MORGAN STANLEY
Form 424B2
October 30, 2018

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Dual Directional Buffered Participation Securities due 2021	$3,700,000	$448.44

October 2018

Pricing Supplement No. 1,076

Morgan Stanley Finance LLC Registration Statement Nos. 333-221595; 333-221595-01

Dated October 26, 2018

Filed pursuant to Rule 424(b)(2)

Structured Investments

Opportunities in U.S. Equities

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The Dual Directional Buffered Participation Securities (the "securities") are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The securities will pay no interest, do not guarantee any return of principal at maturity and have the terms described in the accompanying product supplement for Participation Securities, index supplement and prospectus, as supplemented or modified by this document. At maturity, if the S&P 500® Index, which we refer to as the underlying index, **has appreciated** in value, you will receive for each security that you hold at maturity the stated principal amount of $1,000 plus a return reflecting 100% of the upside performance of the underlying index, subject to the maximum upside payment at maturity. If the underlying index has **depreciated** in value but by no more than 20%, you will receive the stated principal amount of your investment plus a positive return equal to 125% of the absolute value of the percentage decline, which will effectively be limited to a positive return of 25%. However, if the underlying index has **depreciated** by more than 20%, you will lose 1% of the stated principal amount for every 1% decline beyond the specified buffer amount, subject to the minimum payment at maturity of 20% of the stated principal amount. Investors may lose up to 80% of the stated principal amount of the securities. The securities are for investors who seek an equity index-based return and who are willing to risk their principal and forgo current income and upside returns above the maximum upside payment at maturity in exchange for the absolute return and buffer features that in each case apply to a limited range of performance of the underlying index. **Investors may lose up to 80% of the stated principal amount of the securities.** The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program. The securities differ from the Participation Securities described in the accompanying product supplement for Participation Securities in that the securities offer the potential for a positive return at maturity if the underlying index depreciates by up to 20%.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Maturity date:	April 29, 2021
Valuation date:	April 26, 2021, subject to postponement for non-index business days and certain market disruption events
Underlying index:	S&P 500® Index
Aggregate principal amount:	$3,700,000
Payment at maturity:	· If the final index value is *greater than or equal to* the initial index value: $1,000 + ($1,000 × index percent change), subject to the maximum upside payment at maturity · If the final index value is *less than* the initial index value but has decreased from the initial index value by an amount *less than or equal to* the buffer amount of 20%: $1,000 + ($1,000 x absolute index return x 1.25) *In this scenario, you will receive a 1.25% positive return on the securities for each 1% negative return on the underlying index. In no event will this amount exceed the stated principal amount plus $250.* · If the final index value is *less than* the initial index value and has decreased from the initial index value by an amount *greater than* the buffer amount of 20%: $1,000 + [$1,000 x (index percent change + 20%)] *Under these circumstances, the payment at maturity will be less than the stated principal amount of $1,000. However, under no circumstances will the securities pay less than $200 per security at maturity.*
Maximum upside payment at maturity:	$1,201.10 per security (120.11% of the stated principal amount)
Index percent change:	(final index value – initial index value) / initial index value
Absolute index return:	The absolute value of the index percent change.
Initial index value:	2,658.69, which is the index closing value on the pricing date

Final index value:	The index closing value on the valuation date
Buffer amount:	20%. As a result of the buffer amount of 20%, the value at or above which the underlying index must close on the valuation date so that investors do not suffer a loss on their initial investment in the securities 2,126.952, which is 80% of the initial index value.
Stated principal amount / Issue price:	$1,000 per security
Minimum payment at maturity:	$200 per security (20% of the stated principal amount)
Pricing date:	October 26, 2018
Original issue date:	October 31, 2018 (3 business days after the pricing date)
CUSIP / ISIN:	61768DHC2 / US61768DHC20
Listing:	The securities will not be listed on any securities exchange.
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."
Estimated value on the pricing date:	$982.40 per security. See "Investment Summary" on page 2.

Commissions and issue price:	Price to public	**Agent's commissions and fees**(1)	**Proceeds to us**(2)
Per security	$1,000	$6.50	$993.50
Total	$3,700,000	$24,050	$3,675,950

(1) *Selected dealers and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of $6.50 for each security they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement for participation securities.*

(2) *See "Use of proceeds and hedging" on page 13.*

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 6.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Information About the Securities" at the end of this document.

References to "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Participation Securities dated November 16, 2017 **Index Supplement dated November 16, 2017**

Prospectus dated November 16, 2017

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

Investment Summary

Dual Directional Buffered Participation Securities

The Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021 (the “securities”) can be used:

- § To achieve similar levels of upside exposure to the underlying index as a direct investment, subject to the maximum upside payment at maturity
- § To obtain a positive return equal to 125% of the absolute index return for a limited range of negative performance of the underlying index.
- § To obtain a buffer against a specified level of negative performance in the underlying index
- § To potentially outperform the underlying index in a moderately bearish scenario.

Maturity:	Approximately 2.5 years
Maximum upside payment at maturity:	$1,201.10 per security (120.11% of the stated principal amount)
Minimum payment at maturity:	$200 per security (20% of the stated principal amount). Investors may lose up to 80% of the stated principal amount of the securities.
Buffer amount:	20%, with 1-to-1 downside exposure below the buffer
Coupon:	None
Listing:	The securities will not be listed on any securities exchange

All payments on the securities are subject to our credit risk.

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date is less than $1,000. We estimate that the value of each security on the pricing date is $982.40.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying index. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying index, instruments based on the underlying index, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the maximum upside payment at maturity, the buffer amount and the minimum payment at maturity, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying index, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

Key Investment Rationale

The securities offer the potential for a positive return at maturity equal to 125% of the absolute value of a limited range of the percentage change of the underlying index. At maturity, if the underlying index **has appreciated** in value, investors will receive the stated principal amount of their investment plus a return reflecting 100% of the index percent increase, subject to the maximum upside payment at maturity. If the underlying index has **depreciated** in value but by no more than 20%, investors will receive the stated principal amount of their investment plus a positive return equal to 125% of the absolute value of the percentage decline, which will effectively be limited to a positive return of 25%. However, if the underlying index has **depreciated** by more than 20%, investors will lose 1% of the stated principal amount for every 1% decline beyond the specified buffer amount, subject to the minimum payment at maturity. **Investors may lose up to 80% of the stated principal amount of the securities.** All payments on the securities are subject to our credit risk.

Absolute Return Feature	The securities enable investors to obtain a positive return if the final index value is less than the initial index value **but** has decreased from the initial index value by an amount less than or equal to the buffer amount.
Upside Scenario if the Underlying Index Appreciates	The final index value is greater than the initial index value. In this case, you receive for each security that you hold $1,000 *plus* a return reflecting 100% of the index percent increase, subject to the maximum upside payment at maturity of $1,201.10 per security (120.11% of the stated principal amount).
Absolute Return Scenario	The final index value is less than the initial index value but has decreased from the initial index value by an amount less than or equal to the buffer amount, which is 20%. In this case, you receive a 1.25% positive return on the securities for each 1% negative return on the underlying index. For example, if the final index value is 5% less than the initial index value, the securities will provide a positive return of 6.25% at maturity. The maximum return you may receive in this scenario is a positive 25% return at maturity.
Downside Scenario	The underlying index declines in value by more than 20%, and at maturity, the securities redeem for less than the stated principal amount by an amount that is proportionate to the percentage decrease of the underlying index from the initial index value, plus the buffer amount of 20%. For example, if the final index value is 50% less than the initial index value, the securities will be redeemed at maturity for $700, or 70% of the stated principal amount. The minimum payment at maturity is $200 per security.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

How the Securities Work

Payoff Diagram

The payoff diagram below illustrates the payment at maturity on the securities based on the following terms:

Stated principal amount:	$1,000 per security
Maximum upside payment at maturity:	$1,201.10 per security (120.11% of the stated principal amount)
Buffer amount:	20%
Minimum payment at maturity:	$200 per security

Dual Directional Buffered Participation Securities Payoff Diagram

See the next page for a description of how the securities work.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

How it works

§ **Upside Scenario if the Underlying Index Appreciates.** Under the terms of the securities, if the final index value is greater than the initial index value, the investor would receive the $1,000 stated principal amount *plus* a return reflecting 100% of the appreciation of the underlying index over the term of the securities, subject to the maximum upside payment at maturity.

