis and are not part of a large, company-wide program. Rationalization of operations includes ongoing costs for moving facilities, starting up plants from relocation as well as business expansion, exiting product lines, curtailing/downsizing operations due to changing economic conditions, and other one-time items resulting from asset redeployment decisions. Shutdown costs include severance, benefits, stay bonuses, lease/contract terminations and asset writedowns. Start-up and moving costs include employee training and relocation, movement of assets and other items. Vacant facility costs include security, maintenance and utility costs associated with facilities that are no longer being utilized.

During 2006, rationalization of operations primarily related to the exit of approximately 10 production, distribution, or office facilities, including the elimination of approximately 1,700 positions, as well as costs related to facilities exited in previous periods. Noteworthy rationalization actions during 2006 are as follows. Process Management includes severance related to the shifting of certain regulator production from Western Europe to Eastern Europe. Industrial Automation includes start-up and moving costs related to shifting certain motor production in Western Europe to Eastern Europe, China and Mexico to leverage costs and remain competitive on a global basis. Network Power includes severance related to the closure of certain power conversion facilities acquired with Artesyn, severance, start-up and vacant facility costs related to the consolidation of certain power systems operations in North America and the consolidation of administrative operations in Europe to obtain operational synergies. Climate Technologies includes severance related to the movement of temperature sensors and controls production from Western Europe to China and start-up and moving costs related to a new plant in Eastern Europe in order to improve profitability. Appliance and Tools includes primarily severance and start-up and moving costs related to the shifting of certain tool and motor manufacturing operations from the United States and Western Europe to China and Mexico in order to consolidate facilities and improve profitability. The Company expects rationalization expense for 2007 to be approximately \$100, including the costs to complete actions initiated before the end of 2006 and actions anticipated to be approved and initiated during 2007.

During 2005, rationalization of operations primarily related to the exit of approximately 25 production, distribution, or office facilities, including the elimination of approximately 2,100 positions, as well as costs related to facilities exited in previous periods. Noteworthy rationalization actions during 2005 are as follows. Process Management included severance and plant closure costs related to consolidation of instrumentation plants within Europe and consolidation of valve operations within North America, the movement of major distribution facilities to Asia, as well as several other cost reduction actions. Network Power included severance and lease termination costs related to certain power systems operations in Western Europe shifting to China and Eastern Europe in order to leverage product platforms and lower production and engineering costs to remain competitive on a global basis. This segment also included severance and start-up and moving costs related to the consolidation of North American power systems operations into the Marconi operations acquired in 2004. Appliance and Tools included severance, plant closure costs and start-up and moving costs related to consolidating

various industrial and hermetic motor manufacturing facilities for operational efficiency. Severance costs in this segment also related to shifting certain appliance control operations from the United States to Mexico and China in order to consolidate facilities and improve profitability.

During 2004, rationalization of operations primarily related to the exit of approximately 20 production, distribution, or office facilities, including the elimination of more than 2,000 positions, as well as costs related to facilities exited in previous periods. Rationalization actions during 2004 include the following. Process Management included severance and plant closure costs related to the closing of a valve plant due to consolidating operations within North America in response to weak market demand, severance costs related to the consolidation of European measurement operations in order to obtain operational synergies and several other reduction and consolidation actions. Network Power included severance and lease termination costs related to certain power systems operations in Western Europe shifting to China and Eastern Europe in order to leverage product platforms and lower production and engineering costs to remain competitive on a global basis. Climate Technologies included severance costs related to workforce reductions in the European temperature sensors and controls operations due to weakness in market demand. Appliance and Tools included severance and start-up and moving costs related to shifting certain motor manufacturing primarily from the United States to Mexico and China in order to consolidate facilities and improve profitability, and severance related to consolidating manufacturing operations in the professional tools business for operational efficiency.

#### (6) GOODWILL AND OTHER INTANGIBLES

Acquisitions are accounted for under the purchase method, with substantially all goodwill assigned to the reporting unit that acquires the business. Under the annual impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, a goodwill impairment is recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill. Fair values of reporting units are estimated using discounted cash flows and market multiples.

The change in goodwill by business segment follows:

	<i>Process Management</i>	<i>Industrial Automation</i>	<i>Network Power</i>	<i>Climate Technologies</i>	<i>Appliance and Tools</i>	<i>Total</i>
Balance, September 30, 2004	\$ 1,638	880	1,770	380	591	5,259
Acquisitions	67	121	15		33	236
Foreign currency translation and other	(6)	(4)	(5)		(1)	(16)
Balance, September 30, 2005	\$ 1,699	997	1,780	380	623	5,479
Acquisitions	58	27	351	25	20	481
Divestitures		(24)	(3)			(27)
Impairment			(5)			(5)
Foreign currency translation and other	21	16	39	3	6	85
<b>Balance, September 30, 2006</b>	<b>\$ 1,778</b>	<b>1,016</b>	<b>2,162</b>	<b>408</b>	<b>649</b>	<b>6,013</b>

The gross carrying amount and accumulated amortization of intangibles (other than goodwill) by major class follow:

	<i>Gross Carrying Amount</i>		<i>Accumulated Amortization</i>		<i>Net Carrying Amount</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
Intellectual property and customer relationships	\$ 589	794	279	324	310	470
Capitalized software	600	647	443	484	157	163
	\$ 1,189	1,441	722	808	467	633

Total intangible amortization expense for 2006, 2005 and 2004 was \$107, \$90 and \$79, respectively. Based on intangible assets as of September 30, 2006, amortization expense will approximate \$106 in 2007, \$94 in 2008, \$77 in 2009, \$62 in 2010 and \$59 in 2011.

## (7) FINANCIAL INSTRUMENTS

The Company selectively uses derivative financial instruments to manage interest costs, commodity prices and currency exchange risk. The Company does not hold derivatives for trading purposes. No credit loss is anticipated as the counterparties to these agreements are major financial institutions with high credit ratings.

To efficiently manage interest costs, the Company utilizes interest rate swaps as cash flow hedges of variable rate debt or fair value hedges of fixed rate debt. Also as part of its hedging strategy, the Company utilizes purchased option and forward exchange contracts and commodity swaps as cash flow or fair value hedges to minimize the impact of currency and commodity price fluctuations on transactions, cash flows, fair values and firm commitments. At September 30, 2006, substantially all of the contracts for the sale or purchase of European and other currencies and the purchase of copper and other commodities mature within two years; contracts with a fair value of approximately \$130 mature in 2007.

Notional transaction amounts and fair values for the Company's outstanding derivatives, by risk category and instrument type, as of September 30, 2006 and 2005, are summarized as follows. Fair values of the derivatives do not consider the offsetting underlying hedged item.

	2005		2006	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign currency:				
Forwards	\$ 1,202	18	1,310	11
Options	\$ 81	6	4	—
Interest rate swaps	\$ 114	(7)	110	(4)
Commodity contracts	\$ 190	32	457	130

Fair values of the Company's financial instruments are estimated by reference to quoted prices from market sources and financial institutions, as well as other valuation techniques. The estimated fair value of long-term debt (including current maturities) exceeded the related carrying value by \$40 and \$119 at September 30, 2006 and 2005, respectively. The estimated fair value of each of the Company's other classes of financial instruments approximated the related carrying value at September 30, 2006 and 2005.

## (8) SHORT-TERM BORROWINGS AND LINES OF CREDIT

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

	2005	2006
Current maturities of long-term debt	\$ 259	2
Commercial paper	114	819
Payable to banks	496	28
Other	101	49
Total	\$ 970	898
Weighted-average short-term borrowing interest rate at year-end	4.0%	4.9%

In 2000, the Company issued 13 billion Japanese yen of commercial paper and simultaneously entered into a ten-year interest rate swap, which fixed the rate at 2.2 percent.

At year-end 2006, the Company maintained a five-year revolving credit facility effective until April 2011 amounting to \$2.8 billion to support short-term borrowings and to assure availability of funds at prevailing interest rates. The credit facility does not contain any financial covenants and is not subject to termination based on a change in credit ratings or a material adverse change. There were no borrowings against U.S. lines of credit in the last three years.

## (9) LONG-TERM DEBT

Long-term debt is summarized as follows:

	2005	2006
6.3% notes due November 2005	\$ 250	—
5 1/2% notes due September 2008	250	250
5% notes due October 2008	175	175
5.85% notes due March 2009	250	250
7 1/8% notes due August 2010	500	500
5.75% notes due November 2011	250	250
4.625% notes due October 2012	250	250
4 1/2% notes due May 2013	250	250
5 5/8% notes due November 2013	250	250
5% notes due December 2014	250	250
4.75% notes due October 2015	250	250
6% notes due August 2032	250	250
Other	212	205
	3,387	3,130
Less current maturities	259	2
Total	\$3,128	3,128

During the fourth quarter of 2005, the Company issued \$250 of 4.75%, ten-year notes under a shelf registration statement filed with the Securities and Exchange Commission. In 1999, the Company issued \$250 of 5.85%, ten-year notes that were simultaneously swapped to U.S. commercial paper rates. The Company terminated the swap in 2001, establishing an effective interest rate of 5.7 percent. In 2000, the Company issued \$600 of 7 7/8%, five-year notes that were simultaneously swapped to floating U.S. commercial paper rates. The Company terminated the swap in 2001, establishing an effective interest rate of 6.9 percent. During the first quarter of 2004, the Company swapped the \$600 of 7 7/8% notes to a floating rate based on three-month LIBOR. The \$600 of 7 7/8% notes and the swap matured in June 2005.

Long-term debt maturing during each of the four years after 2007 is \$252, \$474, \$600 and \$37, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately \$214, \$247 and \$233 in 2006, 2005 and 2004, respectively.

As of September 30, 2006, the Company could issue up to \$2.25 billion in debt securities, preferred stock, common stock, warrants, share purchase contracts and share purchase units under the shelf registration statement filed with the Securities and Exchange Commission. The Company may sell securities in one or more separate offerings with the size, price and terms to be determined at the time of sale. The net proceeds from the sale of the securities will be used for general corporate purposes, which may include, but are not limited to, working capital, capital expenditures, financing acquisitions and the repayment of short- or long-term borrowings. The net proceeds may be invested temporarily until they are used for their stated purpose.

