



## NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

**WEDNESDAY, MARCH 8, 2017**

**THE MERRION HOTEL, 24 UPPER MERRION STREET,  
DUBLIN 2, IRELAND**

NOTICE IS HEREBY GIVEN that the 2017 Annual General Meeting of Shareholders of Johnson Controls International plc will be held on March 8, 2017 at The Merrion Hotel, 24 Upper Merrion Street, Dublin 2, Ireland at 3:00 pm, local time for the following purposes:

### **Ordinary Business**

1. By separate resolutions, to elect the following individuals as Directors for a period of one year, expiring at the end of the Company's Annual General Meeting of Shareholders in 2018:

(a) David P. Abney	(b) Natalie A. Black	(c) Michael E. Daniels
(d) Brian Duperreault	(e) Jeffrey A. Jorres	(f) Alex A. Molinaroli
(g) George R. Oliver	(h) Juan Pablo del Valle Perochena	(i) Jürgen Tinggren
(j) Mark Vergnano	(k) R. David Yost	
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors of the Company and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration.

### **Special Business**

3. To authorize the Company and/or any subsidiary of the Company to make market purchases of Company shares.
4. To determine the price range at which the Company can re-allot shares that it holds as treasury shares.
5. To approve, in a non-binding advisory vote, the compensation of the named executive officers.
6. To approve, in a non-binding advisory vote, the frequency of the non-binding advisory vote on the compensation of the named executive officers.
7. To approve the material terms of the performance goals under the Johnson Controls International plc 2012 Share and Incentive Plan.
8. To approve the Directors' authority to allot shares up to approximately 33% of issued share capital
9. To approve the waiver of statutory pre-emption rights with respect to up to 5% of issued share capital
10. To act on such other business as may properly come before the meeting or any adjournment thereof.

This notice of annual general meeting and proxy statement and the enclosed proxy card are first being sent on or about January 20, 2017 to each holder of record of the Company's ordinary shares at the close of business on January 4, 2017. The record date for the entitlement to vote at the Annual

General Meeting is January 4, 2017 and only registered shareholders of record on such date are entitled to notice of, and to attend and vote at, the Annual General Meeting and any adjournment or postponement thereof. During the meeting, management will also present the Company's Irish Statutory Accounts for the fiscal year ended September 30, 2016. **Whether or not you plan to attend the meeting, please complete, sign, date and return the enclosed proxy card to ensure that your shares are represented at the meeting.** Shareholders of record who attend the meeting may vote their shares personally, even though they have sent in proxies. In addition to the above resolutions, the business of the Annual General Meeting shall include prior to the proposal of the above resolutions, the consideration of the Company's statutory financial statements and the report of the directors and of the statutory auditors and a review by the shareholders of the Company's affairs.

This proxy statement and our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and our Irish Statutory Accounts are available to shareholders at [www.proxyvote.com](http://www.proxyvote.com) and are also available in the Investor Relations section of our website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com).

By Order of the Board of Directors,



Judith A. Reinsdorf  
Executive Vice President and General Counsel

January 20, 2017

**PLEASE PROMPTLY COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD. THE PROXY IS REVOCABLE AND IT WILL NOT BE USED IF YOU: GIVE WRITTEN NOTICE OF REVOCATION TO THE PROXY PRIOR TO THE VOTE TO BE TAKEN AT THE MEETING; SUBMIT A LATER-DATED PROXY; OR ATTEND AND VOTE PERSONALLY AT THE MEETING.**

**ANY SHAREHOLDER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT ONE OR MORE PROXIES USING THE ENCLOSED PROXY CARD (OR THE FORM IN SECTION 184 OF THE COMPANIES ACT 2014) TO ATTEND, SPEAK AND VOTE ON THAT SHAREHOLDER'S BEHALF.** THE PROXY NEED NOT BE A SHAREHOLDER. PROXIES MAY BE APPOINTED VIA THE INTERNET OR PHONE IN THE MANNER SET OUT IN THE ENCLOSED PROXY CARD. ALTERNATIVELY THEY MAY BE APPOINTED BY DEPOSITING THE ENCLOSED PROXY CARD (OR OTHER VALID SIGNED INSTRUMENT OF PROXY) WITH JOHNSON CONTROLS INTERNATIONAL PLC C/O BROADRIDGE, 51 MERCEDES WAY, EDGEWOOD, NY 11717 BY 5:00 P.M., EASTERN STANDARD TIME, ON MARCH 7, 2017 (WHICH WILL THEN BE FORWARDED TO JOHNSON CONTROLS INTERNATIONAL PLC'S REGISTERED ADDRESS ELECTRONICALLY) OR WITH JOHNSON CONTROLS INTERNATIONAL PLC, ONE ALBERT QUAY, CORK, IRELAND BY 5:00 P.M. LOCAL TIME ON MARCH 7, 2017. IF YOU WISH TO APPOINT A PERSON OTHER THAN THE INDIVIDUAL SPECIFIED IN THE ENCLOSED PROXY CARD, PLEASE CONTACT OUR COMPANY SECRETARY AND ALSO NOTE THAT YOUR NOMINATED PROXY MUST ATTEND THE MEETING IN PERSON IN ORDER FOR YOUR VOTES TO BE CAST.