§ If the underlying index appreciates 10%, the investor would receive a 10% return, or $1,100 per security.

§ If the underlying index appreciates 45%, the investor would receive only a 20.11% return, or $1,201.10 per security.

§ **Absolute Return Scenario.** If the final index value is less than the initial index value and has decreased from the initial index value by an amount less than or equal to the buffer amount of 20%, the investor would receive a 1.25% positive return on the securities for each 1% negative return on the underlying index.

§ If the underlying index depreciates 10%, the investor would receive a 12.5% return, or $1,125 per security.

§ The maximum return you may receive in this scenario is a positive 25% return at maturity.

§ **Downside Scenario.** If the final index value is less than the initial index value and has decreased from the initial index value by an amount greater than the buffer amount of 20%, investors will receive an amount that is less than the stated principal amount by an amount that is proportionate to the percentage decrease in the value of the underlying index from the initial index value, plus the buffer amount of 20%. The minimum payment at maturity is $200 per security.

§ If the underlying index depreciates 50%, the investor would lose 30% of the investor's principal and receive only $700 per security at maturity, or 70% of the stated principal amount.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement for participation securities, index supplement and prospectus. We also urge you to consult your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not pay interest and provide a minimum payment at maturity of only 20% of your principal.** The terms of the securities differ from those of ordinary debt securities in that the securities do not pay interest, and the securities provide a minimum payment at maturity of only 20% of the stated principal amount of the securities, subject to our credit risk. If the final index value is less than 80% of the initial index value, you will receive for each security that you hold a payment at maturity that is less than the stated principal amount of each security by an amount proportionate to the decline in the closing value of the underlying index from the initial index value, plus $200 per security. **Accordingly, investors may lose up to 80% of the stated principal amount of the securities.**

§ **The appreciation potential is fixed and limited.** Where the final index value is greater than the initial index value, the appreciation potential of the securities is limited by the maximum upside payment at maturity of $1,201.10 per security (120.11% of the stated principal amount), even if the final index value is significantly greater than the initial index value. Additionally, the positive return you can potentially receive if the underlying index depreciates is limited due to the buffer amount. If the index declines over the term of the securities by an amount greater than the buffer amount, you will lose some of your investment. See "How the Securities Work" on page 5 above.

§ **The market price of the securities may be influenced by many unpredictable factors**. Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market, including:

§ the value of the underlying index at any time,

§ the volatility (frequency and magnitude of changes in value) of the underlying index,

§ dividend rates on the securities underlying the underlying index,

§ interest and yield rates in the market,

§ geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying index or securities markets generally and which may affect the value of the underlying index,

§ the time remaining until the maturity of the securities,

§ the composition of the underlying index and changes in the constituent stocks of the underlying index, and

§ any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price you will receive if you sell your securities prior to maturity. For example, you may have to sell your securities at a substantial discount from the stated principal amount if at the time of sale the value of the underlying index is at or below the initial index value and especially if it has declined by an amount greater than the buffer amount.

You cannot predict the future performance of the underlying index based on its historical performance. If the final index value has declined by an amount greater than the buffer amount of 20% from the initial index value, you will receive for each security that you hold a payment at maturity that is less than the stated principal amount of each security by an amount proportionate to the decline in the value of the underlying index from the initial index value, plus $200 per security.

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities**. You are dependent on our ability to pay all amounts due on the securities at maturity and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **The amount payable on the securities is not linked to the value of the underlying index at any time other than the valuation date.** The final index value will be the index closing value on the valuation date, subject to postponement for non-index business days and certain market disruption events. Even if the value of the underlying index appreciates prior to the valuation date but then drops by the valuation date by an amount greater than the buffer amount, the payment at maturity will be significantly less than it would have been had the payment at maturity been linked to the value of the underlying index prior to such drop. Although the actual value of the underlying index on the stated maturity date or at other times during the term of the securities may be higher than the final index value, the payment at maturity will be based solely on the index closing value on the valuation date.

§ **Investing in the securities is not equivalent to investing in the underlying index.** Investing in the securities is not equivalent to investing in the underlying index or its component stocks. Investors in the securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute the underlying index.

§ **Adjustments to the underlying index could adversely affect the value of the securities.** The underlying index publisher may add, delete or substitute the stocks constituting the underlying index or make other methodological changes that could change the value of the underlying index. The underlying index publisher may discontinue or suspend calculation or publication of the underlying index at any time. In these circumstances, the calculation agent will have the sole discretion to substitute a successor index that is comparable to the discontinued underlying index and will be permitted to consider indices that are calculated and published by the calculation agent or any of its affiliates.

§

The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices. Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying index, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

§ **The estimated value of the securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your securities in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also "The market price of the securities may be influenced by many unpredictable factors" above.

§ **The securities will not be listed on any securities exchange and secondary trading may be limited**. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. Morgan Stanley & Co. LLC, which we refer to as MS & Co., may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

§ **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the securities.** As calculation agent, MS & Co. has determined the initial index value, will determine the final index value and will calculate the amount of cash you receive at maturity. Moreover, certain determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the final index value in the event of a market disruption event or discontinuance of the underlying index. These potentially subjective determinations may adversely affect the payout to you at maturity. For further information regarding these types of determinations, see "Description of Securities—Postponement of Valuation Date(s)," "—Discontinuance of Any Underlying Index or Basket Index; Alteration of Method of Calculation," "—Alternate Exchange Calculation in case of an Event of Default" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the securities on the pricing date.

§ **Hedging and trading activity by our affiliates could potentially adversely affect the value of the securities**. One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the securities (and to other instruments linked to the underlying index or its component stocks), including trading in the stocks that constitute the underlying index. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. Some of our affiliates also trade the stocks that constitute the underlying index and other financial instruments related to the underlying index on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could have increased the initial index value, and, therefore, could have increased the value at or above which the underlying index must close on the valuation date so that investors do not suffer a loss on their initial investment in the securities. Additionally, such hedging or trading activities during the term of the securities, including on the valuation date, could adversely affect the value of the underlying index on the valuation date, and, accordingly, the amount of cash an investor will receive at maturity.

§ **The U.S. federal income tax consequences of an investment in the securities are uncertain**. Please read the discussion under "Additional provisions—Tax considerations" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for Participation Securities (together, the "Tax Disclosure Sections") concerning the U.S. federal income tax consequences of an investment in the securities. If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment, the timing and character of income on the securities might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the securities as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the securities as ordinary income. Additionally, as discussed under "United States Federal Taxation—FATCA" in the accompanying product supplement for Participation Securities, the withholding rules commonly referred to as "FATCA" would apply to the securities if they were recharacterized as debt instruments. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the securities, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

S&P 500® Index Overview

The S&P 500® Index, which is calculated, maintained and published by S&P Dow Jones Indices LLC ("S&P"), consists of stocks of 500 component companies selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500® Index is based on the relative value of the float adjusted aggregate market capitalization of the 500 component companies as of a particular time as compared to the aggregate average market capitalization of 500 similar companies during the base period of the years 1941 through 1943. For additional information about the S&P 500® Index, see the information set forth under "S&P 500® Index" in the accompanying index supplement.