## (10) RETIREMENT PLANS

Retirement plan expense includes the following components:

	U.S. Plans			Non-U.S. Plans		
	2004	2005	2006	2004	2005	2006
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 49	48	58	15	14	19
Interest cost	136	145	145	27	31	32
Expected return on plan assets	(196)	(207)	(202)	(21)	(27)	(32)
Net amortization	65	64	100	14	13	16
Net periodic pension expense	54	50	101	35	31	35
Defined contribution and multiemployer plans	66	69	85	22	23	25
Total retirement plan expense	\$ 120	119	186	57	54	60

The reconciliations of the actuarial present value of the projected benefit obligations and of the fair value of plan assets for defined benefit pension plans follow:

	U.S. Plans		Non-U.S. Plans		
	2005	2006	2005	2006	
Projected benefit obligation, beginning	\$ 2,330	2,747	607	707	
Service cost		48	58	14	19
Interest cost		145	145	31	32
Actuarial loss (gain)		320	(386)	101	(53)
Benefits paid		(118)	(122)	(27)	(29)
Acquisitions/divestitures, net		19	17	—	24
Foreign currency translation and other		3	5	(19)	11
Projected benefit obligation, ending	\$ 2,747	2,464	707	711	
Fair value of plan assets, beginning	\$ 2,292	2,566	433	492	
Actual return on plan assets		258	233	47	37
Employer contributions		122	91	52	33
Benefits paid		(118)	(122)	(27)	(29)
Acquisitions/divestitures, net		10	16	—	18
Foreign currency translation and other		2	1	(13)	4
Fair value of plan assets, ending	\$ 2,566	2,785	492	555	
Plan assets in excess of (less than) benefit obligation as of June 30	\$ (181)	321	(215)	(156)	
Unrecognized net loss		1,079	564	240	179
Unrecognized prior service cost (benefit)		9	10	(3)	(2)
Adjustment for fourth quarter contributions		1	1	1	1
Net amount recognized in the balance sheet	\$ 908	896	23	22	
Accumulated benefit obligation	\$ 2,535	2,344	595	612	

	<i>U.S. Plans</i>			<i>Non-U.S. Plans</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Weighted-average assumptions used to determine net pension expense:						
Discount rate	6.00%	6.25%	<b>5.25%</b>	5.2%	5.4%	<b>4.7%</b>
Expected return on plan assets	8.50%	8.50%	<b>8.00%</b>	7.2%	7.4%	<b>7.2%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.00%</b>	3.3%	3.1%	<b>3.0%</b>
Weighted-average assumptions used to determine benefit obligations as of June 30:						
Discount rate	6.25%	5.25%	<b>6.50%</b>	5.4%	4.7%	<b>4.9%</b>
Rate of compensation increase	3.25%	3.00%	<b>3.25%</b>	3.1%	3.0%	<b>3.1%</b>

At September 30, 2006 and 2005, the pension assets recognized in the balance sheet were \$1,037 and \$925, and the pension liabilities recognized in the balance sheet were \$208 and \$276, respectively; in addition, \$89 and \$282 were included in accumulated other comprehensive income at September 30, 2006 and 2005, respectively. As of the plans' June 30 measurement date, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the retirement plans with accumulated benefit obligations in excess of plan assets were \$623, \$570 and \$360, respectively, for 2006, and \$1,006, \$938 and \$656, respectively, for 2005.

Effective for 2007, the discount rate for the U.S. retirement plans was adjusted to 6.5 percent based on the changes in market interest rates. Defined benefit pension plan expense is expected to decrease approximately \$20 in 2007. In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (FAS 158). The Company is analyzing the impact of adopting FAS 158 and estimates that if the provisions of FAS 158 were applied as of September 30, 2006, an after-tax charge to equity of approximately \$500 (\$800 pretax) would have been reported.

The primary objective for the investment of plan assets is to secure participant retirement benefits, while earning a reasonable rate of return. Plan assets are invested consistent with the provisions of prudence and diversification rules of ERISA and with a long-term investment horizon. The expected return on plan assets assumption is determined by reviewing the investment return of the plans for the past ten years and the historical return (since 1926) of an asset mix approximating Emerson's current asset allocation targets and evaluating these returns in relation to expectations of various investment organizations to determine whether long-term future returns are expected to differ significantly from the past. The Company's pension plan asset allocations at June 30, 2006 and 2005, and target weighted-average allocations are as follows:

Asset category	<i>U.S. Plans</i>			<i>Non-U.S. Plans</i>		
	<i>2005</i>	<i>2006</i>	<i>Target</i>	<i>2005</i>	<i>2006</i>	<i>Target</i>
Equity securities	69%	<b>68%</b>	66 - 70%	56%	<b>55%</b>	50 - 60%
Debt securities	27%	<b>28%</b>	26 - 32%	37%	<b>36%</b>	30 - 40%
Other	4%	<b>4%</b>	2 - 5%	7%	<b>9%</b>	5 - 10%
	100%	<b>100%</b>	100%	100%	<b>100%</b>	100%

The Company estimates that future benefit payments for the U.S. plans will be as follows: \$126 in 2007, \$132 in 2008, \$138 in 2009, \$145 in 2010, \$152 in 2011 and \$881 in total over the five years 2012 through 2016. Using foreign exchange rates as of September 30, 2006, the Company estimates that future benefit payments for the non-U.S. plans will be as follows: \$24 in 2007, \$26 in 2008, \$27 in 2009, \$29 in 2010, \$31 in 2011 and \$190 in total over the five years 2012 through 2016. In 2007, the Company expects to contribute approximately \$100 to \$150 to the retirement plans.

## (11) POSTRETIREMENT PLANS

The Company sponsors unfunded postretirement benefit plans (primarily health care) for U.S. retirees and their dependents. Net postretirement plan expense for the years ended September 30 follows:

	2004	2005	2006
Service cost	\$ 5	6	5
Interest cost	25	27	26
Net amortization	19	21	32
Net postretirement plan expense	\$ 49	54	63

The reconciliations of the actuarial present value of accumulated postretirement benefit obligations follow:

	2005	2006
Benefit obligation, beginning	\$ 444	502
Service cost	6	5
Interest cost	27	26
Actuarial loss	55	16
Benefits paid	(43)	(39)
Acquisitions/divestitures and other	13	6
Benefit obligation, ending	502	516
Unrecognized net loss	(134)	(102)
Unrecognized prior service benefit	7	6
Postretirement benefit liability recognized in the balance sheet	\$ 375	420

The assumed discount rates used in measuring the obligations as of September 30, 2006, 2005 and 2004, were 5.75 percent, 5.25 percent and 5.75 percent, respectively. The assumed health care cost trend rate for 2007 was 10.0 percent, declining to 5.0 percent in the year 2016. The assumed health care cost trend rate for 2006 was 9.5 percent, declining to 5.0 percent in the year 2014. A one-percentage-point increase or decrease in the assumed health care cost trend rate for each year would increase or decrease the obligation as of September 30, 2006 and the 2006 postretirement plan expense by less than 5 percent. The Company estimates that future benefit payments will be as follows: \$44 in 2007, \$45 in 2008, \$46 in 2009, \$47 in 2010, \$53 in 2011 and \$241 in total over the five years 2012 through 2016.

## (12) CONTINGENT LIABILITIES AND COMMITMENTS

Emerson is a party to a number of pending legal proceedings and claims, including those involving general and product liability 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. Such 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 other similar matters, and any related insurance coverage.



Although it is not possible to predict the ultimate outcome of the matters discussed above, historically, the Company has been successful in defending itself against claims and suits that have been brought against it. The Company 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 adverse development could have a material adverse impact on the Company.

The Company enters into 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. 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 liabilities and unidentified tax liabilities related to periods prior to the disposition. Due to the uncertain nature of the indemnities, the maximum liability cannot be quantified. Liabilities for obligations are recorded when probable and when they can be reasonably estimated. Historically, the Company has not made significant payments for these obligations.

At September 30, 2006, 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.

### (13) INCOME TAXES

Earnings before income taxes consist of the following:

	2004	2005	2006
United States	\$ 1,022	1,157	<b>1,518</b>
Non-U.S.	830	992	<b>1,166</b>
<b>Earnings before income taxes</b>	<b>\$ 1,852</b>	<b>2,149</b>	<b>2,684</b>

The principal components of income tax expense follow:

	2004	2005	2006
<b>Current:</b>			
Federal	\$ 132	458	<b>394</b>
State and local	26	42	<b>57</b>
Non-U.S.	229	272	<b>316</b>
<b>Deferred:</b>			
Federal	185	(41)	<b>73</b>
State and local	5	(7)	<b>8</b>
Non-U.S.	18	3	<b>(9)</b>
<b>Income tax expense</b>	<b>\$ 595</b>	<b>727</b>	<b>839</b>

The federal corporate statutory rate is reconciled to the Company's effective income tax rate as follows:

	2004	2005	2006
Federal corporate statutory rate	35.0%	35.0%	35.0%
State and local taxes, less federal tax benefit	1.1	1.0	1.6
Non-U.S. rate differential	(2.1)	(3.2)	(3.4)
Non-U.S. tax holidays	(1.7)	(1.6)	(1.6)
Export benefit	(1.4)	(1.1)	(0.8)
U.S. manufacturing deduction	—	—	(0.4)
Repatriation - American Jobs Creation Act	—	3.0	—
Other	1.2	0.7	0.9
<b>Effective income tax rate</b>	<b>32.1%</b>	<b>33.8%</b>	<b>31.3%</b>

Non-U.S. tax holidays reduce the tax rate in certain foreign jurisdictions, the majority of which expire over the next five years. The American Jobs Creation Act of 2004 (the Act) was signed into law on October 22, 2004. The Act allows the repatriation of foreign earnings at a reduced rate for one year, subject to certain limitations. During 2005, the Company repatriated approximately \$1.4 billion (\$1.8 billion in total) of cash from undistributed earnings of non-U.S. subsidiaries under the Act. As a result, the Company recorded a tax expense of \$63, or \$0.15 per share, in 2005.