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Unless we have indicated otherwise, in this proxy statement references to the “Company,” “Johnson Controls”, “we,” “us,” “our” and similar terms refer to Johnson Controls International plc and its consolidated subsidiaries.



# PROXY STATEMENT SUMMARY

## Annual General Meeting

<b>Time and Date:</b>	3:00 pm, local time, on March 8, 2017
<b>Place:</b>	The Merrion Hotel, 24 Upper Merrion Street, Dublin 2, Ireland
<b>Record Date:</b>	January 4, 2017
<b>Voting:</b>	Shareholders on the record date are entitled to one vote per share on each matter to be voted upon at the Annual General Meeting
<b>Admission:</b>	All shareholders are invited to attend the Annual General Meeting. Registration will commence on the day of the meeting.

## Proposals to be Voted Upon

Board Recommendation	
1. Elect, by separate resolution, each nominee to the Board of Directors.	FOR each nominee
2. To approve and ratify, by separate resolutions, the appointment of PricewaterhouseCoopers LLP as the independent auditors of the Company and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration.	FOR
3. To authorize the Company and/or any subsidiary of the Company to make market purchases of Company shares.	FOR
4. To determine the price range at which the Company can re-allot shares that it holds as treasury shares.	FOR
5. To approve, in a non-binding advisory vote, the compensation of the named executive officers.	FOR
6. To approve, in a non-binding advisory vote, the frequency of the advisory vote on named executive officer compensation.	One year
7. To approve the material terms of the performance goals under the Johnson Controls International plc 2012 Share and Incentive Plan	FOR
8. To approve the Directors' authority to allot shares up to approximately 33% of issued share capital	FOR
9. To approve the waiver of statutory pre-emption rights with respect to up to 5% of issued share capital	FOR

## The Nominees to our Board of Directors

We are asking you to vote **FOR** all the director nominees listed below. All current directors attended at least 90% of the Board and committee meetings on which he or she sits. Detailed information regarding these individuals, along with all other Board nominees, is set forth under Proposal Number One. Summary information is set forth below.

Nominee and Principal Occupation	Age	Director Since	Independent	Current Committee Membership
David P. Abney <i>Chief Executive Officer and Director of UPS</i>	61	2016	✓	Audit
Natalie A. Black <i>Retired Senior Vice President and Chief Legal Officer of Kohler</i>	66	2016	✓	Governance (chair); Executive
Michael E. Daniels <i>Retired Senior Vice President of Global Technology at IBM</i>	62	2010	✓	Compensation
Brian Duperreault <i>Chairman and Chief Executive Officer of Hamilton Insurance Group</i>	69	2016	✓	Governance
Jeffrey A. Joerres <i>Retired Executive Chairman of ManpowerGroup</i>	57	2004	✓	Compensation (chair); Executive
Alex A. Molinaroli <i>Chairman and Chief Executive Officer of Johnson Controls</i>	57	2016		Executive
George R. Oliver <i>President and Chief Operating Officer of Johnson Controls</i>	56	2012		N/A
Juan Pablo del Valle Perochena <i>Chairman of Mexichem</i>	44	2016	✓	Governance
Jürgen Tinggren <i>Former Chief Executive Officer and Director of Schindler Group</i>	58	2014	✓	Audit (chair); Executive
Mark Vergnano <i>President, Chief Executive Officer and Director, The Chemours Company</i>	58	2016	✓	Audit
R. David Yost <i>Former Chief Executive Officer of AmerisourceBergen</i>	69	2009	✓	Compensation

## Non-Binding Advisory Vote on Executive Compensation

Proposal number five is our annual advisory vote on the Company's executive compensation philosophy and program. Detailed information regarding these matters is included under the heading "Compensation Discussion & Analysis," and we urge you to read it in its entirety. Our compensation philosophy and structure for executive officers remains dedicated to the concept of paying for performance and continues to be heavily weighted with performance based awards.

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## AGENDA ITEMS

### PROPOSAL NUMBER ONE – ELECTION OF DIRECTORS

Upon the recommendation of the Governance Committee, the Board has nominated for election at the Annual General Meeting a slate of 11 nominees, all of whom currently serve on our Board. Biographical information regarding each of the nominees is set forth below. We are not aware of any reason why any of the nominees will not be able to serve if elected. The term of office for members of the Board of Directors commences upon election and terminates upon completion of the first Annual General Meeting of Shareholders following election.



Director Since	Other Public Directorships
Age: 61 Committee: Audit Independent: Yes	September 2016 United Parcel Service, Inc.

**David P. Abney**

Mr. Abney has been the Chief Executive Officer and a director of United Parcel Service, Inc., a package delivery, supply chain and freight services provider, since September 2014. He joined our Board in September 2016 upon the completion of the merger with Johnson Controls, Inc. Mr. Abney was named Chairman of the Board of UPS in March 2016. He served as Senior Vice President and Chief Operating Officer of UPS from 2007 to 2014, also as President of UPS Airlines from 2007 to 2008, and as Senior Vice President and President of UPS International from 2003 to 2007.

