

Second Quarter 2007 Earnings Conference Call

May 1, 2007

Safe Harbor Statement

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

Non-GAAP Measures

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



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Second Quarter 2007 Highlights

- Second quarter sales up 14% to \$5.5 billion with increases in all segments
 - Underlying sales* growth of more than 7%, led by strong international growth
- Operating profit margin* improved 20 basis points to 15.2%
- Earnings Per Share of \$0.61, up 17% compared to \$0.52 in the prior year quarter
- Operating cash flow of \$548 million and free cash flow* of \$393 million
- Balance sheet strong, progress on operational efficiency measures
 - Average Days-In-The-Cash-Cycle decreased to 68 days from 69 days
 - Trade Working Capital as a % of sales from 18.6% to 18.8%
 - Operating Cash Flow to Total Debt solid at 53%

A Strong Quarter and First Half of 2007
Against High 2006 Comparisons



Emerson Second Quarter Results

<u>(\$Mil excl. EPS)</u>	<u>2006</u>	<u>2007</u>	
Sales	\$4,852	\$5,513	→ Up 14% <ul style="list-style-type: none"> • Increases in all 5 segments • Underlying* up over 7%; Acq/Div +4 pts; FX >+2 pts <ul style="list-style-type: none"> • Process Management +11%, Industrial Automation +10%
Operating Profit* OP%*	\$729 15.0%	\$837 15.2%	→ Up 15% <ul style="list-style-type: none"> • 20 basis point improvement driven primarily by restructuring benefits. In total, price increases were more than offset by material and other inflation.
Net Earnings Earnings%	\$434 8.9%	\$494 9.0%	→ Up 14%
Dil. Avg. Shares	<u>829.0</u>	<u>804.9</u>	→ Repurchased 4.5M shares for \$198M in the qtr
EPS	\$0.52	\$0.61	→ Up 17%

Double-Digit Growth on all Key Measures



Underlying Sales Analysis

Second Quarter Results

United States	3%
Europe	11%
Asia	14%
Latin America	7%
Canada	(1%)
Middle East/Other	36%
Total International	12%

Underlying Sales*	+7.3%
Currency	2.3 pts
Acquisitions/Divestitures	4.0 pts
Consolidated Sales	+13.6%

Slower Growth in the United States Continued to be Offset by Strong International Growth



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Second Quarter Detail

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>	
Gross Profit	\$1,734	\$1,952	→ Up 13%
GP%	35.7%	35.4%	→Commodity inflation continued to pressure gross margins
SG&A%	20.7%	20.2%	
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Operating Profit*	\$729	\$837	→ Up 15%
OP%*	15.0%	15.2%	
- Other Deductions, Net	\$54	\$43	→ MKSI stock sale gain \$13M higher than prior year quarter
- Interest Expense, Net	<u>\$50</u>	<u>\$58</u>	→All MKSI stock has now been sold
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Pretax Earnings	\$625	\$736	→ Up 18%
Earnings%	12.9%	13.3%	
- Taxes	\$191	\$242	
- Tax Rate	30.6%	32.8%	→ Now expect full year rate of approximately 32%

Cash Flow & Balance Sheet

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>	
Operating Cash Flow	\$549	\$548	→ Essentially flat to prior year
Capital Expenditures	<u>(\$113)</u>	<u>(\$155)</u>	→ Up 38%, continued capital investments to add capacity and expand footprint
Free Cash Flow*	\$436	\$393	
Cash Flow/Total Debt	66.4%	53.3%	→ Strong and flexible balance sheet
Inventories	\$2,063	\$2,388	} → Sequential improvement in ratio from 19.8% in 1 st Qtr
Receivables	\$3,404	\$3,888	
Payables	<u>(\$1,867)</u>	<u>(\$2,137)</u>	
Trade WC	\$3,600	\$4,139	
TWC % to sales	18.6%	18.8%	

Strong Balance Sheet -- Flexibility to Make Strategic Investments and Return Cash to Shareholders



Business Segment Earnings Second Quarter Results

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>	
Business Segment EBIT* Margin	\$716 14.3%	\$814 14.3%	→ Up 14% · Improved margins in 4 of 5 segments
Diff. In Accounting Methods	\$42	\$52	→ Up \$10 million
Corporate & Other	(\$83)	(\$72)	→ Down \$11 million
Interest Expense, Net	<u>(\$50)</u>	<u>(\$58)</u>	→ Up \$8 million, higher debt balances
Pretax Earnings	\$625	\$736	→ Up 18%



Process Management Second Quarter Results

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>
Sales	\$1,143	\$1,345

→ Up 18%

- Underlying* up 11%; FX +3 pts; Acq +4 pts
 - U.S. up 13%, Asia up 7%, Europe up 6%, Middle East/Other up 52%
- Strength across the segment—systems & solutions, measurement and valves