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

	2005	2006
Deferred tax assets:		
Accrued liabilities	\$ 176	218
Postretirement and postemployment benefits	153	160
Employee compensation and benefits	149	124
NOL and tax credits	256	254
Capital loss benefit	72	30
Other	141	126
<b>Total</b>	<b>\$ 947</b>	<b>912</b>
<b>Valuation allowance</b>	<b>\$ (137)</b>	<b>(183)</b>
Deferred tax liabilities:		
Property, plant and equipment	\$ (295)	(316)
Leveraged leases	(117)	(110)
Pension	(245)	(308)
Intangibles	(267)	(346)
Other	(82)	(42)
<b>Total</b>	<b>\$(1,006)</b>	<b>(1,122)</b>
<b>Net deferred income tax liability</b>	<b>\$ (196)</b>	<b>(393)</b>

At September 30, 2006 and 2005, respectively, net current deferred tax assets were \$269 and \$315, and net noncurrent deferred tax liabilities were \$662 and \$511. Total income taxes paid were approximately \$820, \$600 and \$380 (net of the capital loss benefit received of \$140) in 2006, 2005 and 2004, respectively. A majority of the \$30 capital loss carryforward can be utilized through 2008. The majority of the \$231 net operating losses can be carried forward indefinitely, while the remainders expire over varying periods. In addition, a majority of the \$23 of tax credits can be carried forward through 2015. The valuation allowance for deferred tax assets at September 30, 2006, includes \$55 related to acquisitions, which would reduce goodwill if the deferred tax assets are ultimately realized.

## (14) STOCK-BASED COMPENSATION

The Company's stock-based compensation plans include stock options and incentive shares.

### Stock Options

The Company's Stock Option Plans permit key officers and employees to purchase common stock at specified prices. Options are granted at 100 percent of the market value of the Company's common stock on the date of grant, generally vest one-third each year and expire ten years from the date of grant. Compensation cost is recognized over the vesting period based on the number of options expected to vest. At September 30, 2006, approximately 7.8 million options remained available for grant under these plans.

Changes in shares subject to option during the year ended September 30, 2006, follow:

<i>(shares in thousands)</i>	<i>Average Exercise Price Per Share</i>	<i>Shares</i>	<i>Total Intrinsic Value of Awards</i>	<i>Average Remaining Contractual Life</i>
Beginning of year	\$ 54.44	9,859		
Options granted	\$ 75.59	585		
Options exercised	\$ 49.94	(2,434)		
Options canceled	\$ 63.38	(106)		
End of year	\$ 57.27	7,904	\$ 210	5.3 years
Exercisable at year-end	\$ 54.04	5,876	\$ 175	4.3 years

The weighted-average grant-date fair value per share of options granted was \$17.59, \$12.77 and \$11.13 for 2006, 2005 and 2004, respectively. The total intrinsic value of options exercised was \$74, \$26 and \$22 in 2006, 2005 and 2004, respectively. Cash received from option exercises under share option plans was \$89, \$50 and \$37 and the actual tax benefit realized for the tax deductions from option exercises was \$6, \$4 and \$2 for 2006, 2005 and 2004, respectively.

The fair value of each award is estimated on the grant date using the Black-Scholes option-pricing model. Weighted-average assumptions used in the Black-Scholes valuations for 2006, 2005 and 2004 are as follows: risk-free interest rate based on the U.S. Treasury yield of 4.4 percent, 3.5 percent and 3.1 percent, dividend yield of 2.4 percent, 2.5 percent and 2.8 percent and expected volatility based on historical volatility of 23 percent, 24 percent and 25 percent for 2006, 2005 and 2004, respectively. The expected life of an option is based on historical experience and expected exercise patterns in the future. Expected lives were 6 years, 5 years and 5 years for 2006, 2005 and 2004, respectively.

### Incentive Shares

The Company's Incentive Shares Plans include performance share awards, which involve the distribution of common stock to key management personnel subject to certain conditions and restrictions. Compensation cost is recognized over the service period based on the number of shares expected to be ultimately issued. Performance share awards are accounted for as liabilities in accordance with FAS 123R. Compensation expense is adjusted at the end of each period to reflect the change in the fair value of the awards.

In 2006, as a result of the Company achieving certain performance objectives at the end of 2005, 1,044,995 rights to receive common shares vested and were distributed to participants as follows: 472,739 issued in shares, 345,987 withheld for income taxes, 205,043 paid in cash and 21,226 deferred by participants for future distribution. As of September 30, 2006, 2,364,630 rights to receive common shares (awarded primarily in 2004) were outstanding, which are contingent upon accomplishing certain Company performance objectives by 2007 and the performance of services by the employees.

The Company's Incentive Shares Plans also include restricted stock awards, which involve the distribution of the Company's common stock to key management personnel subject to service periods ranging from three to ten years. The fair value of these awards is determined by the market price of the Company's stock at the date of grant. Compensation cost is recognized over the applicable service period. In 2006, 724,654 shares of restricted stock vested as a result of the fulfillment of the applicable service periods and were distributed to participants as follows: 500,887 issued in shares and 223,767 withheld for income taxes. As of September 30, 2006, there were 1,033,777 shares of restricted stock awards outstanding.

Changes in awards outstanding but not yet earned under the Incentive Shares Plans during the year ended September 30, 2006, follow:

<i>(shares in thousands)</i>	<i>Shares</i>	<i>Average Grant Date Fair Value Per Share</i>
Beginning of year	5,027	\$ 63.16
Granted	233	\$ 73.46
Earned/vested	(1,770)	\$ 65.88
Canceled	(92)	\$ 63.16
End of year	3,398	\$ 62.45

The total fair value of shares earned/vested was \$123, \$5 and \$24 under the Incentive Shares Plans of which \$55, \$2 and \$9 was paid in cash, primarily for tax withholding, in 2006, 2005 and 2004, respectively. As of September 30, 2006, approximately 10.7 million shares remained available for award under the Incentive Shares Plans.

In addition to the stock option and incentive share plans, the Company issued 11,882 shares of restricted stock in 2006 under the Restricted Stock Plan for Non-Management Directors and 0.2 million shares remained available for issuance as of September 30, 2006.

Compensation cost for the stock option and incentive share plans was \$81, \$100 and \$66, for 2006, 2005 and 2004, respectively. Total income tax benefit recognized in the income statement for these compensation arrangements during 2006, 2005 and 2004 were \$22, \$33 and \$22, respectively. As of September 30, 2006, there was \$113 of total unrecognized compensation cost related to nonvested awards granted under these plans, which is expected to be recognized over a weighted-average period of 1.7 years.

#### **(15) COMMON STOCK**

At September 30, 2006, 28,976,471 shares of common stock were reserved, primarily for issuance under the Company's stock-based compensation plans. During 2006, 10,725,600 treasury shares were acquired and 2,420,935 treasury shares were issued.

Approximately 1.2 million preferred shares are reserved for issuance under a Preferred Stock Purchase Rights Plan. Under certain conditions involving the acquisition of or an offer for 20 percent or more of the Company's common stock, all holders of Rights, except an acquiring entity, would be entitled (i) to purchase, at an exercise price of \$260, common stock of the Company or an acquiring entity with a value twice the exercise price, or (ii) at the option of the Board, to exchange each Right for one share of common stock. The Rights remain in existence until November 1, 2008, unless earlier redeemed (at one-half cent per Right), exercised, or exchanged under the terms of the plan.

#### **(16) BUSINESS SEGMENT INFORMATION**

The Company designs and supplies product technology and delivers engineering services in a wide range of industrial, commercial and consumer markets around the world. The divisions of the Company are organized primarily by the nature of the products and services provided. The Process Management segment includes systems and software, measurement and analytical instrumentation, valves, actuators and regulators, and services and solutions for automated industrial processes. The Industrial Automation segment includes industrial motors and drives, power transmission equipment, alternators, materials joining and precision cleaning, fluid power and control, and electrical distribution equipment. The Network Power segment consists of uninterruptible power supplies, power conditioning and electrical switching equipment, and precision cooling and site monitoring systems. The Climate Technologies segment consists of compressors, temperature sensors and controls, thermostats, flow controls, and remote monitoring services. The Appliance and Tools segment includes general and special purpose motors and controls, appliances and appliance components, plumbing tools, and storage products.

The primary income measure used for assessing performance and making operating decisions is earnings before interest and income taxes. Intersegment sales approximate market prices. Accounting method differences between segment reporting and the consolidated financial statements include primarily management fees allocated to segments based on a percentage of sales and the accounting for pension and other retirement plans. Gains and losses from divestitures of businesses are included in Corporate and other. Corporate assets include primarily cash and equivalents, investments, pensions, deferred charges, and certain fixed assets.

Summarized information about the Company's operations by business segment and by geographic area follows:

### Business Segments

(See Notes 3, 4, 5 and 6)

	Sales			Earnings			Total Assets		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Process Management	\$ 3,703	4,200	<b>4,875</b>	476	671	<b>878</b>	3,634	3,894	<b>4,146</b>
Industrial Automation	2,936	3,242	<b>3,767</b>	391	464	<b>569</b>	2,503	2,698	<b>2,941</b>
Network Power	2,692	3,317	<b>4,350</b>	297	373	<b>484</b>	3,234	3,379	<b>4,436</b>
Climate Technologies	2,983	3,041	<b>3,424</b>	467	453	<b>523</b>	1,887	1,956	<b>2,129</b>
Appliance and Tools	3,749	4,008	<b>4,313</b>	530	534	<b>550</b>	2,440	2,526	<b>2,670</b>
	16,063	17,808	<b>20,729</b>	2,161	2,495	<b>3,004</b>	13,698	14,453	<b>16,322</b>
Differences in accounting methods				126	145	<b>176</b>			
Corporate and other <sup>(a)</sup>				(225)	(282)	<b>(289)</b>	2,663	2,774	<b>2,350</b>
Sales eliminations / Interest	(448)	(503)	<b>(596)</b>	(210)	(209)	<b>(207)</b>			
Total	\$15,615	17,305	<b>20,133</b>	1,852	2,149	<b>2,684</b>	16,361	17,227	<b>18,672</b>

<sup>(a)</sup> Corporate and other increased from 2004 to 2005 due to higher incentive compensation cost and other items (see Note 14).