Information as of market close on October 26, 2018:

Bloomberg Ticker Symbol:	SPX	52 Week High (on 9/20/2018):	2,930.75
Current Index Value:	2,658.69	52 Week Low (on 10/26/2017):	2,560.40
52 Weeks Ago:	2,560.40		

The following graph sets forth the daily closing values of the underlying index for the period from January 1, 2013 through October 26, 2018. The related table sets forth the published high and low closing values, as well as end-of-quarter closing values, of the underlying index for each quarter in the same period. The closing value of the underlying index on October 26, 2018 was 2,658.69. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The underlying index has at times experienced periods of high volatility, and you should not take the historical values of the underlying index as an indication of its future performance.

S&P 500® Index

Daily Index Closing Values

January 1, 2013 to October 26, 2018

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

S&P 500® Index	High	Low	Period End
2013			
First Quarter	1,569.19	1,457.15	1,569.19
Second Quarter	1,669.16	1,541.61	1,606.28
Third Quarter	1,725.52	1,614.08	1,681.55
Fourth Quarter	1,848.36	1,655.45	1,848.36
2014			
First Quarter	1,878.04	1,741.89	1,872.34
Second Quarter	1,962.87	1,815.69	1,960.23
Third Quarter	2,011.36	1,909.57	1,972.29
Fourth Quarter	2,090.57	1,862.49	2,058.90
2015			
First Quarter	2,117.39	1,992.67	2,067.89
Second Quarter	2,130.82	2,057.64	2,063.11
Third Quarter	2,128.28	1,867.61	1,920.03
Fourth Quarter	2,109.79	1,923.82	2,043.94
2016			
First Quarter	2,063.95	1,829.08	2,059.74
Second Quarter	2,119.12	2,000.54	2,098.86
Third Quarter	2,190.15	2,088.55	2,168.27
Fourth Quarter	2,271.72	2,085.18	2,238.83
2017			
First Quarter	2,395.96	2,257.83	2,362.72
Second Quarter	2,453.46	2,328.95	2,423.41
Third Quarter	2,519.36	2,409.75	2,519.36
Fourth Quarter	2,690.16	2,529.12	2,673.61
2018			
First Quarter	2,872.87	2,581.00	2,640.87
Second Quarter	2,786.85	2,581.88	2,718.37
Third Quarter	2,930.75	2,713.22	2,913.98
Fourth Quarter (through October 26, 2018)	2,925.51	2,656.10	2,658.69

"Standard & Poor's®," "S&P®," "S&P 500®," "Standard & Poor's 500" and "500" are trademarks of Standard and Poor's Financial Services LLC. See "S&P 500® Index" in the accompanying index supplement.

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

Additional Information About the Securities

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional provisions: Underlying index publisher:	S&P Dow Jones Indices LLC
Postponement of maturity date:	If, due to a market disruption event or otherwise, the valuation date is postponed so that it falls less than two business days prior to the scheduled maturity date, the maturity date will be postponed to the second business day following the valuation date as postponed.
Denominations:	$1,000 per security and integral multiples thereof
Minimum ticketing size:	$1,000 / 1 security
Tax considerations:	Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP, under current law, and based on current market conditions, a security should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes. Assuming this treatment of the securities is respected and subject to the discussion in "United States Federal Taxation" in the accompanying product supplement for Participation Securities, the following U.S. federal income tax consequences should result based on current law: § A U.S. Holder should not be required to recognize taxable income over the term of the securities prior to settlement, other than pursuant to a sale or exchange. § Upon sale, exchange or settlement of the securities, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized and the U.S. Holder's tax basis in the securities. Such gain or loss should be long-term capital gain or loss if the investor has held the securities for more than one year, and short-term capital gain or loss otherwise. In 2007, the U.S. Treasury Department and the Internal Revenue Service (the "IRS") released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated

accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect.

As discussed in the accompanying product supplement for Participation Securities, Section 871(m) of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an "Underlying Security"). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a "Specified Security"). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the securities do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the securities should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

Both U.S. and non-U.S. investors considering an investment in the securities should read the discussion under "Risk Factors" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for Participation Securities and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of

Morgan Stanley Finance LLC

Dual Directional Buffered Participation Securities Based on the Performance of the S&P 500® Index due April 29, 2021

Principal at Risk Securities

an investment in the securities, including possible alternative treatments, the issues presented by the aforementioned notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The discussion in the preceding paragraphs under "Tax considerations" and the discussion contained in the section entitled "United States Federal Taxation" in the accompanying product supplement for Participation Securities, insofar as they purport to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitute the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the securities.

Trustee: The Bank of New York Mellon

Property, plant and equipment, net	3,802		3,610
Other assets			
Goodwill	7,182		6,930
Other intangible assets	1,689		1,575
Other	637		705
Total other assets	9,508		9,210
Total assets	$	24,177	23,464
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings and current maturities of long-term debt	$	2,465	3,179
Accounts payable	2,951		2,402
Accrued expenses	2,876		2,678
Income taxes	162		53
Total current liabilities	8,454		8,312
Long-term debt	3,559		4,290
Other liabilities	1,997		2,063

Equity		
Common stock, $0.50 par value; authorized, 1,200,000,000 shares; issued, 953,354,012 shares; outstanding, 696,605,222 shares and 663,311,878 shares, respectively	477	477
Additional paid-in-capital	161	162
Retained earnings	19,867	20,969
Accumulated other comprehensive income (loss)	(575)	(1,056)
Cost of common stock in treasury, 256,748,790 shares and 290,042,134 shares, respectively	(9,811)	(11,803)
Common stockholders' equity	10,119	8,749
Noncontrolling interests in subsidiaries	48	50
Total equity	10,167	8,799
Total liabilities and equity	$ 24,177	23,464

See accompanying Notes to Consolidated Financial Statements.

4

FORM 10-Q

EMERSON ELECTRIC CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2014 AND 2015
(Dollars in millions; unaudited)

	Nine Months Ended June 30, 2014	2015
Operating activities		
Net earnings	$1,769	2,082
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	623	613
Changes in operating working capital	(157)	(530)
Pension funding	(90)	(21)
Gain on divestiture of business, after tax	—	(528)
Income taxes paid on divestiture gain	—	(360)
Other, net	139	172
Net cash provided by operating activities	2,284	1,428
Investing activities		
Capital expenditures	(573)	(516)
Purchases of businesses, net of cash and equivalents acquired	(610)	(250)
Divestitures of businesses	264	1,399
Other, net	(107)	(86)
Net cash (used by) provided by investing activities	(1,026)	547
Financing activities		
Net increase in short-term borrowings	910	1,500
Proceeds from short-term borrowings greater than three months	2,181	2,515
Payments of short-term borrowings greater than three months	(1,958)	(3,070)
Proceeds from long-term debt	1	1,000
Payments of long-term debt	(323)	(504)
Dividends paid	(910)	(960)
Purchases of common stock	(783)	(2,041)
Purchase of noncontrolling interest	(574)	—
Other, net	(19)	(12)
Net cash used by financing activities	(1,475)	(1,572)
Effect of exchange rate changes on cash and equivalents	(9)	(159)
Increase (decrease) in cash and equivalents	(226)	244
Beginning cash and equivalents	3,275	3,149
Ending cash and equivalents	$3,049	3,393
Changes in operating working capital		
Receivables	$107	473
Inventories	(254)	(265)
Other current assets	(45)	(177)
Accounts payable	53	(287)
Accrued expenses	(82)	(130)
Income taxes	64	(144)

Total changes in operating working capital	$(157)	(530)

See accompanying Notes to Consolidated Financial Statements.

5

Notes to Consolidated Financial Statements

1. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair presentation of operating results for the interim periods presented. Adjustments consist of normal and recurring accruals. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required for annual financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP). For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2014. Certain prior year amounts have been reclassified to conform with current year presentation.