#### Skills and Qualifications

- **Senior Leadership Experience:** Extensive experience as a CEO, executive officer and board member at UPS and other companies
- **Financial:** Deep financial acumen as CEO and senior leader at UPS
- **International:** Significant experience as CEO and director of UPS
- **Global Logistics:** Specialized expertise in global logistics and distribution strategies
- **Talent Management:** Experience leading global teams



Director Since	Other Public Directorships
Age: 66 Committee: Governance, Executive Independent: Yes	September 2016

**Natalie A. Black**

Prior to her retirement, Ms. Black was the Senior Vice President and Chief Legal Officer of Kohler Co., a manufacturer and marketer of plumbing products, power systems and furniture and operator of hospitality facilities. She joined our Board in September 2016 upon the completion of the merger with Johnson Controls, Inc. She served as Chief Legal Officer of Kohler from 2012 to 2014 and as Senior Vice President from 2000 to 2014. She also served as General Counsel from 1983 to 2012, as Secretary from 2000 to 2012, as a Group President for Kohler Co. from 1998 to 2000 and as Group Vice President—Interiors from 1991 to 1998.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive experience as a business leader and the Chief Legal Officer and General Counsel of Kohler
- **Sales, Marketing, Branding and M&A:** Specialized expertise in brand management, distribution, sales, and marketing from her executive management experience at Kohler
- **Governance:** Deep knowledge of legal and governance matters from her experience as a general counsel and a board and governance committee member
- **Talent Management:** Experience leading global teams



Director Since	Other Public Directorships
Age: 62	March 2010
Committee: Compensation	Thomson Reuters
Independent: Yes	SS&C Technologies, Inc.

**Michael E. Daniels**

Prior to his retirement in March 2013, Mr. Daniels was the Senior Vice President of the Global Technology Services group of International Business Machines Corporation, a business and IT services company with operations in more than 160 countries around the world. In this role, Mr. Daniels had worldwide responsibility for IBM's Global Services business operations in outsourcing services, integrated technology services, maintenance, and Global Business Services, the consulting and applications management arm of Global Services. Since he joined IBM in 1976, Mr. Daniels held a number of leadership positions in sales, marketing, and services, and was general manager of several sales and services businesses, including IBM's Sales and Distribution operations in the United States, Canada and Latin America, its Global Services team in the Asia Pacific region, Product Support Services, Availability Services, and Systems Solutions. Mr. Daniels serves as a director of Thomson Reuters, a provider of intelligent information for businesses, and SS&C Technologies, a provider of specialized software, software enabled-services and software as a service solutions to the financial services industry.

## Skills and Qualifications

- **Senior Leadership Experience:** Decades of senior leadership experience at IBM
- **Industry Experience:** Broad and extensive global business experience in a wide range of global roles as an executive at IBM, including decades of experience in the service space

- **Technology, Cyber Security and IT:** Deep understanding of critical areas of enterprise service functions and information technology, including cyber security
- **International:** Experience as a senior manager of a global organization as well as international experience living and working in a variety of cultures
- **Talent Management:** Experience leading global teams at IBM and in service on the compensation committee of public companies



Director Since		Other Public Directorships
Age: 69	March 2004	
Committee: Governance		
Independent: Yes		

**Brian Duperreault**

Mr. Duperreault is the Chairman and Chief Executive Officer of Hamilton Insurance Group, Ltd., a Bermuda-based holding company of property and casualty insurance and reinsurance operations in Bermuda, the US and the UK. He served as President and Chief Executive Officer of Marsh & McLennan Companies, Inc. from January 2008 until his retirement in December 2012. Before joining Marsh, he served for four years as non-executive Chairman of ACE Limited, an international provider of insurance and reinsurance products, Chief Executive Officer of ACE Limited from October 1994 through May 2004, and as its President from October 1994 through November 1999. Prior to joining ACE, Mr. Duperreault served in various senior executive positions with American Insurance Group and its affiliates from 1978 to 1994. Mr. Duperreault is Vice Chairman of the Board of Blue Marble Microinsurance, a member of the Boards of the International Insurance Society, the IESE Business School, the Insurance Information Institute and the Bermuda Institute of Ocean Sciences, and is a former Member of the Association of The Metropolitan Opera, New York. He is the former Chairman of the Board of Overseers of the School of Risk Management of St. John's University, New York.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive experience as a CEO, executive officer and board member of multiple Fortune 500 companies
- **Corporate Governance:** Experience serving as lead director and on the governance committees of multiple public companies
- **Financial:** Deep financial acumen as CEO and senior leader in insurance and risk management industries
- **International:** Significant experience as CEO and director on multiple global companies
- **Risk Management:** Deep understanding of risk management gained over a career in the insurance industry
- **Talent Management:** Experience leading global teams at a number of Fortune 500 companies



	Director Since	Other Public Directorships
Age: 57	September 2016	The Western Union Company
Committee: Compensation, Executive		
Independent: Yes		

**Jeffrey A. Joerres**

Prior to his retirement in December 2015, Mr. Joerres was the Executive Chairman of the Board of ManpowerGroup Inc., a provider of employment services. He joined our Board in September 2016 upon the completion of the merger with Johnson Controls, Inc. He served as the Chief Executive Officer and President of ManpowerGroup from 1999 to 2014. Mr. Joerres served as Senior Vice President of European Operations from 1998 to 1999 and as Senior Vice President of Major Account Development from 1995 to 1998. From 2009 to 2015 Mr. Joerres was a director of the Federal Reserve Bank of Chicago. He serves on the board of Artisan Partners Asset Management Inc., where he serves as chair of the Compensation Committee and as a member of the Audit Committee. He also is a director of The Western Union Company and is a member of the Corporate Governance and Public Policy Committee and the Compensation and Benefits Committee. From 2001 to 2011, Mr. Joerres also served as a board member of Artisan Funds, Inc.