	Intersegment Sales			Depreciation and Amortization Expense			Capital Expenditures		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Process Management	\$ 3	2	<b>3</b>	117	125	<b>128</b>	75	89	<b>101</b>
Industrial Automation	14	19	<b>21</b>	96	95	<b>100</b>	67	68	<b>87</b>
Network Power	9	9	<b>10</b>	70	76	<b>98</b>	36	55	<b>103</b>
Climate Technologies	32	37	<b>43</b>	120	118	<b>127</b>	94	148	<b>148</b>
Appliance and Tools	390	436	<b>519</b>	141	134	<b>137</b>	108	136	<b>149</b>
Corporate and other				13	14	<b>17</b>	20	22	<b>13</b>
Total	\$ 448	503	<b>596</b>	557	562	<b>607</b>	400	518	<b>601</b>

### Geographic

	Sales by Destination			Property, Plant and Equipment		
	2004	2005	2006	2004	2005	2006
United States	\$ 8,262	9,126	<b>10,588</b>	1,880	1,919	<b>1,963</b>
Europe	3,649	3,890	<b>4,334</b>	539	511	<b>583</b>
Asia	2,085	2,370	<b>2,920</b>	307	343	<b>419</b>
Latin America	533	670	<b>857</b>	135	149	<b>177</b>
Other regions	1,086	1,249	<b>1,434</b>	76	81	<b>78</b>
Total	\$15,615	17,305	<b>20,133</b>	2,937	3,003	<b>3,220</b>

## (17) OTHER FINANCIAL DATA

Items reported in earnings during the years ended September 30 include the following:

	2004	2005	2006
Depreciation	\$478	472	500
Research and development	\$280	303	356
Rent expense	\$233	241	263

The Company leases computers, transportation equipment and various other property under operating lease agreements. The minimum annual rentals under noncancelable long-term leases, exclusive of maintenance, taxes, insurance and other operating costs, will approximate \$143 in 2007, \$104 in 2008, \$70 in 2009, \$46 in 2010 and \$43 in 2011.

Other assets, other are summarized as follows:

	2005	2006
Pension plans	\$ 925	1,037
Intellectual property and customer relationships	310	470
Equity and other investments	248	171
Capitalized software	157	163
Leveraged leases	116	109
Other	152	159
Total	\$1,908	2,109

Items reported in accrued expenses include the following:

	2005	2006
Employee compensation	\$445	518
Product warranty	\$174	206

Other liabilities are summarized as follows:

	2005	2006
Deferred income taxes	\$ 567	724
Postretirement plans, excluding current portion	325	371
Retirement plans	336	253
Minority interest	142	176
Other	398	492
Total	\$1,768	2,016

**(18) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

	<i>First Quarter</i>		<i>Second Quarter</i>		<i>Third Quarter</i>		<i>Fourth Quarter</i>		<i>Fiscal Year</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
Net sales	\$ 3,970	<b>4,548</b>	4,227	<b>4,852</b>	4,465	<b>5,217</b>	4,643	<b>5,516</b>	17,305	<b>20,133</b>
Gross profit	\$ 1,412	<b>1,593</b>	1,502	<b>1,734</b>	1,600	<b>1,856</b>	1,669	<b>1,985</b>	6,183	<b>7,168</b>
Net earnings	\$ 297	<b>399</b>	348	<b>434</b>	358	<b>486</b>	419	<b>526</b>	1,422	<b>1,845</b>
Earnings per common share:										
Basic	\$ 0.71	<b>0.97</b>	0.84	<b>1.06</b>	0.86	<b>1.19</b>	1.02	<b>1.30</b>	3.43	<b>4.52</b>
Diluted	\$ 0.70	<b>0.96</b>	0.83	<b>1.05</b>	0.86	<b>1.18</b>	1.01	<b>1.29</b>	3.40	<b>4.48</b>
Dividends per common share	\$ 0.415	<b>0.445</b>	0.415	<b>0.445</b>	0.415	<b>0.445</b>	0.415	<b>0.445</b>	1.66	<b>1.78</b>
Common stock prices:										
High	\$ 70.88	<b>77.40</b>	70.20	<b>85.67</b>	68.61	<b>87.47</b>	72.04	<b>84.06</b>	72.04	<b>87.47</b>
Low	\$ 61.22	<b>67.93</b>	63.93	<b>75.08</b>	60.69	<b>78.62</b>	61.47	<b>76.15</b>	60.69	<b>67.93</b>

See Notes 3 and 4 for information regarding the Company's acquisition and divestiture activities and non-recurring items.

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

**(19) SUBSEQUENT EVENT**

In November 2006, the Company's Board of Directors declared a two-for-one split of the Company's common stock, effected in the form of a 100 percent stock dividend, to shareholders of record as of November 17, 2006, with a distribution date of December 11, 2006 (shares begin trading on a post-split basis on December 12, 2006). This stock split will result in the issuance of approximately 476.7 million additional shares of common stock and will be accounted for by the transfer of approximately \$238 from additional paid-in capital and retained earnings to common stock. Pro forma earnings per share amounts on a post-split basis for the years ended September 30, 2006, 2005 and 2004 would be as follows:

	<i>2004</i>	<i>2005</i>	<i>2006</i>
Earnings per common share			
Basic:			
As reported		\$ 3.00	3.43
Post-split		\$ 1.50	1.71
Diluted:			
As reported		\$ 2.98	3.40
Post-split		\$ 1.49	1.70

Information presented in the Consolidated Financial Statements, related notes and Eleven-Year Summary have not been restated to reflect the two-for-one stock split.

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## 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, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Emerson Electric Co.'s internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated November 20, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri  
November 20, 2006



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Emerson Electric Co.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Emerson Electric Co. maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). Emerson Electric Co.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

In our opinion, management's assessment that Emerson Electric Co. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). Also, in our opinion, Emerson Electric Co. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Emerson Electric Co. and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006, and our report dated November 20, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

St. Louis, Missouri  
November 20, 2006

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## 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, are subject to risk and uncertainties, and Emerson undertakes no obligation to update any such statement 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 of 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 the following: (i) current and future business environment, including interest rates and capital and consumer spending; (ii) potential volatility of the end markets served; (iii) competitive factors and competitor responses to Emerson initiatives; (iv) development and market introduction of anticipated new products; (v) availability of raw materials and purchased components; (vi) government laws and regulations, including taxes; (vii) outcome of pending and future litigation, including environmental compliance; (viii) stable governments and business conditions in emerging economies; (ix) penetration of emerging economies; (x) favorable environment for acquisitions, domestic and foreign, including regulatory requirements and market values of candidates; (xi) integration of acquisitions; (xii) favorable access to capital markets; and (xiii) execution of cost-reduction efforts.

**SUBSIDIARIES OF EMERSON ELECTRIC CO.  
SEPTEMBER 30, 2006**

<u>LEGAL NAME</u>	<u>JURISDICTION OF INCORPORATION</u>
AIH, Inc.	Delaware
AIHL, LLC	Delaware
Alco Controls S.A. de C.V.	Mexico
Applied Concepts, Inc.	Pennsylvania
Woodstock Land Company, LLC	Missouri
Artesyn Technologies, Inc.	Florida
Artesyn Communication Products, Inc.	Wisconsin
Artesyn Communication Products Scandinavia AB	Sweden
Artesyn Communication Products UK Ltd.	Scotland
Spider Software, Ltd.	Scotland
Artesyn Asset Management, Inc.	Delaware
Artesyn North America, Inc.	Delaware
Artesyn Cayman LP	Cayman Islands
Artesyn International Ltd.	Cayman Islands
Artesyn Ireland Ltd.	Cayman Islands
Artesyn Technologies Asia Pacific, Ltd.	Hong Kong
Zhong Shan Artesyn Technologies Electronics Co., Ltd.	China
Artesyn Netherlands B.V.	Netherlands
Artesyn UK, Ltd.	United Kingdom
Artesyn France S.A.R.L.	France
Artesyn Holding GmbH	Austria
Artesyn Austria GmbH	Austria
Artesyn Austria GmbH & Co. KG	Austria
Artesyn Hungary Elektronikai kft	Hungary
Artesyn do Brasil Comercio de Produtos de Conversao de Energia LTDA	Brazil
Artesyn Germany GmbH	Germany
Artesyn Elektronische Gerate Beteiligungs-und Verwaltungs-GmbH	Germany
Artesyn GmbH & Co. KG	Germany
Artesyn Delaware, Inc.	Delaware
Artesyn Delaware LLC	Delaware
Artesyn Technologies Japan KK	Japan
Astec International Holdings Limited	United Kingdom
Astec America Inc.	Delaware
Astec Electronics (Malaysia) Sdn Bhd	Malaysia
Astec Germany GmbH	Germany
Astec International Limited	Hong Kong
Astec Advanced Power Systems Ltda.	Brazil
Astec Advanced Power Systems (Malaysia) Sdn Bhd	Malaysia
Astec Advanced Power Systems (Penang) Sdn Bhd	Malaysia
Astec Agencies Limited	Hong Kong
Astec Custom Power (Hong Kong) Limited	Hong Kong
Astec Custom Power (Philippines) Inc.	Philippines
Astec Custom Power (Singapore) Pte Ltd	Singapore
Astec Electronics Company Limited	China
Astec Electronics (Luoding) Company Ltd.	China
Astec Nanjing Design Engineering Company	China
Astec Power Supply (Shenzhen) Company Ltd.	China
Astec Power Inc.	BVI
Astec Power Philippines, Inc.	Philippines