In the first quarter of 2015, the Company adopted updates to ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment, regarding the reporting of discontinued operations. These updates raised the threshold for reporting discontinued operations to a strategic business shift having a major effect on an entity's operations and financial results. The updates also added disclosures for disposals of business units qualifying for discontinued presentation, and for some dispositions that do not qualify as discontinued operations but are still considered individually significant components of the entity.

2. Reconciliations of weighted average shares for basic and diluted earnings per common share follow (in millions). Earnings allocated to participating securities were inconsequential.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2015	2014	2015
Basic shares outstanding	699.6	665.7	701.6	679.3
Dilutive shares	3.7	3.2	4.0	3.3
Diluted shares outstanding	703.3	668.9	705.6	682.6

3. Other Financial Information (in millions):

	Sept 30, 2014	June 30, 2015
Inventories		
Finished products	$741	810
Raw materials and work in process	1,316	1,334
Total	$2,057	2,144
Property, plant and equipment, net		
Property, plant and equipment, at cost	$9,411	9,052
Less: Accumulated depreciation	5,609	5,442
Total	$3,802	3,610
Goodwill by business segment		
Process Management	$2,701	2,796
Industrial Automation	1,329	1,042
Network Power	2,218	2,172
Climate Technologies	500	494
Commercial & Residential Solutions	434	426
Total	$7,182	6,930

The Company has announced certain strategic actions, including the planned spinoff of the Network Power business, as well as the evaluation of alternatives, including potential sale, for the power generation and motors and drives businesses. These units, with goodwill of $2.2 billion, $430 million and $239 million, respectively, will be included in the Company's annual goodwill impairment review in the fourth quarter. Business conditions remain uncertain and it is possible the Company could recognize an impairment charge, or incur a future loss on the ultimate spinoff of Network Power or potential separation of the other businesses. See Note 11.

6

The gross carrying amount of goodwill for the Company was $7,576 million and $7,828 million as of June 30, 2015 and September 30, 2014, respectively. Accumulated pretax goodwill impairment losses were $646 million at the end of both periods, all in the Network Power segment. The decrease in goodwill since September 30, 2014 is primarily due to the sale of the power transmission solutions business (previously reported in the Industrial Automation segment), as well as foreign currency translation.

	Sept 30, 2014	June 30, 2015
Accrued expenses include the following		
Employee compensation	$705	587
Customer advanced payments	$455	496
Product warranty	$193	172
Other liabilities		
Pension plans	$564	544
Deferred income taxes	572	637
Postretirement plans, excluding current portion	233	215
Other	628	667
Total	$1,997	2,063

4. Following is a discussion regarding the Company's use of financial instruments:

Hedging Activities – As of June 30, 2015, the notional amount of foreign currency hedge positions was approximately $1.6 billion, while commodity hedge contracts totaled approximately 79 million pounds ($201 million) of copper and aluminum. All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of June 30, 2015 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. Gains and losses on foreign currency derivatives reported in other deductions, net reflect hedges of balance sheet exposures that do not receive deferral accounting. The following gains and losses are included in earnings and other comprehensive income (OCI) for the three and nine months ended June 30, 2015 and 2014 (in millions):

		Into Earnings				Into OCI			
		3rd Quarter		Nine Months		3rd Quarter		Nine Months	
Gains (Losses)	Location	2014	2015	2014	2015	2014	2015	2014	2015
Commodity	Cost of sales	$(5)	(6)	(10)	(16)	9	(7)	(7)	(26)
Foreign currency	Sales, cost of sales	3	(3)	6	(3)	13	(2)	15	(29)
Foreign currency	Other deductions, net	5	(2)	(5)	12				
Total		$3	(11)	(9)	(7)	22	(9)	8	(55)

Regardless of whether derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for open positions, which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness was immaterial for the three and nine months ended June 30, 2015 and 2014.

Fair Value Measurement – Valuations for all derivatives and the Company's long-term debt fall within Level 2 of the GAAP valuation hierarchy. As of June 30, 2015, the fair value of long-term debt was $4,885 million, which exceeded the carrying value by $305 million. At June 30, 2015, the fair values of commodity contracts and foreign currency contracts were reported in other current assets and accrued expenses. Valuations of derivative contract positions are summarized below (in millions):

	September 30, 2014	June 30, 2015

	Assets	Liabilities	Assets	Liabilities
Foreign Currency	$32	20	32	50
Commodity	$1	10	—	20

7

Counterparties to derivatives arrangements are companies with high credit ratings. The Company has bilateral collateral arrangements with counterparties with credit rating-based posting thresholds that vary depending on the arrangement. If credit ratings on the Company's debt fall below preestablished levels, counterparties can require immediate full collateralization of all derivatives in net liability positions. The Company can demand full collateralization of derivatives in net asset positions should any counterparty credit ratings fall below certain thresholds. No collateral was posted with counterparties and none was held by the Company as of June 30, 2015. The maximum collateral that could have been required was $47 million.

5. The change in equity for the first nine months of 2015 is shown below (in millions):

	Common Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at September 30, 2014	$10,119	48	10,167
Net earnings	2,062	20	2,082
Other comprehensive income (loss)	(481)	(2)	(483)
Cash dividends	(960)	(16)	(976)
Purchase of noncontrolling interest	(23)	—	(23)
Net purchases of common stock	(1,968)	—	(1,968)
Balance at June 30, 2015	$8,749	50	8,799

6. Activity in accumulated other comprehensive income (loss) for the three and nine months ended June 30, 2015 and 2014 is shown below (in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2015	2014	2015
Foreign currency translation				
Beginning balance	$525	(560)	504	171
Other comprehensive income (loss)	37	190	50	(541)
Purchase of noncontrolling interest	—	—	8	—
Ending balance	562	(370)	562	(370)
Pension and postretirement				
Beginning balance	(645)	(690)	(692)	(746)
Amortization of deferred actuarial losses into earnings	24	27	71	83
Ending balance	(621)	(663)	(621)	(663)
Cash flow hedges				
Beginning balance	(8)	(23)	(1)	—
Deferral of gains (losses) arising during the period	14	(6)	5	(35)
Reclassification of realized (gain) loss to sales and cost of sales	1	6	3	12
Ending balance	7	(23)	7	(23)
Accumulated other comprehensive income (loss)	$(52)	(1,056)	(52)	(1,056)

Activity above is shown net of income taxes for the three and nine months ended June 30, 2014 and 2015, respectively, as follows: amortization of pension and postretirement deferred actuarial losses: $(13), $(16), $(39), $(46); deferral of cash flow hedging gains (losses): $(8), $3, $(3), $20; reclassification of realized cash flow hedging (gains) losses: $(1), $(3), $(1), $(7).

7. Total periodic pension and postretirement expense is summarized below (in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2015	2014	2015
Service cost	$24	27	71	81
Interest cost	62	60	184	181
Expected return on plan assets	(86)	(92)	(258)	(276)
Net amortization	37	43	110	128
Total	$37	38	107	114

8. Other deductions, net are summarized below (in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2015	2014	2015
Amortization of intangibles	$55	52	170	160
Rationalization of operations	11	36	45	89
Other	30	34	113	73
Total	$96	122	328	322

The year-to-date change in Other reflects a favorable comparative effect from an equity investment loss of $34 million in the prior year.

9. Rationalization of operations expense reflects costs associated with the Company's ongoing efforts to improve operational efficiency and deploy assets globally in order to remain competitive on a worldwide basis. The Company expects full year 2015 rationalization expense to be in the range of $160 million to $180 million. This includes the $89 million incurred to date, as well as costs to complete actions initiated before the end of the third quarter and actions anticipated to be approved and initiated during the remainder of the year. Costs for the three and nine months ended June 30, 2015 largely relate to selective repositioning of the global cost structure to match the current level of economic activity, as well as the redeployment of resources for future growth.