### Skills and Qualifications

- **Senior Leadership Experience:** Extensive experience as a CEO, executive officer and board member of ManpowerGroup
- **Corporate Governance:** Experience serving as a public company lead director and on the governance committee
- **International:** Significant knowledge of the global marketplace gained from his role as CEO and director
- **Service Sector:** Deep understanding of the service sector and its employees gained during the course of his career
- **Talent Management:** Experience leading global teams



	Director Since	Other Public Directorships
Age: 57	September 2016	
Committee: Executive		
Independent: No		

**Alex A. Molinaroli**

Mr. Molinaroli became our Chairman and Chief Executive Officer upon completion of the merger with Johnson Controls, Inc. in September 2016. He was the Chairman, President and Chief Executive Officer of Johnson Controls, Inc. from October 2013. Previously, he served as Vice Chairman in 2013,

as a Corporate Vice President from 2004 to 2013, and as President of Johnson Controls' Power Solutions business from 2007 to 2013. Previously, Mr. Molinaroli served as Vice President and General Manager for North America Systems & the Middle East for Johnson Controls' Building Efficiency business and has held positions with increasing levels of responsibility for controls systems and services, sales and operations. Mr. Molinaroli joined Johnson Controls in 1983.

## Skills and Qualifications

- **Senior Leadership and Industry Experience:** The Board believes that Mr. Molinaroli's extensive experience and knowledge of Johnson Controls, and its products and services, gained from over 30 years of service in a wide range of Johnson Controls' leadership positions, enables him to provide meaningful input and guidance to the Board and Johnson Controls.
- **International:** Significant experience as CEO and director of a global multi-national company
- **Talent Management:** Experience leading the global team at Johnson Controls through a number of business and operational roles
- **Executive Insight:** Mr. Molinaroli offers valuable insights and perspective on the day to day management of the Company's affairs

	Director Since	Other Public Directorships
	Age: 56  Committee: Executive  Independent: No	September 2012 Raytheon Company

**George R. Oliver**

Mr. Oliver became our President and Chief Operating Officer upon completion of the merger with Johnson Controls, Inc. in September 2016. Prior to that, Mr. Oliver was our Chief Executive Officer, a position he held since September 2012. He joined Tyco in July 2006, serving as president of Tyco Safety Products from 2006 to 2010 and as president of Tyco Electrical & Metal Products from 2007 through 2010. He was appointed president of Tyco Fire Protection in 2011. Before joining Tyco, he served in operational leadership roles of increasing responsibility at several General Electric divisions. Mr. Oliver also serves as a director on the board of Raytheon Company, a company specializing in defense, security and civil markets throughout the world, and is a trustee of Worcester Polytechnic Institute, his alma mater.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive leadership experience over several decades as an executive at Tyco (now the Company) and GE
- **Industry Experience:** Nearly a decade of experience with Tyco, first as president of several of its business units and then as CEO
- **International:** Experience as a director, CEO and a senior manager of global organizations

- **Talent Management:** Experience leading global teams at Johnson Controls, Tyco and GE
- **Executive Insight:** Mr. Oliver offers valuable insights and perspective on the day to day management of the Company's affairs



Director Since	Other Public Directorships
Age: 44	September 2016 Mexichem, S.A.B.
Committee: Governance	Elementia S.A.B.
Independent: Yes	Grupo Lala S.A.B.
	Grupo Pochteca S.A.B.

***Juan Pablo del  
Valle Perochena***

Mr. Perochena has been the Chairman of Mexichem, S.A.B. de C.V., a chemical and petrochemical producer and seller and a subsidiary of Kaluz, S.A. de C.V., since April 2011. He joined our Board in September 2016 upon the completion of the merger with Johnson Controls, Inc. He has been a Board member of Mexichem since 2001, and serves on the boards of Kaluz, S.A. de C.V., Elementia S.A. de C.V., Grupo Lala S.A.B., and Grupo Pochteca, S.A.B. de C.V.