EMR Holdings Limited	Japan
Stourbridge Holdings (U.K.) Limited	United Kingdom
Brandenburg Limited	United Kingdom
Mirroware Manufacturing Limited	United Kingdom
Astec Europe Ltd.	United Kingdom
Astec International PLC	United Kingdom
Astec France S.A.R.L.	France
B.B.I., S.A. de C.V.	Mexico
Branson Ultrasonic S.A.	Switzerland
Bristol Inc.	Delaware
Bristol Digital Systems Australasia Proprietary Limited	Australia
Brooks Instrument Canada (1967) Limited	Canada
Buehler Holdings LLC	Delaware
Business Services Philippines, Inc.	Delaware
California Emerson LLC	Delaware
ClosetMaid Corporation	Florida
Clairson, Inc.	Delaware
Clairson de Mexico, S.A. de C.V.	Mexico
ClosetMaid (Hong Kong) Limited	Hong Kong
ClosetMaid North America, Inc.	Delaware
Compania de Motores Domesticos S.A. de C.V.	Mexico
Computational Systems, Incorporated	Tennessee
CSI Technology, Inc.	Delaware
Emerson Process Management Distribution n.v.	Belgium
Controles Electromecanicos de Mexico S.A. de C.V.	Mexico
Control Techniques Iberia S.A.	Spain
Control Techniques Sweden AB	Sweden
Cooligy Inc.	Delaware
Daniel Industries, Inc.	Delaware
Bettis Corporation	Delaware
Bettis Canada Ltd.	Canada
Bettis France SARL	France
Bettis Holdings, Ltd.	United Kingdom
Bettis UK Ltd.	United Kingdom
Prime Actuator Control Systems Limited	United Kingdom
Prime Actuator Control Systems UK Ltd.	United Kingdom
Dantorque A/S	Denmark
Hytork Controls, Inc.	Delaware
Shafer Valve Company	Ohio
Daniel Automation Company	Delaware
Daniel Industrial, Inc.	Delaware
Daniel En-Fab Systems, Inc.	Delaware
Daniel International Limited	United Kingdom
Daniel Europe Limited	United Kingdom
Daniel Industries Limited	United Kingdom
Spectra-Tek Holdings Ltd.	United Kingdom
Spectra-Tek UK Ltd.	United Kingdom
Spectra-Tek International Limited	United Kingdom
Greenfield (UK) Limited	United Kingdom
Daniel Measurement and Control, Inc.	Delaware
Daniel Industries Canada Inc.	Canada
Daniel Measurement Services, Inc.	Delaware
Metco Services Limited	United Kingdom
Metco Services Venezuela, C.A.	Venezuela
Danmasa S.A. de C.V.	Mexico
Hytork International Ltd.	United Kingdom
Hytork Controls, Inc.	Florida
Hytork Controls Limited	United Kingdom

Hytork LLC	Delaware
Hytork Services Limited	United Kingdom
DEAS Holdings, Inc.	Delaware
Do+Able Products, Inc.	California
EDAS (I) U.K. Limited	United Kingdom
EDAS (II) U.K. Limited	United Kingdom
EECO, Inc.	Delaware
Apple JV Holding Corp.	Delaware
EGS Electrical Group LLC	Delaware
Appleton Electric LLC	Delaware
Appleton Electric, S.A. de C.V.	Mexico
Appleton Holding Corp.	Delaware
EGS Electrical Group Canada Ltd.	Canada
Easy Heat Ltd.	Canada
EGS Holding S.A.R.L.	France
ATX S.A.	France
Easy Heat, Inc.	Delaware
GSEG LLC	Delaware
O-Z Gedney Company LLC	Delaware
Easy Heat Holding B.V.	Netherlands
Easy Heat Europe B.V.	Netherlands
Electrical Reliability Services, Inc.	California
El-O-Matic USA, Inc.	Delaware
Emerson Climate Technologies, Inc.	Delaware
Copeland Corporation LLC	Delaware
Computer Process Controls, Inc.	Georgia
Emerson Retail Services, Inc.	Delaware
Clive Samuels & Associates, Inc.	New Jersey
Emerson Climate Services, LLC	Delaware
Copeland Access +, Inc.	Delaware
CopelandBitzer L.P.	Delaware
CopelandBitzer Management LLC	Delaware
Copeland de Mexico S.A. de C.V.	Mexico
Copeland Redevelopment Corporation	Missouri
Emerson Climate Technologies (India) Limited	India
CR Compressors LLC	Delaware
Scroll Compressors LLC	Delaware
Emerson Electric (U.S.) Holding Corporation	Delaware
Automatic Switch Company	Delaware
ASC Investments, Inc.	Delaware
Asco Controls A.G.	Switzerland
Asco Controls B.V.	Netherlands
Asco Mideast B.V.	Netherlands
Asco Magnesszelep Kft.	Hungary
Asco/Joucomatic sp. z.o.o.	Poland
Asco/Joucomatic s.r.o.	Czech Republic
Asco/Joucomatic ZA BV	Netherlands
Asco/Joucomatic Sarl	Switzerland
Asco Electrical Products Co., Inc.	New Jersey
Ascomation Pty. Ltd.	Australia
Ascomation New Zealand Ltd.	New Zealand
Asco AB	Sweden
ASCO Japan Co., Ltd.	Japan
Ascomatica S.A. de C.V.	Mexico
Asco Services, Inc.	New Jersey
ASCO Switch Enterprises LLC	Delaware
ASCO Power Technologies, L.P.	Delaware
ASCO Valve Enterprises LLC	Delaware

ASCO Valve, Inc.	Delaware
ASCO Controls, L.P.	Delaware
ASCO Valve Manufacturing, LLC	Delaware
Ascoval Industria E Comercio Ltda.	Brazil
Branson Ultrasonics Corporation	Delaware
Branson Korea Co., Inc.	Korea
Branson Ultrasonidos S.A.E.	Spain
Branson Ultrasons S.A.S.	France
Environmental Mediation Management, LLC	Delaware
Camco Vertriebs-GmbH	Germany
Copeland GmbH	Germany
Copeland Corporation Limited	United Kingdom
Copeland France S.A.	France
Copeland Italia S.a.R.l.	Italy
Copeland Iberica CIB S.A.	Spain
Copeland Refrigeration Europe S.A.	Belgium
Copeland S.A.	Belgium
El-O-Matic GmbH	Germany
Emerson Dietzenbach GmbH	Germany
Emerson Electric GmbH	Germany
Emerson Electric GmbH & Co. OHG	Germany
Emerson Electric Overseas Finance Corp.	Delaware
Motores U.S. de Mexico, S.A. de C.V.	Mexico
U.S.E.M. de Mexico S.A. de C.V.	Mexico
Emerson Process Management GmbH	Germany
Emerson Process Management GmbH & Co. OHG	Germany
Emerson Process Management GmbH & Co. OHG	Germany
Emerson Process Management Manufacturing GmbH & Co. OHG	Germany
Emerson Process Management Ltda.	Brazil
Emerson Retail Services Europe GmbH	Germany
Emerson Technologies Verwaltungs GmbH	Germany
Emerson Technologies GmbH & Co.	Germany
Emersub LXXXIV, Inc.	Delaware
Emerson Process Management, S.A. de C.V.	Mexico
Emersub LXXXVI, Inc.	Delaware
EMR Deutschland GmbH & Co. OHG	Germany
Marbaise Hanlo LS GmbH	Germany
Ridge Tool GmbH	Germany
Ridge Tool GmbH & Co. OHG	Germany
RIDGID Peddinghaus Werkzeug GmbH	Germany
Rosemount Inc.	Minnesota
Control Techniques - Americas, Inc.	Delaware
Control Techniques - Americas LLC	Delaware
Control Techniques Drives Limited	Canada
Fincor Holding, LLC	Delaware
Dieterich Standard, Inc.	Delaware
Emerson Process Management AB	Sweden
Emerson Process Management AS	Norway
Emerson Process Management Holding AG	Switzerland
Emerson Process Management AG	Switzerland
Emerson Process Management Kft.	Hungary
Emerson Process Management sp. z.o.o.	Poland
Emerson Process Management Ticaret Limited Sirketi	Turkey
Emerson Process Management, s.r.o.	Czech Republic
Emerson Process Management, s.r.o.	Slovakia
Emerson Process Management AS	Denmark
Fisher-Rosemount Ges. M.B.H.	Austria
Westinghouse Electric GES m.b.H.	Austria

FR af 13.august 1999 A/S	Denmark
Emerson Process Management Power and Water Solutions Sp. z.o.o.	Poland
Emerson Process Management Asia Pacific Pte Ltd.	Singapore
Emerson Process Management Manufacturing (M) Sdn Bhd	Malaysia
Emerson Process Management (Shanghai) International Trading Co. Ltd.	China
Emerson Process Management Valve Automation (M) Sdn Bhd	Malaysia
HSFR Performance Services Pte Ltd.	Singapore
Emerson Process Management (India) Pvt. Ltd.	India
Emerson Process Management Korea Ltd.	Korea
Emerson Process Management, S.L.	Spain
Emerson Process Management Oy	Finland
Innex Manufacturers & Exporters, Inc.	Delaware
P I Components Corp.	Texas
Rosemount Analytical Inc.	Delaware
Rosemount China Inc.	Minnesota
Rosemount Nuclear Instruments, Inc.	Delaware
Emerson Process Management Temperature GmbH	Germany
Xomox Uruguay S.A.	Uruguay
Emerson Power Transmission Corporation	Delaware
Emerson Chain, Inc.	Delaware
Emerson Power Transmission Drives and Components, Inc.	Delaware
Emerson Power Transmission Manufacturing L.P.	Missouri
Emerson Power Transmission Ithaca, Inc.	Delaware
Rollway Bearing International Ltd.	Delaware
Lipe-Rollway de Mexico, S.A. de C.V.	Mexico
Lipe-Rollway Deutschland GmbH	Germany
Rollway Bearing N.V.	Belgium
EPT Investments, Inc.	Delaware
McGill Manufacturing Company, Inc.	Indiana
Emerson Power Transmission Bearings, Inc.	Delaware
McGill International, Inc.	Taiwan
Liebert Corporation	Ohio
Alber Corp.	Florida
Atlas Asia Limited	Hong Kong
Control Concepts Corporation	Delaware
Emerson Network Power Australia Pty. Ltd.	Australia
Atlas Air Australia Pty. Ltd.	Australia
Emerson Network Power (Hong Kong) Limited	Hong Kong
Wuhan Liebert Computer Power Support System Limited	China
Emerson Network Power (India) Private Limited	India
Leroy Somer & Controls India (P) Ltd.	India
Emerson Network Power (Singapore) Pte. Ltd.	Singapore
Emerson Network Power (Malaysia) Sdn. Bhd.	Malaysia
Emerson Network Power (Thailand) Co. Ltd.	Thailand
Global Energy Services, Inc.	Delaware
Liebert Field Services, Inc.	Delaware
Liebert Global Services, Inc.	Delaware
Liebert North America, Inc.	Delaware
Liebert Property Holdings, LLC	Delaware
Liebert Tecnologia Ltda.	Brazil
Micro Motion, Inc.	Colorado
Ridge Tool Company	Ohio
Ridge Tool (Australia) Pty., Ltd.	Australia
Ridge Tool Manufacturing Company	Delaware
Ridge Tool Pattern Company	Delaware
Ridgid, Inc.	Delaware
Ridgid Italia Srl	Italy
Ridgid Online, Inc.	Ohio