Rationalization of operations expense by segment is provided below (in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2015	2014	2015
Process Management	$4	12	12	37
Industrial Automation	2	4	7	8
Network Power	3	17	13	31
Climate Technologies	1	2	11	8
Commercial & Residential Solutions	1	1	2	5
Total	$11	36	45	89

Details of the change in the liability for rationalization during the nine months ended June 30, 2015 follow (in millions):

	Sept 30, 2014	Expense	Paid/Utilized	June 30, 2015
Severance and benefits	$20	72	47	45
Lease and other contract terminations	1	1	2	—
Fixed assets write-downs	—	2	2	—
Vacant facility and other shutdown costs	—	4	2	2

Start-up and moving costs	1	10	10	1
Total	$22	89	63	48

9

The severance and benefits expenses incurred year-to-date are associated with closing 8 facilities and reducing forcecount by approximately 2,300, mainly for Process Management in Europe and North America and Network Power in Asia, Europe and North America. Start-up and moving costs were incurred across all segments to redeploy assets to best cost locations and expand geographically to directly serve local markets.

10. Summarized information about the Company's results of operations by business segment follows (in millions):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	Sales		Earnings		Sales		Earnings	
	2014	2015	2014	2015	2014	2015	2014	2015
Process Management	$2,317	2,084	473	373	6,466	6,225	1,229	1,064
Industrial Automation	1,289	990	214	156	3,670	3,176	563	464
Network Power	1,237	1,028	107	37	3,711	3,210	286	150
Climate Technologies	1,191	1,125	250	222	3,018	3,007	543	518
Commercial & Residential Solutions	492	477	108	98	1,418	1,422	307	292
	6,526	5,704	1,152	886	18,283	17,040	2,928	2,488
Differences in accounting methods			63	54			180	165
Corporate and other			(97)	(104)			(429)	638
Eliminations/Interest	(214)	(201)	(46)	(40)	(553)	(550)	(147)	(126)
Total	$6,312	5,503	1,072	796	17,730	16,490	2,532	3,165

Industrial Automation intersegment sales for the quarters ended June 30, 2015 and 2014 were $184 million and $194 million, respectively, and year-to-date $496 million and $492 million. The year-to-date change in corporate and other primarily reflects the $932 million gain on the divestiture of power transmission solutions (see Note 11). The change also reflects lower 2015 stock compensation of $56 million and favorable comparative impacts from 2014 items, including a $34 million loss from an equity investment, accelerated charitable contributions of $28 million and purchase accounting inventory costs of $20 million.

11. On June 30, 2015, the Company announced plans to spin off its Network Power business via a tax-free distribution to shareholders as part of a strategic plan to streamline its portfolio, drive growth, and accelerate value creation for shareholders. The Company will also explore strategic alternatives, including potential sale, for its motors and drives, power generation and remaining storage businesses. These businesses represent approximately 30 percent of consolidated 2014 sales and 20 percent of earnings and cash flow. When complete, these transactions are expected to result in a smaller and more focused Company, with leadership positions in higher-growth end markets that provide significant opportunities for enhanced growth and improved profitability. In addition, the Company will conduct a complete review and assessment of its corporate services and structure to bring them into alignment with its smaller scale and sharper focus. The separation of Network Power will create two independent publicly-traded companies, both owned by Emerson stockholders, and is subject to certain conditions, including final approval by Emerson’s Board of Directors, receipt of favorable opinions regarding the tax-free status of the transaction for federal income tax purposes, and review and approval of the Form 10 that will be filed with the SEC. The various transactions are expected to be substantially completed by September 30, 2016. With regard to the evaluation of strategic alternatives for the other businesses, there can be no assurance that the review process will result in any transaction. The Company expects to incur significant costs to implement these transactions, including income taxes related to reorganizing the ownership structure of these businesses, investment banking, legal, consulting and other costs.

The Company is evaluating strategic alternatives for its InterMetro storage business, including a potential sale. InterMetro is a leading manufacturer and supplier of storage and transport products in the food service, commercial products and healthcare industries. This business had annual sales of $284 million and pretax earnings of $36 million in 2014, and is reported in the Commercial & Residential Solutions segment. The Company has received nonbinding indications of interest from certain third parties, and expects to receive final offers in August and make a decision and announce plans for this business by year end.

On January 30, 2015, the Company completed the previously announced sale of its mechanical power transmission solutions business to Regal Beloit Corporation for $1.4 billion. The Company recognized a pretax gain from the transaction of $932 million ($528 million after-tax, $0.77 per share). Assets and liabilities held-for-sale at the closing date were as follows: other current assets, $181 million (accounts receivable, inventories, other); other assets, $375 million (property, plant and equipment, goodwill, other noncurrent assets); accrued expenses, $51 million (accounts payable, other current liabilities); and other liabilities, $41 million. After-tax proceeds of approximately $1 billion were used for share repurchase. This business was previously reported in the Industrial Automation segment and had fiscal 2014 sales of $605 million and earnings before income taxes of $87 million. Power transmission solutions designs and manufactures market-leading couplings, bearings, conveying components and gearing and drive components, and provides supporting services and solutions.

During 2015, the Company completed six acquisitions with combined annualized sales of approximately $70 million in Process Management's final control, measurement devices and systems and solutions businesses. Total cash paid for all businesses was $250 million, net of cash acquired. The Company recognized goodwill of $149 million ($42 million of which is expected to be tax deductible) and other intangible assets of $100 million, primarily customer relationships and intellectual property with a weighted-average life of approximately 9 years.

In the first quarter of 2014, the Company completed the divestiture of a 51 percent controlling interest in Artesyn and in the fourth quarter of 2014, the Company sold its connectivity solutions business. Both of these businesses had been previously reported in the Network Power segment. Consolidated operating results for the nine months ended June 30, 2014 included combined sales of $203 million and a pretax loss of $7 million (net loss, $6 million) for these businesses.

EMERSON ELECTRIC CO. AND SUBSIDIARIES FORM 10-Q

Items 2 and 3.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Third quarter sales were $5,503 million, down 13 percent, and underlying sales decreased 5 percent. Sales growth has been affected by a slowdown in capital spending, specifically in oil and gas and other energy-related markets due to low crude oil prices, the on-going strength of the U.S. dollar, slowing conditions in emerging markets and divestitures. Net earnings common stockholders were $564 million, down 23 percent, and diluted earnings per share were $0.84, down 18 percent.

RESULTS OF OPERATIONS

Following is an analysis of the Company’s operating results for the third quarter ended June 30, 2015, compared with the third quarter ended June 30, 2014.

Three Months Ended June 30 (dollars in millions, except per share amounts)	2014	2015	Change
Net sales	$6,312	5,503	(13)%
Gross profit	$2,638	2,234	(15)%
Percent of sales	41.8 %	40.6 %	
SG&A	$1,424	1,276	
Percent of sales	22.6 %	23.2 %	
Other deductions, net	$96	122	
Interest expense, net	$46	40	
Earnings before income taxes	$1,072	796	(26)%
Percent of sales	17.0 %	14.5 %	
Net earnings common stockholders	$728	564	(23)%
Percent of sales	11.5 %	10.3 %	
Diluted earnings per share	$1.03	0.84	(18)%

Net sales for the third quarter of 2015 were $5,503 million, a decrease of $809 million, or 13 percent compared with $6,312 million in 2014. Underlying sales decreased 5 percent ($318 million) on lower volume, foreign currency translation deducted 5 percent ($321 million) and divestitures deducted 3 percent ($177 million). Acquisitions added $7 million. Underlying sales decreased 7 percent in the U.S. and 4 percent internationally. Europe decreased 2 percent, Asia was down 7 percent (China down 14 percent), Latin America was down 10 percent, Canada was down 1 percent and Middle East/Africa was up 3 percent. Sales decreased $299 million in Industrial Automation, largely reflecting the power transmission solutions divestiture and unfavorable foreign currency translation, and Process Management decreased $233 million primarily due to the impact of the slowdown in upstream oil and gas production and significant unfavorable currency translation. Network Power sales decreased $209 million as underlying demand for telecommunications and data center infrastructure investment remained sluggish.