### **Skills and Qualifications**

- **Senior Leadership Experience:** Significant experience as an executive officer and board member of several Mexican companies
- **Industry Experience:** Deep knowledge of the manufacturing industry from his experiences at Mexichem
- **International:** Significant knowledge of the global marketplace gained from his business experience and background
- **Construction and Real Estate Development:** Mr. del Valle Perochena's service with Kaluz, S.A. de C.V. gives him unique insight into the construction industry and real estate development.
- **Talent Management:** Experience leading global teams



Director Since	Other Public Directorships
Age: 58	March 2014 Sika AG Group
Committee: Audit	
Independent: Yes	

***Jürgen Tinggren***

Mr. Tinggren, age 58, joined our Board in March 2014. He was the chief executive officer of the Schindler Group, a global provider of elevators, escalators and related services, through December 2013 and was a member of the board of directors of Schindler from March 2014 to 2016. He joined the Group Executive Committee of Schindler in April 1997, initially with responsibility for Europe and

thereafter for the Asia/Pacific region and the Technology and Strategic Procurement. In 2007, he was appointed Chief Executive Officer and President of the Group Executive Committee of the Schindler Group. Mr. Tinggren also serves on the Board of the Sika AG Group and is a Trustee of The Conference Board. From 2011 to 2014 he was a director of Schenker-Winkler Holding.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive global business experience as the CEO and a senior leader of Schindler
- **International:** Experience as senior executive and director of European based organizations, deep understanding of international markets
- **Industry Experience:** Deep understanding of building services, industrial products and installation and service businesses
- **Financial:** Deep financial understanding as CEO of Schindler
- **Business Development/M&A:** Significant experience with mergers and acquisitions
- **Talent Management:** Experience leading global teams as CEO of Schindler

Director Since	Other Public Directorships
Age: 58 Committee: Audit Independent: Yes	September 2016 The Chemours Company

**Mark Vergnano**

Mr. Vergnano has been the President, Chief Executive Officer and a director of the Chemours Company, a titanium technologies, fluoroproducts, and chemical solutions producer, since July 2015. He joined our Board in September 2016 upon the completion of the merger with Johnson Controls, Inc. Previously, Mr. Vergnano served as Executive Vice President, E. I. du Pont de Nemours and Company from 2009 to June 2015. While at DuPont, he served as group vice president—Safety & Protection from 2006 to 2009, vice president and general manager—DuPont Surfaces and Building Innovations from 2005 to 2006, and vice president and general manager—DuPont Nonwovens from 2003 to 2005. Mr. Vergnano joined DuPont in 1980 as a process engineer and held a variety of manufacturing, technical and management assignments in DuPont's global organization.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive global business experience as an executive and CEO of Chemours and DuPont
- **International:** Experience as senior executive of a multinational company
- **Industry Experience:** Deep understanding of the operations, global sales and marketing in the chemical manufacturing industry

- **Financial:** Deep financial understanding as CEO of Chemours
- **Talent Management:** Experience leading global teams as CEO of Chemours and in managing a variety of business units at DuPont



Director Since	Other Public Directorships
Age: 69	March 2009
Committee: Compensation	Bank of America
Independent: Yes	

**R. David Yost**

Mr. Yost served as Director and Chief Executive Officer of AmerisourceBergen, a comprehensive pharmaceutical services provider, from August 2001 to June 2011 when he retired. He was Chairman and Chief Executive Officer of AmeriSource Health Corporation from May 1997 to August 2001, and President and Chief Executive Officer of AmeriSource from May 1997 to December 2000. Mr. Yost also held a variety of other positions with AmeriSource Health Corporation and its predecessors from 1974 to 1997. Mr. Yost also serves as a director of Marsh & McLennan Companies, Inc. and Bank of America, and is a Vice Chairman of the Board of the United States Air Force Academy Endowment.

## Skills and Qualifications

- **Senior Leadership Experience:** Extensive leadership experience gained as the CEO and a director of AmerisourceBergen
- **Corporate Governance:** Significant corporate governance experience serving as a director of multiple public companies
- **Risk Management:** Exposure to complex risk management concepts gained as a director of Marsh & McLennan and Bank of America
- **Talent Management:** Experience leading global teams as CEO of AmerisourceBergen

Election of each Director requires the affirmative vote of a majority of the votes properly cast by the holders of ordinary shares represented at the Annual General Meeting in person or by proxy. Each Director's election is the subject of a separate resolution and shareholders are entitled to one vote per share for each separate Director election resolution.

The Board unanimously recommends that shareholders vote **FOR** the election of each nominee for Director to serve until the completion of the next Annual General Meeting.

## PROPOSAL NUMBER TWO – APPOINTMENT OF AUDITORS AND AUTHORITY TO SET REMUNERATION

PricewaterhouseCoopers LLP (“PwC”) served as our independent auditors for the fiscal year ended September 30, 2016. As discussed below, prior to the merger between Johnson Controls, Inc. and a subsidiary of the Company, PwC was the independent auditor of Johnson Controls, Inc. and Deloitte & Touche LLP (“Deloitte”) was the independent auditor of the Company. The Audit Committee has selected and appointed PwC to audit our financial statements for the fiscal year ending September 30, 2017. The Board, upon the recommendation of the Audit Committee, is asking our shareholders to ratify the appointment of PwC as our independent auditors for the fiscal year ending September 30, 2017 and to authorize the Audit Committee of the Board of Directors to set the independent auditors’ remuneration. Although approval is not required by our Memorandum and Articles of Association or otherwise, the Board is submitting the selection of PwC to our shareholders for ratification because we value our shareholders’ views on the Company’s independent auditors. If the appointment of PwC is not approved by shareholders, it will be considered as notice to the Board and the Audit Committee to consider the selection of a different firm. Even if the appointment is approved, the Audit Committee in its discretion may select a different independent auditor at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

Representatives of PwC will attend the Annual General Meeting and will have an opportunity to make a statement if they wish. They will also be available to answer questions at the meeting.