Ridgid Werkzeuge AG	Switzerland
Therm-O-Disc, Incorporated	Ohio
Componentes Avanzados de Mexico, S.A. de C.V.	Mexico
Controles de Temperatura S.A. de C.V.	Mexico
E.G.P. Corporation	Delaware
Emermex S.A. de C.V.	Mexico
Emerson Arabia, Inc.	Delaware
Emerson Capital (Canada) Corporation	Canada
EMRCDNA I	Canada
EMRCDNA II	Canada
Emerson Climate Technologies de Mexico S.A. de C.V.	Mexico
Emerson Climate Technologies - Distribution Services, Inc.	Delaware
Emerson Electric (Asia) Limited	Hong Kong
Branson Ultrasonics (Asia Pacific) Co. Ltd.	Hong Kong
Emerson Electric (South Asia/Pacific) Pte. Ltd.	Singapore
Emerson Technology Service (Shenzhen) Co.	China
Emerson Electric II, C.A.	Venezuela
Emerson Electric de Colombia, Ltda.	Colombia
Emerson Electric Foreign Sales Corporation	U.S. Virgin Islands
Emerson Electric International, Inc.	Delaware
Emerson Electric Ireland Ltd.	Bermuda
Emersub Treasury Ireland	Ireland
Emerson Electric (Mauritius) Ltd.	Mauritius
Emerson Electric Co. (India) Private Ltd.	India
Westinghouse Electric Private Ltd. (Mauritius)	Mauritius
Emerson Process Management Power & Water Solutions India Private Limited	India
Emerson Electric Nederland B.V.	Netherlands
Alco Controls Spol s.r.o.	Czech Republic
Branson Ultrasonics B.V.	Netherlands
Beckman Industrial B.V.	Netherlands
Brooks Instrument B.V.	Netherlands
Emerson Network Power B.V.	Netherlands
Emerson Process Management Flow B.V.	Netherlands
Crouzet Appliance Controls D.O.O.	Slovenia
El-O-Matic B.V.	Netherlands
El-O-Matic Valve Actuators (F.E.) Pte. Ltd.	Singapore
El-O-Matic S.A. (Proprietary) Ltd.	South Africa
Electrische Apparatenfabriek Capax B.V.	Netherlands
Emerson a.s.	Slovakia
Emerson LLC	Russia
Emerson SRL	Romania
Emerson Climate Technologies s.r.o.	Czech Republic
Emerson Electric Slovakia Spol. s.r.o.	Slovakia
Emerson Electric Spol, s.r.o.	Czech Republic
Emerson Process Management B.V.	Netherlands
Fisher Rosemount Temperature B.V.	Netherlands
Fusite, B.V.	Netherlands
Ortrud Verwaltungsgesellschaft mbH	Germany
Knürr-Holding GmbH	Germany
Knürr AG	Germany
Knürr AB	Sweden
Knürr AG	Switzerland
Knürr AG & Co. Grundbesitz OHG	Germany
Knürr BV	Netherlands
Knürr Design Integration Inc.	Canada
Knürr Electronics & Co. Grundbesitz OHG	Germany
Knürr Electronics GmbH	Germany
Knürr Electronics (Shanghai) Co. Ltd.	China



Knürr-Ercotec GmbH	Germany
Knürr Holding Ltda.	Brazil
Knuerr Ltda.	Brazil
Knürr-Innovation GmbH	Germany
Knürr Ltd.	United Kingdom
Knürr Lommatec Mechanik für die Elektronik Beteiligungs und Verwaltungs GmbH	Germany
Knürr s.a.r.l.	France
Knuerr-Spectra (S.E.A.) Pte Ltd.	Singapore
Knürr s.r.o.	Czech Republic
Knürr Technical Furniture GmbH	Germany
Knürr International GmbH	Germany
Ridge Tool Ag	Liechtenstein
Therm-O-Disc Europe B.V.	Netherlands
Emerson Electric Puerto Rico, Inc.	Delaware
Emerson Puerto Rico, Inc.	Delaware
Emerson Electric (Taiwan) Company Limited	Taiwan
Emerson Finance LLC	Delaware
Emerson Global Finance Company	Missouri
Emerson Mexico Corporate Services, S. de R.L. de C.V.	Mexico
Emerson Middle East, Inc.	Delaware
Emerson Network Power, Energy Systems, North America, Inc.	Delaware
Emerson Network Power Exportel, S.A. de C.V.	Mexico
Emerson Network Power, Inc.	Texas
Emerson Sice S.r.l.	Italy
Branson Ultrasuoni S.r.l.	Italy
Emerson Appliance Motors Europe - E.A.M.E. s.r.l. (f/k/a Plaset s.r.l.)	Italy
Emerson Network Power Holding S.r.l.	Italy
Liebert Hiross SpA	Italy
Emerson Network Power Sp. Z.o.o.	Poland
Emerson Network Power S.r.l.	Italy
Liebert Hiross Holding GmbH	Germany
Emerson Network Power GmbH	Germany
Emerson Network Power AG	Switzerland
Emerson Network Power Ges.m.b.H.	Austria
Emerson Network Power Kft.	Hungary
Emerson Process Management S.r.l.	Italy
EMR Milano SRL	Italy
Fisher-Rosemount Italia S.r.l. in liquidazione	Italy
Sirai Elettromeccanica s.r.l.	Italy
Sirai Deutschland Vertrieb Elektronischer GmbH	Germany
Emerson Telecommunication Products, LLC	Delaware
Emerson Network Power Optical Connectivity Solutions, Inc.	Maryland
JTP Industries, Inc.	Delaware
Dura-Line Espana, S.L.	Spain
Dura-Line Iberia, S.L.	Spain
Dura-Line Limited	United Kingdom
Integral Limited	United Kingdom
OOO Dura-Line	Russia
Emerson Network Power Connectivity Solutions, Inc.	Delaware
Balance Manufacturing Services, Inc.	Texas
Cable Spec, Ltd.	Texas
Emerson Electronic Connector and Components do Brasil, Ltda.	Brazil
LoDan de Mexico S.A. de C.V.	Mexico
LoDan West do Brasil, Ltda.	Brazil
Viewsonics do Brasil, Ltda.	Brazil
Viewsonics Mexico S.A. de C.V.	Mexico
Vitelec Electronics Ltd.	United Kingdom
Engineered Endeavors, Inc.	Delaware

Engineered Endeavors do Brasil, Ltda.	Brazil
Engineered Endeavors do Brasil Servicos Ltda.	Brazil
Northern Technologies, Inc.	Idaho
Emerson Venezuela C.A.	Venezuela
Emerson Ventures Inc.	Delaware
Emersub 3 LLC	Delaware
Emersub XLVI, Inc.	Nevada
Wilson Investment 2, Inc.	Delaware
Copesub, Inc.	Delaware
Alliance Compressors LLC	Delaware
Emersub LII, Inc.	Delaware
Emersub XCI, Inc.	Delaware
Emersub Italia Srl	Italy
International Gas Distribution S.A.	Luxembourg
O.M.T Officina Meccanica Tartarini S.r.l.	Italy
Fisher Process Srl	Italy
IGS Dataflow Srl	Italy
EMR Foundation, Inc.	Delaware
EMR Holdings, Inc.	Delaware
Branson de Mexico, S.A. de C.V.	Mexico
Copeland Compresores Hermeticos, S.A. de C.V.	Mexico
Copeland Korea, Inc.	Korea
Copeland Taiwan Refrigeration Co.	Taiwan
Digital Appliance Controls, S.A. de C.V.	Mexico
EMR Manufacturing (M) Sdn Bhd	Malaysia
Emerson Appliance Motor Europe S.R.L.	Romania
Emerson Appliance Solutions (Shenzhen) Co., Ltd.	China
Emerson Argentina S.A.	Argentina
Emerson Climate Technologies Australia Pty Ltd.	Australia
Emerson Electric Canada Limited	Canada
Tech-Met Canada Limited	Canada
Emerson Electric Chile Ltda.	Chile
Emerson Electric de Mexico S.A. de C.V.	Mexico
Ascotech, S.A. de C.V.	Mexico
Motores Reynosa, S.A. de C.V.	Mexico
Emerson Electric do Brasil Ltda	Brazil
Emerson Comercio em Tecnologia de Climatizacao Ltda	Brazil
Emerson Electric Holdings (Switzerland) GmbH	Switzerland
Emerson (China) Motor Co. Ltd.	China
Emerson Process Management Co. Ltd.	China
EMR Emerson Holdings (Switzerland) GmbH	Switzerland
Emerson Electric (China) Holdings Ltd.	China
ASCO Valve (Shanghai) Co., Ltd.	China
Beijing Rosemount Far East Instrument Co., Ltd.	China
Branson Ultrasonics (Shanghai) Co., Ltd.	China
ClosetMaid (Jiangmen) Storage Limited	China
Emerson Beijing Instrument Co. Ltd.	China
Emerson Climate Technologies (Shenyang) Co. Ltd.	China
Emerson Climate Technologies (Suzhou) Co., Ltd.	China
Emerson Climate Technologies (Suzhou) Research & Development Co., Ltd.	China
Emerson Electric (Shenzhen) Co., Ltd.	China
Emerson Fusite Electric (Shenzhen) Co. Ltd.	China
Emerson Junkang Enterprise (Shanghai) Co., Ltd.	China
Emerson Machinery & Equipment (Shenzhen) Co. Ltd.	China
Emerson Network Power Connectivity Solutions (Shanghai) Co., Ltd.	China
Emerson Network Power Co. Ltd. (f/k/a/ Avansys)	China
Emerson Power Transmission (Zhangzhou) Co., Ltd.	China
Emerson Process Management (Tianjin) Valves Co., Ltd.	China