EBIT	\$190	\$239
Margin	16.6%	17.7%

→ Up 26%

- Leverage on higher sales drive the margin improvement
- Technology, global footprint and cost reduction programs have benefited margins

Restructuring	\$1	\$4
EBIT Excl. Rest.*	\$191	\$243
Margin*	16.7%	18.0%

✓ **Selected as Long-Term Digital Automation Supplier for all Qatargas Oil, Gas and Liquefied Natural Gas (LNG) Facilities**

Double-Digit Order Growth in the Quarter --
Outlook for End Markets Remains Strong



Industrial Automation Second Quarter Results

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>	
Sales	\$931	\$1,057	→ Up 13% - Underlying* up 10%; FX +4 pts; Acq/Div (1) pt • U.S. up 4%, Asia up 21%, Europe up 15%
EBIT Margin	\$131 14.1%	\$151 14.3%	→ Up 15% - Margin up 20 basis points - Sales volume leverage - Price increases offset by material and other inflation
Restructuring	\$3	\$3	
EBIT Excl. Rest.* Margin*	\$134 14.4%	\$154 14.5%	

✓ ***Slower growth in the United States offset by strength in Europe and Asia***

✓ ***Order growth of +10% to +15% during the quarter***

Power Generating Alternator Business Continues
to be a Key Growth Driver



Network Power Second Quarter Results

(\$Mil)	2006	2007
Sales	\$1,004	\$1,191

→ Up 19%

- Underlying* up 6%; Acq/Div +11 pts, FX +2 pts
 - U.S. up 4%, Asia up 15%, Europe down 3%
- Strength from computing end markets

EBIT	\$119	\$146
Margin	11.9%	12.3%

→ Up 22%

- Solid margin performance from core businesses, less dilution from acquisitions
- Impact from prior cost reduction efforts driving margin improvement

Restructuring	\$3	\$5
EBIT Excl. Rest.*	\$122	\$151
Margin*	12.2%	12.7%

✓ **Integration of Artesyn and Knürr acquisitions successful, will benefit margin in the second half of 2007**

✓ **China power systems business remains strong**

North American Telecom Starting to Pickup –
Should Help Growth in Second Half of 2007



Climate Technologies Second Quarter Results

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>	
Sales	\$852	\$945	→ Up 11% <ul style="list-style-type: none"> - Underlying* up more than 6%; Acq. +3 pts; FX >+1 pt <ul style="list-style-type: none"> • U.S. down 3% • Europe up 28%, Asia up 19%
EBIT Margin	\$125 14.6%	\$141 15.0%	→ Up 14% <ul style="list-style-type: none"> - Margin up 40 basis points - Lower restructuring spend - 30 basis point dilution from India compressor acquisition
Restructuring	\$8	\$4	
EBIT Excl. Rest.* Margin*	\$133 15.6%	\$145 15.4%	

✓ **European push to use renewable energies is leading to strong growth in heat pumps, positive trend for Climate Technologies**

Weather Will be Key to Summer Selling
Season in the United States



Appliance and Tools Second Quarter Results

<u>(\$Mil)</u>	<u>2006</u>	<u>2007</u>
Sales	\$1,072	\$1,133

→ Up 6%

- Underlying* up >3%; Acq +1 pt; FX +1 pt
- U.S. up 2%, Europe up 9%, Asia up 26%

EBIT	\$151	\$137
Margin	14.1%	12.0%

→ Down 10%

- Margin decrease of 210 basis points
- Price increases offset by material and other inflation
- Deleverage on lower volume for residential construction and consumer businesses
- Reset costs for storage business at big box retailers
- Negative leverage on major disposer new product launch

Restructuring	\$7	\$8
EBIT Excl. Rest.*	\$158	\$145
Margin*	14.7%	12.8%

✓ **Disappointing margin performance**

✓ **Continue to work price initiatives and address cost structure to recover margins**

Non-Residential Construction Driving Growth, Offsetting Softness from Consumer and Residential Exposures



Summary and Outlook

- Strong second quarter
 - Underlying sales* growth of over 7% -- strength outside the United States
 - Operating profit margin* improvement of 20 basis points
 - Order trends support growth objectives, 5% to 10% increase during the quarter
- Results for the first 6 months of fiscal 2007 have matched expectations
- Expect Full Year Underlying Sales Growth* of 5% to 7% and Reported Sales Growth of 9% to 11%
- Expect Full Year Earnings per Share in the range of \$2.50 to \$2.60, 12 to 16 percent growth
- Expect Full Year Operating Cash Flow of \$2.7 billion, Capital Expenditures of \$0.7 billion and Free Cash Flow* of \$2.0 billion
- Expect 2007 Return on Total Capital of ~ 19%



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Emerson Business Summary Reconciliation of Non-GAAP Financial Measures

Expected FY 2007 Sales Growth %

Underlying Sales * **5% - 7%**

Currency / Acq. / Div. **~ 4 pts**

Total Sales **9% - 11%**

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