For independent auditor fee information, information on our pre-approval policy of audit and non-audit services, and the Audit Committee Report, please see below.

On September 8, 2016, following the completion of the merger between Johnson Controls, Inc. and a subsidiary of the Company, the Audit Committee approved the dismissal of Deloitte as the Company’s independent registered public accounting firm and the Company accordingly notified Deloitte of such action effective as of September 2, 2016.

The reports of Deloitte on the Company’s financial statements for each of the two fiscal years ended September 25, 2015 and September 26, 2014, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during the fiscal years ended September 25, 2015 and September 26, 2014, as well as during the subsequent interim period preceding September 2, 2016, there were no (i) “disagreements” (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and related instructions) between the Company and Deloitte with respect to any matter relating to accounting principles, financial statement disclosure or auditing scope or procedures which, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreement in its reports on the Company’s financial statements with respect to such periods; or (ii) “reportable events” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K and the related instructions).

The Company provided Deloitte with a copy of the above disclosure, as set forth in the Company’s Current Report on Form 8-K filed on September 9, 2016 and requested that Deloitte provide the Company with a letter addressed to the SEC stating whether or not Deloitte agrees with the above disclosures. A copy of Deloitte’s letter, dated September 9, 2016, was attached as Exhibit 16.1 to such Form 8-K.

On September 8, 2016, the Company engaged PricewaterhouseCoopers ("PwC") as its new independent registered public accounting firm, effective as of September 2, 2016. During the years ended September 25, 2015 and September 26, 2014, and through September 2, 2016, the effective date of the Company's engagement of PwC, the Company did not consult with PwC regarding any of the matters or events set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

The ratification of the appointment of the independent auditors and the authorization for the Audit Committee to set the remuneration for the independent auditors requires the affirmative vote of a majority of the votes properly cast by the holders of ordinary shares represented at the Annual General Meeting in person or by proxy.

The Audit Committee and the Board unanimously recommend a vote **FOR** these proposals.

## Audit and Non-Audit Fees

Aggregate fees for professional services rendered to the Company by its independent public accountants as of and for the two most recent fiscal years are set forth below. The aggregate fees include fees billed or reasonably expected to be billed for the applicable fiscal year. Fees for fiscal year 2016 include fees billed or reasonably expected to be billed by PwC. Fees for fiscal year 2015 include fees billed by Deloitte.

	Fiscal Year 2016	Fiscal Year 2015
	(in millions)	(in millions)
Audit Fees	\$ 24.6	\$ 15.9
Audit-Related Fees	10.0	1.5
Tax Fees	4.4	0.9
All Other Fees	2.2	0.1
Total	\$ 41.2	\$ 18.4

## PwC Fees

**Audit Fees** for the fiscal year ended September 30, 2016 were for professional services rendered by PwC and include fees for services performed to comply with auditing standards of the PCAOB (United States), including the annual audit of our consolidated financial statements including reviews of the interim financial statements contained in Johnson Controls' Quarterly Reports on Form 10-Q, issuance of consents and the audit of our internal control over financial reporting. This category also includes fees for audits provided in connection with statutory filings or services that generally only the principal auditor reasonably can provide to a client, such as assistance with and review of documents filed with the SEC.

**Audit-Related Fees** for the fiscal year ended September 30, 2016 were for services rendered by PwC and include fees associated with assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. This category includes fees related to assistance in financial due diligence related to mergers, acquisitions, and divestitures, carve-outs associated with divestitures and spin-off transactions, consultations concerning financial accounting and reporting standards, issuance of comfort letters associated with debt offerings, general assistance with implementation of SEC and Sarbanes-Oxley Act requirements, audits of pension and other employee benefit plans, and audit services not required by statute or regulation.

**Tax Fees** for the fiscal year ended September 30, 2016 were for services rendered by PwC and primarily include fees associated with tax audits, tax compliance, tax consulting, transfer pricing, and tax planning. This category also includes tax planning on mergers and acquisitions and restructurings, as well as other services related to tax disclosure and filing requirements.

**All Other Fees** for the fiscal years ended September 30, 2016 were for services rendered by PwC and primarily include fees associated with training seminars related to accounting, finance and tax matters, information technology consulting, and other advisory services.

## Deloitte Fees

**Audit Fees** for the fiscal year ended September 25, 2015 were for professional services rendered by Deloitte for the integrated audits of the Company's consolidated financial statements and internal controls over financial reporting, quarterly reviews of the condensed consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q, statutory audits, consents, international filings and other assistance required to complete the year-end audit of the consolidated financial statements. This category also includes fees for audits provided in connection with statutory filings or services that generally only the principal auditor reasonably can provide to a client, such as assistance with and review of documents filed with the SEC.

**Audit-Related Fees** for the fiscal year ended September 25, 2015 were for services related to statutorily required attest services in various countries and for accounting and disclosure consultations.