Emerson Professional Tools (Shanghai) Co., Ltd.	China
Emerson Trading (Shanghai) Co. Ltd.	China
Fisher Jeon Gas Equipment (Chengdu) Co., Ltd.	China
Fisher Regulators (Shanghai) Co., Ltd.	China
Leroy Somer Electro-Technique (Fuzhou) Co., Ltd.	China
Shanghai Westinghouse Control Systems Company Ltd.	China
Emerson Electric Korea Ltd.	Korea
Emerson Electric (M) Sdn Bhd	Malaysia
Emerson Electric Poland Sp. z.o.o.	Poland
FZN Marbaise LS Sp. z.o.o.	Poland
Emerson Electric (Thailand) Limited	Thailand
Emerson Energy Systems Argentina S.A.	Argentina
Emerson Energy Systems Sdn Bhd	Malaysia
Emerson Holding Sweden AB	Sweden
Emerson Sweden AB	Sweden
Emerson Network Power Energy Systems AB	Sweden
Saab Marine Holding AB	Sweden
Saab Rosemount Tank Radar AB	Sweden
MEP Marine AS	Norway
Saab Marine Middle-East (FZC)	UAE
Saab Marine RU	Russia
Saab Rosemount Deutschland GmbH	Germany
Saab Rosemount Marine Singapore Pte Ltd	Singapore
CHP Navcom Pte. Ltd.	Singapore
Saab Rosemount Tank Gauging Limited	United Kingdom
Saab Rosemount Tank Gauging S.P.C.	Bahrain
Saab Rosemount Tank Gauging (India) Private Limited	India
SF-Control OY	Finland
Emerson Network Power del Peru S.A.C.	Peru
Emerson Network Power d.o.o.	Croatia
Emerson Network Power Limited	Nigeria
Emerson Network Power (Philippines), Inc.	Philippines
Emerson Network Power (South Africa) (Pty) Ltd	South Africa
Emerson Europe S.A.	France
Asco Joucomatic S.A.	France
Asco Joucomatic GmbH	Germany
Asco Joucomatic S.p.A.	Italy
Asco Joucomatic N.V.	Belgium
Fluidcontrol S.A.	Spain
Sotrac S.r.l.	Italy
Company Financiere de Chausey, SA	France
Emerson Network Power Energy Systems S.A.	France
Emerson Appliance Controls SAS	France
Emerson Energy Systems EURL	France
Francel S.A.	France
Leroy-Somer S.A.	France
Bertrand Polico SAS	France
Comercial Leroy-Somer Ltda.	Chile
Constructions Electriques DeBeaucourt SAS	France
Electronique du Sud-Ouest S.A.S.	France
Atelier de Bobinage de Moteurs Electriques - Viet Services S.a.r.L.	France
Atelier Equipment Electrique Wieprecht SARL	France
SARL Wieprecht	France
Bobinage Electrique Industriel SARL	France
Bobinage Electrique Industriel Roannais S.A.R.L.	France
Cargnelli SAS	France
Diffusion Mecanique Electricite SARL	France
Electro Maintenance Courbon SARL	France

Etablissements Belzon & Richardot S.A.R.L	France
Etablissements de Cocard SARL	France
Etablissements J. Michel S.A.R.L.	France
Etablissements Suder et Fils S.A.R.L.	France
Houssin S.A.R.L.	France
Lorraine Services Electrique Electronique Electromecanique S.a.r.l.	France
Maintenance Industrie Service Provence SARL	France
Maintenance Industrie Service Rennes S.a.r.L.	France
Maintenance Industrie Service S.a.r.L.	France
Maintenance Industrie Service SIBE SARL	France
Maintenance Industrie Service SPIRE SARL	France
Marcel Oury SARL	France
MEZIERES S.A.R.L.	France
Navarre Services S.A.R.L.	France
Ouest Electro Service S.A.R.L.	France
Prevost SARL	France
Radiel Bobinage S.A.R.L.	France
Societe De Reparation Electro-Mecanique S.A.R.L.	France
Societe Nouvelle Paillet Services S.A.R.L.	France
Societe Nouvelle Silvain S.A.R.L.	France
Sud Maintenance S.A.R.L.	France
Etablissements Trepeau SAS	France
Girard Transmissions SAS	France
I.M.I Kft	Hungary
La Francaise de Manutention SAS	France
Leroy-Somer Canada Ltd.	Canada
Leroy-Somer Denmark A/S	Denmark
Leroy-Somer Elektroantriebe GmbH	Austria
Leroy-Somer Elektromotoren GmbH	Germany
Leroy-Somer Electromekanik Sistemler Ticaret Ltd. STI	Turkey
Leroy-Somer Iberica S.A.	Spain
Leroy-Somer Ltd.	Greece
Leroy-Somer Ltd.	United Kingdom
Leroy-Somer Motores E Sistemas Electro Mecanicas CDA	Portugal
Leroy-Somer Nederland B.V.	Netherlands
Leroy-Somer Norden AB	Sweden
Leroy-Somer Norge A/S	Norway
Leroy-Somer OY	Finland
Leroy-Somer (Pty) Ltd.	South Africa
Leroy-Somer (Pty) Ltd.	Australia
Leroy Somer S.A.	Belgium
Leroy-Somer (SEA) Pte. Ltd.	Singapore
Leroy-Somer Suisse S.A.	Switzerland
Leroy-Somer S.p.A.	Italy
E.M.S. Elettro Multi Service Srl	Italy
Maintenance Industrielle de Vierzon SAS	France
M.L.S. Holice Spol. s.r.o.	Czech Republic
MLS Industries Inc.	Delaware
Yorba Linda International Inc.	Delaware
Motadour SAS	France
Moteurs Leroy-Somer S.A.	France
Moteurs Patay SAS	France
Societe Anonyme de Mecanique et D'outillage du Vivarais S.A.	France
Societe Confolentaise de Metallurgie SAS	France
Societe de Mecanique et D'Electrothermie des Pays de L'Adour SAS	France
Emerson Network Power SA	France
Ridgid France S.A.	France
Emerson Holding AG	Switzerland

Emerson Laminaciones de Acero de Monterrey, S.A. de C.V.	Mexico
Emerson Network Power, S. A.	Spain
Flexair Clima S.A.	Spain
Jaure, S.A.	Spain
Emerson Process Management Europe Middle East & Africa GmbH	Switzerland
Emerson Process Management (Magyarország) Kft.	Hungary
Emerson Process Management NV	Belgium
PI Components NV	Belgium
Emerson Sistemas de Energia Ltda.	Brazil
Emersub Mexico, Inc.	Nevada
Daniel Measurement and Control, S. de R.L. de C.V.	Mexico
Emerpowsys, S. de R.L. de C.V.	Mexico
Emerson Electronic Connector and Components Mexico S.A. de C.V.	Mexico
Emerson Tool and Appliance Company, S. de R.L. de C.V.	Mexico
Emerson Tool Company de Mexico S. de R.L. de C.V.	Mexico
Emersub 1 LLC	Delaware
Intermetro de Mexico, S. de R.L. de C.V.	Mexico
Stack A Shelf, S. de R.L. de C.V.	Mexico
Emersub XXXVI, Inc.	Delaware
Digital Appliance Controls (UK) Limited	United Kingdom
Control Techniques Ltd.	United Kingdom
Control Techniques GmbH	Germany
Reta Anlagenbau GmbH	Germany
Control Techniques Asia-Pacific Pte. Ltd.	Singapore
Control Techniques Drives (Malaysia) Sdn Bhd	Malaysia
Control Techniques Singapore Pte Limited	Singapore
Control Techniques (Thailand) Limited	Thailand
PT Kontrol Teknik Indonesia	Indonesia
Control Techniques Australia Pty Ltd.	Australia
Control Techniques Bermuda Limited	Bermuda
Control Techniques Drives Limited	United Kingdom
Control Techniques Dynamics Limited	United Kingdom
Evershed Powerotor Limited	United Kingdom
Moore Reed & Company Limited	United Kingdom
Control Techniques Southern Africa (Pty.) Limited	South Africa
Control Techniques SpA	Italy
Control Techniques Worldwide BV	Netherlands
Control Technika Hungary Villamos Hajtastechnikai Kft.	Hungary
Control Techniques AG	Switzerland
Control Techniques BV	Netherlands
Control Techniques Brno s.r.o.	Czech Republic
Control Techniques China Pte. Ltd.	Hong Kong
Control Techniques AS	Denmark
Control Techniques Endustriyel Control Sistemleri Sanayii Ve Ticaret A.S.	Turkey
Control Techniques GesbmH	Austria
Control Techniques India Limited	India
Control Techniques Elpro Automation Limited	India
DriveShop Limited	United Kingdom
Electric Drives Limited	Ireland
Electric Drives Manufacturing Ltd.	Ireland
Foray 600 Limited	United Kingdom
Foray 606 Limited	United Kingdom
Emerson Holding Company Limited	United Kingdom
Asco Joucomatic Ltd.	United Kingdom
Asco Power Technologies Ltd.	United Kingdom
Joucomatic Controls Ltd.	United Kingdom
Temple Instruments Ltd.	United Kingdom
Bristol Babcock Limited	United Kingdom