Cost of sales for the third quarter of 2015 were $3,269 million, a decrease of $405 million compared to $3,674 million in 2014, primarily due to the effect of foreign currency translation, the power transmission solutions divestiture, and reduced sales volume. Gross profit margin of 40.6 percent decreased 1.2 percentage points compared to 41.8 percent in 2014 due to deleverage on the lower volume, unfavorable mix and the impact of the stronger dollar on operations. Net savings from cost reduction and containment actions partially offset these items.

Selling, general and administrative (SG&A) expenses of $1,276 million decreased $148 million compared with the prior year due to lower sales volume, the impact of foreign currency translation, the power transmission solutions divestiture and cost reduction actions. SG&A as a percent of sales of 23.2 percent in 2015 increased 0.6 percentage points primarily due to deleverage on the lower volume and the effect of higher costs related to investments for growth made in the prior year.

12

Other deductions, net were $122 million in 2015, an increase of $26 million primarily due to higher rationalization costs in the current year. See Notes 8 and 9. With the expectation that market conditions will remain difficult, the Company is focused on executing the accelerated restructuring plans announced earlier this year, to improve profitability and position the Company for growth.

Pretax earnings of $796 million decreased $276 million, or 26 percent. Earnings decreased $100 million in Process Management, $70 million in Network Power, $58 million in Industrial Automation and $28 million in Climate Technologies. See the following Business Segments discussion.

Income taxes were $222 million for 2015 and $334 million for 2014, resulting in effective tax rates of 28 percent and 31 percent, respectively. The current year effective tax rate reflects a 3 percent benefit related to the completion of tax examinations. The effective tax rate for full year 2015 is estimated at approximately 33 percent, including an approximate 2 percentage point unfavorable impact from the power transmission solutions divestiture.

Net earnings common stockholders in 2015 were $564 million, down 23 percent, and earnings per share were $0.84, down 18 percent. Earnings per share benefited from purchases of common stock for treasury.

BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the third quarter ended June 30, 2015, compared with the third quarter ended June 30, 2014. The Company defines segment earnings as earnings before interest and taxes.

Process Management

Three Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$2,317	2,084	(10)%
Earnings	$473	373	(21)%
Margin	20.4%	17.9%	

Process Management sales were $2.1 billion in the third quarter, a decrease of $233 million, or 10 percent. Underlying sales decreased 4 percent ($109 million) on lower volume as project activity slowed, reflecting continued weakness in oil and gas markets. Global upstream oil and gas remains under the most pressure, particularly in North America. Downstream markets exhibited some growth, but not at a level that will offset the reductions in upstream capital spending. Foreign currency translation had a 6 percent ($131 million) unfavorable impact while acquisitions added $7 million. The systems and solutions, final control and measurement devices businesses were all down. Underlying sales decreased 6 percent in the U.S., 1 percent in Europe and 7 percent in Asia (China down 13 percent). Latin America decreased 17 percent, Canada decreased 2 percent and Middle East/Africa increased 5 percent. Earnings decreased $100 million and margin decreased 250 basis points due to lower volume, deleverage, unfavorable mix and the impact of a stronger dollar on operations. Results also included higher rationalization expense of $8 million and unfavorable foreign currency transactions of $8 million. Demand is expected to remain weak through at least the first half of fiscal 2016. Given the downward trend in commodity prices, significant recovery is not anticipated until 2017.

Industrial Automation

Three Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$1,289	990	(23)%
Earnings	$214	156	(27)%

Margin	16.6	%	15.8	%

Industrial Automation sales were $1.0 billion in the third quarter, a decrease of $299 million, or 23 percent. Underlying sales were down 5 percent ($60 million) on lower volume, reflecting continued softness in European demand, upstream oil and gas, and industrial spending, specifically in energy-related and commodity markets. The power transmission solutions divestiture deducted 11 percent ($157 million) and foreign currency translation

13

subtracted 7 percent ($82 million). Sales decreased in power generation, motors and drives, electrical distribution and fluid automation. Underlying sales were down 11 percent in the U.S., 2 percent in Europe and 1 percent in Asia (China down 4 percent). Sales were down 11 percent in Latin America, 10 percent in Canada and 3 percent in Middle East/Africa. Earnings decreased $58 million and margin decreased 80 basis points, including the impact of the power transmission solutions divestiture, which negatively affected comparisons $22 million. The impact of lower volume, deleverage and unfavorable mix were partially offset by cost reduction actions. Market conditions are expected to remain challenging in the near term, with only gradual improvement in Europe and sustained headwinds from reduced spending in upstream oil and gas.

Network Power Three Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$1,237	1,028	(17)%
Earnings	$107	37	(65)%
Margin	8.7 %	3.6 %	

Network Power sales were $1.0 billion in the third quarter, a decrease of $209 million, or 17 percent. Underlying sales were down 11 percent ($123 million) on 10 percent lower volume and 1 percent lower price. Foreign currency translation deducted 5 percent ($66 million) and a prior year divestiture subtracted 1 percent ($20 million). Sales decreased sharply on lower demand from telecommunications companies in all geographies. Data center products were down primarily due to decreases in thermal management and uninterruptible power supplies. Underlying sales decreased 11 percent in the U.S., 4 percent in Europe and 17 percent in Asia (China down 28 percent). Latin America was flat, Middle East/Africa was down 22 percent and Canada was up 13 percent. Earnings decreased $70 million and margin declined 5.1 percentage points, due to lower volume and deleverage, particularly for telecommunications power products, lower price, and unfavorable mix, partially offset by cost reduction actions. Higher rationalization expense of $14 million also contributed to the decrease. Demand is expected to remain mixed by geography, with areas of opportunity in both data center infrastructure and telecommunications power spending.

Climate Technologies Three Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$1,191	1,125	(6)%
Earnings	$250	222	(11)%
Margin	21.0 %	19.7 %	

Climate Technologies sales were $1.1 billion in the third quarter, a decrease of $66 million or 6 percent. Underlying sales were down 3 percent ($32 million) on lower volume while foreign currency translation deducted 3 percent ($34 million). The global air conditioning business was down primarily due to the continued effect of customers using inventory pre-built ahead of regulatory changes that became effective January 1, 2015. Additionally, unseasonably cool and wet weather has hampered growth in North America. Asia air conditioning was up, primarily on growth in India and Southeast Asia, while Europe remained soft. Global refrigeration decreased slightly, reflecting softness in Europe partially offset by the U.S. Temperature controls and sensors were down. Underlying sales decreased 6 percent in the U.S. and 4 percent in Europe, and increased 3 percent in Asia (China down 4 percent). Latin America was down 9 percent, Canada was up 3 percent and Middle East/Africa was up 28 percent. Earnings decreased $28 million and margin declined 130 basis points primarily due to lower volume, unfavorable mix and higher warranty costs. These items were partially offset by cost reduction and materials cost containment actions. Sales in the fourth quarter are expected to be down modestly, reflecting the impact of the U.S. residential air conditioning pre-build, and some impact from cooler than normal temperatures and significant rainfall in key parts of the U.S.

Commercial & Residential Solutions Three Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$492	477	(3)%
Earnings	$108	98	(9)%
Margin	22.1 %	20.6 %	

Commercial & Residential Solutions sales were $477 million in the third quarter, a decrease of $15 million, or 3 percent. Underlying sales increased 1 percent ($2 million) led by favorable trends in U.S. construction. Higher price was partially offset by lower volume. Foreign currency translation deducted 2 percent ($8 million) and the transfer of a small product line to another segment deducted 2 percent ($9 million). The wet/dry vacuums business had strong growth and food waste disposers grew modestly. The professional tools business was down reflecting reduced oil and gas related spending. The storage businesses were also down. Underlying sales increased 1 percent in the U.S. and were flat internationally. Earnings decreased $10 million and margin decreased 150 basis points, reflecting unfavorable mix and higher other costs. Materials cost containment and higher price partially offset the decline. Favorable conditions in U.S. construction markets are expected to continue in the near term, supporting an outlook for modest growth in the fourth quarter.