**Tax Fees** for the fiscal year ended September 25, 2015 were for tax compliance and planning services.

**All Other Fees** for the fiscal year ended September 25, 2015 were for permitted advisory services related to our global shared service strategy and operations.

## Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

In March 2004, the Audit Committee adopted a pre-approval policy that provides guidelines for the audit, audit-related, tax and other permissible non-audit services that may be provided by the independent auditors. The policy identifies the guiding principles that must be considered by the Audit Committee in approving services to ensure that the auditors' independence is not impaired. The policy provides that the Corporate Controller will support the Audit Committee by providing a list of proposed services to the Committee, monitoring the services and fees pre-approved by the Committee, providing periodic reports to the Audit Committee with respect to pre-approved services, and ensuring compliance with the policy.

Under the policy, the Audit Committee annually pre-approves the audit fee and terms of the engagement, as set forth in the engagement letter. This approval includes approval of a specified list of audit, audit-related and tax services. Any service not included in the specified list of services must be submitted to the Audit Committee for pre-approval. No service may extend for more than 12 months, unless the Audit Committee specifically provides for a different period. The independent auditor may not begin work on any engagement without confirmation of Audit Committee pre-approval from the Corporate Controller or his or her delegate.

In accordance with the policy, the chair of the Audit Committee has been delegated the authority by the Committee to pre-approve the engagement of the independent auditors for a specific service

when the entire Committee is unable to do so. All such pre-approvals must be reported to the Audit Committee at the next Committee meeting.

## AUDIT COMMITTEE REPORT

The Audit Committee of the Board is composed of three Directors, each of whom the Board has determined meets the independence and experience requirements of the NYSE and the SEC. The Audit Committee operates under a charter approved by the Board, which is posted on our website. As more fully described in its charter, the Audit Committee oversees Johnson Controls' financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process. Management assures that the Company develops and maintains adequate financial controls and procedures, and monitors compliance with these processes. Johnson Controls' independent auditors are responsible for performing an audit in accordance with auditing standards generally accepted in the United States to obtain reasonable assurance that Johnson Controls' consolidated financial statements are free from material misstatement and expressing an opinion on the conformity of the financial statements with accounting principles generally accepted in the United States. The internal auditors are responsible to the Audit Committee and the Board for testing the integrity of the financial accounting and reporting control systems and such other matters as the Audit Committee and Board determine.

In this context, the Audit Committee has reviewed the U.S. GAAP consolidated financial statements for the fiscal year ended September 30, 2016, and has met and held discussions with management, the internal auditors and the independent auditors concerning these financial statements, as well as the report of management and the report of the independent registered public accounting firm regarding the Company's internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act. Management represented to the Committee that Johnson Controls' U.S. GAAP consolidated financial statements were prepared in accordance with U.S. GAAP. In addition, the Committee has discussed with the independent auditors the auditors' independence from Johnson Controls and its management as required under Public Company Accounting Oversight Board Rule 3526, Communication with Audit Committees Concerning Independence, and the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard AU Section 380 (Communication with Audit Committees) and Rule 2-07 of SEC Regulation S-X.

In addition, the Audit Committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence. Based upon the Committee's review and discussions referred to above, the Committee recommended that the Board include Johnson Controls' audited consolidated financial statements in Johnson Controls' Annual Report on Form 10-K for the fiscal year ended September 30, 2016 filed with the Securities and Exchange Commission and that such report be included in Johnson Controls' annual report to shareholders for the fiscal year ended September 30, 2016.

Submitted by the Audit Committee,

Jürgen Tinggren, Chair

David P. Abney

Mark P. Vergnano

## PROPOSAL NUMBER THREE – AUTHORIZATION TO MAKE MARKET PURCHASES OF COMPANY SHARES

We have historically used open-market share purchases as a means of returning cash to shareholders and managing the size of our base of outstanding shares. These are longstanding objectives that management believes are important to continue.

Under Irish law, neither the Company nor any subsidiary of the Company may make market purchases or overseas market purchases of the Company's shares without shareholder approval. Accordingly, shareholders are being asked to authorize the Company, or any of its subsidiaries, to make market purchases and overseas market purchases of up to 10% of the Company's issued shares. This authorization expires after eighteen months unless renewed; accordingly, we expect to propose renewal of this authorization at subsequent annual general meetings.

Such purchases would be made only at price levels which the Directors considered to be in the best interests of the shareholders generally, after taking into account the Company's overall financial position. The Company currently expects to effect repurchases under our existing share repurchase authorization as redemptions pursuant to Article 3(d) of our Articles of Association. Whether or not this proposed resolution is passed, the Company will retain its ability to effect repurchases as redemptions pursuant to its Articles of Association, although subsidiaries of the Company will not be able to make market purchases or overseas market purchases of the Company's shares unless the resolution is adopted.

In order for the Company or any of its subsidiaries to make overseas market purchases of the Company's ordinary shares, such shares must be purchased on a market recognized for the purposes of the Companies Act 2014. The New York Stock Exchange, on which the Company's ordinary shares are listed, is specified as a recognized stock exchange for this purpose by Irish law. The general authority, if approved by our shareholders, will become effective from the date of passing of the authorizing resolution.