Computational Systems, Limited	United Kingdom
Copeland Ltd.	United Kingdom
CSA Consulting Engineers, Ltd.	United Kingdom
The Design House (WGC) Limited	United Kingdom
El-O-Matic Limited	United Kingdom
Emerson Electric U.K. Limited	United Kingdom
Bray Lectroheat Limited	United Kingdom
Buehler Europe Limited	United Kingdom
BannerScientific Limited	United Kingdom
Buehler UK Limited	United Kingdom
Metaserve Limited	United Kingdom
Metallurgical Services Laboratories Limited	United Kingdom
Emerson FZE	UAE
Emerson Climate Technologies FZE	UAE
Emerson Network Power Limited	United Kingdom
Hiross Limited	United Kingdom
Liebert Swindon Ltd.	United Kingdom
Emerson Energy Systems (UK) Limited	United Kingdom
Emerson Process Management Limited	United Kingdom
Emerson Process Management Distribution Limited	United Kingdom
Fisher-Rosemount Properties Limited	United Kingdom
Emerson Process Management Shared Services Limited	United Kingdom
F-R Properties (UK) Limited	United Kingdom
EMR Barnstaple Limited	United Kingdom
Emerson Process Management Services Limited	United Kingdom
Emerson UK Trustees Limited	United Kingdom
Fisher Controls Limited	United Kingdom
Farris Engineering Ltd.	United Kingdom
Fisher Governor Company Ltd.	United Kingdom
Midwest Microwave International Limited	United Kingdom
Midwest Microwave Limited	United Kingdom
MDC Technology Limited	United Kingdom
MDC Technology Trustees Limited	United Kingdom
Mobrey Group PLC	United Kingdom
Mobrey Overseas Sales Limited	United Kingdom
Mobrey S.A./N.V.	Belgium
Mobrey Sp. Z.o.o.	Poland
Mobrey GmbH	Germany
Mobrey AB	Sweden
Mobrey SA	France
Mobrey Limited	United Kingdom
Mobrey Transducers Limited	United Kingdom
Mobrey Trustee Company Limited	United Kingdom
Northern Technologies UK Limited	United Kingdom
Oaksmere Refrigeration Design & Consultancy Limited	United Kingdom
Pactrol Controls Limited	United Kingdom
S R Drives Manufacturing Limited	United Kingdom
Switched Reluctance Drives Limited	United Kingdom
Reluctance Motors Limited	United Kingdom
F-R Tecnologias de Flujo, S.A. de C.V.	Mexico
Fisher-Rosemount Peru S.A.C.	Peru
Fisher-Rosemount Systems GmbH	Switzerland
Motoreductores U.S., S.A. de C.V.	Mexico
NetworkPower Ecuador S.A.	Ecuador
P.T. Emerson Electric Indonesia	Indonesia
RAC Technologies (Israel) Ltd.	Israel
Rey-Lam, S. de R.L. de C.V.	Mexico
Rotores S.A. de C.V. Rotores S.A. de C.V.	Mexico

Saab Rosemount Marine Korea Co. Ltd.	Korea
Termotec de Chihuahua S.A. de C.V.	Mexico
Tranmet Holdings Limited	United Kingdom
Tranmet Holdings B.V.	Netherlands
Industrial Group Metran	Russia
Metran-SMART	Russia
Metran-STAR	Russia
Metran-Energoservice Chelyabinsk	Russia
Firma Metran	Russia
Enterprise Metran-Thermometria	Russia
Metran Sensor	Russia
EPMCO Holdings, Inc.	Delaware
Fisher Controls International LLC	Delaware
Emerson Process Management Australia Pty Limited	Australia
Corot Pty. Ltd.	Australia
Emerson Electric Australia Co. Pty. Ltd.	Australia
Fisher-Rosemount Ltd.	New Zealand
Emerson Process Management China Ltd.	Hong Kong
Fisher Controls De Mexico, S.A. de C.V.	Mexico
Fisher Controles Do Brasil Ltda.	Brazil
Fisher Controls Industria e Comercio Ltda.	Brazil
Fro-Mex, S.A. de C.V.	Mexico
Instrument & Valve Services Company	Delaware
Nippon Fisher Co. Ltd.	Japan
Fisco Ltd. (Fisco Kabushiki Kaisha)	Japan
Fisher-Rosemount Systems, Inc.	Delaware
Emerson Process Management LLLP	Delaware
Emerson Performance Solutions, Inc.	Georgia
Emerson Process Management Dominicana, S.A.	Dominican Republic
Emerson Process Management Power & Water Solutions, Inc.	Delaware
Emerson Process Management Group Services S.A.S.	France
Emerson Process Management S.A.S.	France
Fisher-Rosemount, Lda	Portugal
Fiberconn Assemblies Morocco S.A.R.L.	Morocco
Flo Healthcare Solutions, LLC	Georgia
Fusite Corporation	Ohio
Emerson Japan, Ltd.	Japan
Fusite Land Company	Delaware
High Voltage Maintenance Corporation	Ohio
Hiross India Private Limited	India
Humboldt Hermetic Motor Corp.	Delaware
Kato Engineering, Inc.	Delaware
Knaack Manufacturing Company	Delaware
Capsacorp LLC	Delaware
Knürr Inc.	California
Kop-Flex, Inc.	Delaware
Kop-Flex Canada Limited	Canada
Metaloy, Inc.	Massachusetts
Metropolitan International, Inc.	Nevada
InterMetro Industries Corporation	Nevada
InterMetro Industries Corporation	Delaware
InterMetro Industries B.V.	Netherlands
Metro Industries, Inc.	Nevada
Metropolitan Wire (Canada) Ltd.	Canada
Metropolitan Wire Corporation	Pennsylvania
Midwest Microwave Inc.	Delaware
Mobrey, Inc.	Delaware
Motores Hermeticos del Sur, S.A. de C.V.	Mexico

Numatics, Incorporated	Michigan
Micro-Filtration, Inc.	Michigan
Microsmith, Inc.	Arizona
Numatech, Inc.	Michigan
Numatics (Shanghai) Co., Ltd.	China
Numatics B.V.	Netherlands
Numatics Co., Ltd.	Taiwan
Numatics de Mexico, S.A. de C.V.	Mexico
Numatics GmbH	Germany
Numatics Kft.	Hungary
Numatics Limited	United Kingdom
Numatics Ltd.	Canada
Numatics S.A.R.L.	France
Numatics S.R.L.	Italy
Numatics Spain, S.L.	Spain
Numation, Inc.	Michigan
Ultra Air Products, Inc.	Michigan
PC & E, Inc.	Missouri
Ridge Tool Europe NV	Belgium
Ridgid Scandinavia A/S	Denmark
Von Arx AG	Switzerland
Von Arx GmbH	Germany
Saab Rosemount Tank Gauging Inc.	Texas
Termocontroles de Juarez S.A. de C.V.	Mexico
The Sulton Company, Inc.	Delaware
Tescom Corporation	Minnesota
Tescom, LLC	Minnesota
Hankuk Tescom Ltd.	Korea
Tescom Europe Management GmbH	Germany
Tescom Europe GmbH & Co. KG	Germany
Thunderline Z, Inc.	Delaware
Transmisiones de Potencia Emerson S.A. de C.V.	Mexico
Wer Canada (1984) Inc.	Canada
Western Forge Corporation	Delaware
White-Rodgers (1967) Limited	Canada
Wiegand S.A. de C.V.	Mexico



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors  
Emerson Electric Co.:

We consent to incorporation by reference in Registration Statement Nos. 333-118592, 333-118591, 333-118589, 333-90240, 333-46919, 333-72591, 33-38805, and 33-57985 on Form S-8 and Registration Statement Nos. 333-110546, 333-52658, 333-84673, 333-66865 and 33-62545 on Form S-3 of Emerson Electric Co. of our reports dated November 20, 2006, with respect to the consolidated balance sheets of Emerson Electric Co. and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006, management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2006, and the effectiveness of internal control over financial reporting as of September 30, 2006, which reports are incorporated by reference in the September 30, 2006 annual report on Form 10-K of Emerson Electric Co.

/s/ KPMG LLP

St. Louis, Missouri  
November 20, 2006

## POWER OF ATTORNEY

The undersigned members of the Board of Directors and Executive Officers of Emerson Electric Co., a Missouri corporation with principal offices at 8000 West Florissant Avenue, St. Louis, Missouri, 63136, hereby appoint W. J. Galvin as their Attorney-in-Fact for the purpose of signing Emerson Electric Co.'s Securities and Exchange Commission Form 10-K (and any and all Amendments thereto) for the fiscal year ended September 30, 2006.

Dated: October 3, 2006

<u>Signature</u>	<u>Title</u>
<u>/s/ D. N. Farr</u> D. N. Farr	Chairman of the Board, Chief Executive Officer and Director
<u>/s/ W. J. Galvin</u> W. J. Galvin	Senior Executive Vice President, Chief Financial Officer and Director
<u>/s/ R. J. Schlueter</u> R. J. Schlueter	Vice President and Chief Accounting Officer
<u>/s/ A. A. Busch III</u> A. A. Busch III	Director
<u>/s/ D. C. Farrell</u> D. C. Farrell	Director
<u>/s/ C. Fernandez G.</u> C. Fernandez G.	Director
<u>/s/ A. F. Golden</u> A. F. Golden	Director
<u>/s/ R. B. Horton</u> R. B. Horton	Director

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<u>/s/ G. A. Lodge</u> G. A. Lodge	Director
<u>/s/ V. R. Loucks, Jr.</u> V. R. Loucks, Jr.	Director
<u>/s/ J. B. Menzer</u> J. B. Menzer	Director
<u>/s/ C. A. Peters</u> C. A. Peters	Director
<u>/s/ J. W. Prueher</u> J. W. Prueher	Director
<u>/s/ R. L. Ridgway</u> R. L. Ridgway	Director
<u>/s/ R. L. Stephenson</u> R. L. Stephenson	Director

**Certification**

I, D. N. Farr, Chairman of the Board, Chief Executive Officer and President, Emerson Electric Co., certify that:

1. I have reviewed this annual report on Form 10-K of Emerson Electric Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2006

/s/ D. N. Farr

D. N. Farr  
Chairman of the Board,  
Chief Executive Officer and President  
Emerson Electric Co.

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## Certification

I, W. J. Galvin, Senior Executive Vice President and Chief Financial Officer, Emerson Electric Co., certify that:

1. I have reviewed this annual report on Form 10-K of Emerson Electric Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2006

/s/ W. J. Galvin

W. J. Galvin  
Senior Executive Vice President and  
Chief Financial Officer  
Emerson Electric Co.

CERTIFICATION PURSUANT TO  
EXCHANGE ACT RULE 13a-14(b) AND  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Emerson Electric Co. (the "Company") on Form 10-K for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, D. N. Farr, Chairman of the Board, Chief Executive Officer and President of the Company, certify, to the best of my knowledge, pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ D. N. Farr

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D. N. Farr  
Chairman of the Board,  
Chief Executive Officer and President  
Emerson Electric Co.  
November 20, 2006

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CERTIFICATION PURSUANT TO  
EXCHANGE ACT RULE 13a-14(b) AND  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Emerson Electric Co. (the "Company") on Form 10-K for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. J. Galvin, Senior Executive Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. J. Galvin

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W. J. Galvin  
Senior Executive Vice President and  
Chief Financial Officer  
Emerson Electric Co.  
November 20, 2006