RESULTS OF OPERATIONS

Following is an analysis of the Company's operating results for the nine months ended June 30, 2015, compared with the nine months ended June 30, 2014.

Nine Months Ended June 30 (dollars in millions, except per share amounts)	2014	2015	Change
Net sales	$17,730	16,490	(7)%
Gross profit	$7,269	6,680	(8)%
Percent of sales	41.0 %	40.5 %	
SG&A	$4,262	3,999	
Percent of sales	24.0 %	24.2 %	
Gain on sale of business	$—	932	
Other deductions, net	$328	322	
Interest expense, net	$147	126	
Earnings before income taxes	$2,532	3,165	25 %
Percent of sales	14.3 %	19.2 %	
Net earnings common stockholders	$1,737	2,062	19 %
Percent of sales	9.8 %	12.5 %	
Diluted earnings per share	$2.45	3.01	23 %

Net sales for the first nine months of 2015 were $16,490 million, a decrease of $1,240 million, or 7 percent compared with $17,730 million in 2014. Underlying sales were essentially flat (decreased $47 million), foreign currency translation deducted 4 percent ($754 million) and divestitures subtracted 3 percent ($459 million). Acquisitions added $20 million. Underlying sales decreased 1 percent in the U.S. and were flat internationally as Europe was flat, Asia was down 2 percent (China down 7 percent) and Latin America was down 2 percent. Canada was up 10 percent and Middle East/Africa was up 4 percent. Process Management sales were down $241 million due to the oil and gas slowdown and unfavorable currency translation. Sales for Network Power decreased $501 million and Industrial Automation was down $494 million, due to divestitures, foreign currency translation and volume declines in both segments.

Cost of sales for 2015 were $9,810 million, a decrease of $651 million versus $10,461 million in 2014, primarily due to the impact of foreign currency translation, divestitures, unfavorable mix and deleverage. Gross profit margin of 40.5 percent decreased 0.5 percentage points compared to 41.0 percent in 2014, due largely to the deleverage and unfavorable mix and the impact of the stronger dollar on product costs, partially offset by divestitures (0.3 percentage points), a favorable comparative effect of $20 million from purchase accounting inventory expense in the prior year, and savings from cost reduction actions.

SG&A expenses of $3,999 million decreased $263 million versus 2014, primarily due to the impact of foreign currency translation and divestitures. Lower incentive stock compensation of $56 million, cost reduction actions and a favorable comparative impact versus prior year from $28 million of accelerated charitable contributions also contributed to the decrease. SG&A as a percent of sales of 24.2 percent increased 0.2 percent, reflecting deleverage and the effect of spending on growth investments in the prior year.

On January 30, 2015, the Company completed the sale of its power transmission solutions business and recorded a pretax gain of $932 million ($528 million after-tax, $0.77 per share). See Note 11.

Other deductions, net were $322 million in 2015, a decrease of $6 million. See Note 8.

Pretax earnings of $3,165 million increased $633 million, or 25 percent. The increase was due to the gain of $932 million on the divestiture of power transmission solutions, which benefited pretax earnings comparisons 37 percentage points. Earnings decreased $165 million in Process Management, $136 million in Network Power and $99 million in Industrial Automation. See Business Segments discussion that follows.

Income taxes were $1,083 million for 2015 and $763 million for 2014, resulting in effective tax rates of 34 percent and 30 percent, respectively. The 2015 effective tax rate includes a 4 percentage point unfavorable impact from the power transmission solutions divestiture. The 2014 effective tax rate benefited approximately 2 percentage points from certain items, including 1 percentage point each from the Artesyn divestiture and the disposal of an investment.

Net earnings common stockholders for 2015 were $2,062 million, up 19 percent, compared to $1,737 million in 2014 and earnings per share were $3.01, up 23 percent, compared to $2.45 in the prior year. Excluding the divestiture gain, net earnings were $1,534 million, down 12 percent, and earnings per share were $2.24, down 9 percent. The divestiture gain of $528 million, $0.77 per share, benefited net earnings and earnings per share comparisons by 31 percent and 32 percent, respectively.

BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the nine months ended June 30, 2015, compared with the nine months ended June 30, 2014. The Company defines segment earnings as earnings before interest and taxes.

Process Management Nine Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$6,466	6,225	(4)%
Earnings	$1,229	1,064	(13)%
Margin	19.0%	17.1%	

Process Management sales were $6.2 billion for the first nine months of 2015, a decrease of $241 million, or 4 percent compared with the prior year. Underlying sales increased 1 percent ($57 million) as strong first quarter volume growth has been largely offset by second and third quarter declines from weakness in oil and gas. Acquisitions added $20 million. Foreign currency translation deducted 5 percent ($318 million). The systems and solutions business was flat, while final control and measurement devices were down. Underlying sales decreased 1 percent in the U.S., increased 3 percent in Europe and were flat in Asia (China down 4 percent). Sales were flat in Latin America, up 11 percent in Canada and up 2 percent in Middle East/Africa. Earnings decreased $165 million and margin decreased 190 basis points due to unfavorable mix, the impact of a stronger dollar on operations and higher costs related to growth investments in the prior year, partially offset by a favorable foreign currency transactions impact of $17 million and cost reduction actions. Results also include higher rationalization expense of $25 million.

Industrial Automation

Nine Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$3,670	3,176	(13)%
Earnings	$563	464	(18)%
Margin	15.3%	14.6%	

Industrial Automation sales were $3.2 billion for the first nine months of 2015, a decrease of $494 million or 13 percent. Underlying sales decreased 1 percent ($55 million) on lower volume, as foreign currency translation deducted 5 percent ($183 million) and the power transmission solutions divestiture deducted 7 percent ($256 million). The hermetic motors and materials joining businesses increased slightly, while power generation, motors and drives, fluid automation and electrical distribution decreased. Underlying sales decreased 1 percent in the U.S., increased 1 percent in Asia (China down 1 percent), and decreased 4 percent in Europe. Sales were down 8 percent in Latin America, up 1 percent in Canada and down 9 percent in Middle East/Africa. Earnings decreased $99 million and margin declined 70 basis points, partially due to the power transmission solutions divestiture, which negatively impacted comparisons $40 million. Unfavorable mix and deleverage were partially offset by cost reduction actions.

Network Power

Nine Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$3,711	3,210	(13)%
Earnings	$286	150	(47)%
Margin	7.7%	4.7%	

Network Power sales were $3.2 billion for the first nine months of 2015, a decrease of $501 million, or 13 percent, reflecting prior year divestitures, which subtracted 5 percent ($203 million), and foreign currency translation which deducted 4 percent ($156 million). Underlying sales were down 4 percent ($142 million) on 3 percent lower volume and 1 percent lower price. Data center products were down, as slight growth in thermal management and inbound power and increases from a large European hyperscale project were more than offset by decreases in uninterruptible power supplies and infrastructure management. Telecommunications power products decreased sharply on lower demand in all geographies. Underlying sales were down 7 percent in the U.S. and 8 percent in Asia (China down 12 percent), while Europe was up 3 percent. Sales decreased 4 percent in Latin America and 4 percent in Middle East/Africa, while Canada was up 22 percent. Earnings decreased $136 million and margin declined 3 percentage points due to lower volume and deleverage, particularly in telecommunications power, lower pricing and unfavorable mix. Higher rationalization expense of $18 million also contributed to the decrease.

Climate Technologies

Nine Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$3,018	3,007	—%
Earnings	$543	518	(5)%
Margin	18.0%	17.2%	

Climate Technologies sales were $3.0 billion for the first nine months of 2015, a decrease of $11 million. Underlying sales increased 2 percent ($66 million) on higher volume while foreign currency translation deducted 2 percent ($77 million). The global air conditioning business was up moderately on growth in the U.S. and Asia. U.S. residential air conditioning was up modestly as strong first quarter growth, due to customers pre-buying inventory ahead of regulatory changes, has been mostly offset by lower volume in the second and third quarters as customers worked through the inventory. Asia air conditioning was up on strong growth in India and Southeast Asia. Global refrigeration was down slightly as weakness in Europe offset modest gains in the U.S. and Asia. The temperature sensors and controls businesses decreased. Overall, underlying sales were up 2 percent in the U.S., down 2 percent in Europe and up 1 percent in Asia (China down 6 percent). Sales decreased 1 percent in Latin America and increased 32

17

percent in Middle East/Africa and 10 percent in Canada. Earnings decreased $25 million and margin declined 80 basis points due to unfavorable mix and foreign currency transactions, partially offset by savings from cost reduction actions. Materials cost containment more than offset lower pricing.

Commercial & Residential Solutions Nine Months Ended June 30 (dollars in millions)	2014	2015	Change
Sales	$1,418	1,422	— %
Earnings	$307	292	(5)%
Margin	21.7 %	20.5 %	

Commercial & Residential Solutions sales were $1.4 billion for the first nine months of 2015, an increase of $4 million. Underlying sales increased 3 percent ($37 million) on higher volume from favorable U.S. construction, while foreign currency translation deducted 2 percent ($20 million) and the transfer of a small product line deducted 1 percent ($13 million). Wet/dry vacuums had strong growth and food waste disposers grew modestly. The professional tools and storage businesses decreased. Sales increased 3 percent in the U.S. and 1 percent internationally. Earnings decreased $15 million and margin declined 120 basis points, reflecting business mix, higher rationalization expense of $3 million and other costs. Materials cost containment and higher price partially offset the decline.

FINANCIAL CONDITION

Key elements of the Company's financial condition for the nine months ended June 30, 2015 as compared to the year ended September 30, 2014 follow.

	Sept 30, 2014	June 30, 2015
Working capital (in millions)	$2,413	2,332
Current ratio	1.3	1.3
Total debt-to-total capital	37.3 %	46.1 %
Net debt-to-net capital	22.1 %	31.8 %
Interest coverage ratio	16.3 X	22.0X

The Company's interest coverage ratio (earnings before income taxes plus interest expense, divided by interest expense) of 22.0X for the first nine months of 2015 compares to 16.3X for the first nine months of 2014. The significant increase is due to higher pretax earnings from the power transmission solutions divestiture gain and lower interest expense.

Cash provided by operating activities of $1,428 million decreased $856 million, or 37 percent, compared with $2,284 million in the prior year, due to lower earnings (excluding the divestiture gain), income taxes of $360 million paid on the divestiture gain and an increase in operating working capital. Operating cash flow largely funded capital expenditures of $516 million and dividends of $960 million. Common stock purchases of $2,041 million were supported by after-tax proceeds from the power transmission solutions divestiture. Proceeds from long-term debt were $1 billion, principal payments of long-term debt were $504 million and acquisitions were $250 million. Free cash flow of $912 million (operating cash flow of $1,428 million less capital expenditures of $516 million) was down $799 million, due to the lower operating cash flow in 2015. Free cash flow was $1,711 million in 2014 (operating cash flow of $2,284 million less capital expenditures of $573 million).

During the third quarter of 2015, the Company issued $500 million of 2.625% notes due December 2021 and $500 million of 3.150% notes due June 2025 under an automatic shelf registration statement on file with the Securities and Exchange Commission. The net proceeds from the sale of the notes were used to repay commercial paper borrowings and for general corporate purposes.

Emerson maintains a conservative financial structure which provides the strength and flexibility necessary to achieve its strategic objectives. The Company has been able to readily meet all its funding requirements and currently believes that sufficient funds will be available to meet the Company’s needs in the foreseeable future through ongoing operations, existing resources, short- and long-term debt capacity or backup credit lines. These resources allow Emerson to reinvest in existing businesses, pursue strategic acquisitions and manage its capital structure on a short- and long-term basis.

18

FISCAL 2015 OUTLOOK

The sustained headwinds from lower oil prices, the strength of the U.S. dollar, a broad slowdown in industrial spending, and sluggish growth in certain emerging and mature markets will reduce underlying sales growth. The Company now expects 2015 net sales to decline approximately 9 percent. Underlying sales growth is expected to be down approximately 2 percent, excluding negative currency translation of approximately 5 percent and a 2 percent deduction from divestitures. Profitability will continue to be challenged by lower underlying growth and the impact of accelerated restructuring. As a result, reported earnings per share are expected to be $3.97 to $4.07, including the power transmission solutions divestiture gain of $0.77 per share. The Company expects difficult market conditions to continue over the next 3 to 4 quarters as global spending remains under pressure.

On June 30, 2015, the Company announced plans to spin off its Network Power business via a tax-free distribution to shareholders as part of a strategic plan to streamline its portfolio, drive growth, and accelerate value creation for shareholders. The Company will also explore strategic alternatives, including potential sale, for its motors and drives, power generation and remaining storage businesses. See Note 11 for further information.

Statements in this report that are not strictly historical may be "forward-looking" statements, which involve risks and uncertainties, and Emerson undertakes no obligation to update any such statements to reflect later developments. These risks and uncertainties include Emerson's ability to successfully complete, and the financial impact of, its strategic portfolio repositioning actions, as well as economic and currency conditions, market demand, pricing, protection of intellectual property, and competitive and technological factors, among others, which are set forth in the “Risk Factors” of Part I, Item 1, and the "Safe Harbor Statement" of Exhibit 13, to the Company's Annual Report on Form 10-K for the year ended September 30, 2014 and in subsequent reports filed with the SEC, which are hereby incorporated by reference.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in a timely manner. This system also is designed to ensure information is accumulated and communicated to management, including the Company's certifying officers, to allow timely decisions regarding required disclosure. Based on an evaluation performed, the certifying officers have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

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 period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities (shares in 000s).

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 2015	5,700	$57.69	5,700	20,089
May 2015	3,400	$59.72	3,400	16,689
June 2015	1,800	$59.55	1,800	14,889
Total	10,900	$58.63	10,900	14,889

The 14.9 million shares available for purchase represent the remaining authorized shares under a 70 million share purchase program approved by the Board of Directors in May 2013.

Item 6. Exhibits

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

4 Emerson agrees to furnish to the Securities and Exchange Commission, upon request, copies of any long-term debt instruments that authorize an amount of securities constituting 10% or less of the total assets of Emerson and its subsidiaries on a consolidated basis.

12 Ratio of Earnings to Fixed Charges.

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.

101 Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and nine months ended June 30, 2014 and 2015, (ii) Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2014 and 2015, (iii) Consolidated Balance Sheets as of September 30, 2014 and June 30, 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended June 30, 2014 and 2015, and (v) Notes to Consolidated Financial Statements for the three and nine months ended June 30, 2015.

SIGNATURE

Pursuant to the requirements 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/ Frank J. Dellaquila
Frank J. Dellaquila
Executive Vice President and Chief Financial Officer
(on behalf of the registrant and as Chief Financial Officer)
August 5, 2015

INDEX TO EXHIBITS

Exhibit No.	Exhibit
12	Ratio of Earnings to Fixed Charges.
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.
101	Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and nine months ended June 30, 2014 and 2015, (ii) Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2014 and 2015, (iii) Consolidated Balance Sheets as of September 30, 2014 and June 30, 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended June 30, 2014 and 2015, and (v) Notes to Consolidated Financial Statements for the three and nine months ended June 30, 2015.