### Ordinary Resolution

The text of the resolution in respect of Proposal 3 is as follows:

RESOLVED, that the Company and any subsidiary of the Company is hereby generally authorized to make market purchases and overseas market purchases of ordinary shares in the Company ("shares") on such terms and conditions and in such manner as the board of directors of the Company may determine from time to time but subject to the provisions of the Companies Act 2014 and to the following provisions:

(a) The maximum number of shares authorized to be acquired by the Company and/or any subsidiary of the Company pursuant to this resolution shall not exceed, in the aggregate, 90,000,000 ordinary shares of US\$0.01 each (which represents slightly less than 10% of the Company's issued ordinary shares ).

(b) The maximum price to be paid for any ordinary share shall be an amount equal to 110% of the closing price on the New York Stock Exchange for the ordinary shares on the trading day preceding the day on which the relevant share is purchased by the Company or the relevant subsidiary of the Company, and the minimum price to be paid for any ordinary share shall be the nominal value of such share.

(c) This general authority will be effective from the date of passing of this resolution and will expire on the earlier of the date of the Annual General Meeting in 2018 or eighteen months from

the date of the passing of this resolution, unless previously varied, revoked or renewed by special resolution in accordance with the provisions of section 1074 of the Companies Act 2014. The Company or any such subsidiary may, before such expiry, enter into a contract for the purchase of shares which would or might be executed wholly or partly after such expiry and may complete any such contract as if the authority conferred hereby had not expired.

The authorization for the Company and/or any its subsidiaries to make market purchases and overseas market purchases of Company shares requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.

The Board unanimously recommends that shareholders vote **FOR** this proposal.

## PROPOSAL NUMBER FOUR – DETERMINE THE PRICE RANGE AT WHICH THE COMPANY MAY RE-ALLOT TREASURY SHARES

Our historical open-market share repurchases and other share buyback activities result in ordinary shares being acquired and held by the Company as treasury shares. We may re-allot treasury shares that we acquire through our various share buyback activities in connection with our executive compensation program and our other compensation programs.

Under Irish law, our shareholders must authorize the price range at which we may re-allot any shares held in treasury (including by way of re-allotment off-market). In this proposal, that price range is expressed as a minimum and maximum percentage of the prevailing market price (as defined below). Under Irish law, this authorization expires after eighteen months unless renewed; accordingly, we expect to propose the renewal of this authorization at subsequent annual general meetings.

The authority being sought from shareholders provides that the minimum and maximum prices at which an ordinary share held in treasury may be re-allotted are 95% and 120%, respectively, of the average closing price per ordinary share of the Company, as reported by the New York Stock Exchange, for the thirty (30) trading days immediately preceding the proposed date of re-allotment. Any re-allotment of treasury shares will be at price levels that the Board considers in the best interests of our shareholders.

### Special Resolution

The text of the resolution in respect of Proposal 4 (which is proposed as a special resolution) is as follows:

RESOLVED, that the re-allotment price range at which any treasury shares held by the Company may be re-allotted shall be as follows:

(a) the maximum price at which such treasury share may be re-allotted shall be an amount equal to 120% of the “market price”; and

(b) the minimum price at which a treasury share may be re-allotted shall be the nominal value of the share where such a share is required to satisfy an obligation under an employee share plan operated by the Company or, in all other cases, an amount equal to 95% of the “market price”; and

(c) for the purposes of this resolution, the “market price” shall mean the average closing price per ordinary share of the Company, as reported by the New York Stock Exchange, for the thirty (30) trading days immediately preceding the proposed date of re-allotment.

FURTHER RESOLVED, that this authority to re-allot treasury shares shall expire on the earlier of the date of the Annual General Meeting of the Company held in 2018 or eighteen months after the date of the passing of this resolution unless previously varied or renewed in accordance with the provisions of section 109 and/or 1078 (as applicable) of the Companies Act 2014 (and/or any corresponding provision of any amended or replacement legislation) and is without prejudice or limitation to any other authority of the Company to re-allot treasury shares on-market.

The authorization of the price range at which the Company may re-allot any shares held in treasury requires the affirmative vote of at least 75% of the votes properly cast (in person or by proxy) at the Annual General Meeting.

The Board unanimously recommends that shareholders vote **FOR** this proposal.

## PROPOSAL NUMBER FIVE – ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Board recognizes that providing shareholders with an advisory vote on executive compensation can produce useful information on investor sentiment with regard to the Company's executive compensation programs. As a result, this proposal provides shareholders with the opportunity to cast an advisory vote on the compensation of our executive management team, as described in the section of this proxy statement entitled "**Compensation Discussion & Analysis,**" and endorse or not endorse our fiscal 2016 executive compensation philosophy, programs and policies and the compensation paid to the Named Executive Officers.

The advisory vote on executive compensation is non-binding, meaning that our Board will not be obligated to take any compensation actions or to adjust our executive compensation programs or policies, as a result of the vote. Notwithstanding the advisory nature of the vote, the resolution will be considered passed with the affirmative vote of a majority of the votes properly cast by the holders of ordinary shares represented at the Annual General Meeting in person or by proxy.

Although the vote is non-binding, our Board and the Compensation Committee will review the voting results. To the extent there is a significant negative vote, we would communicate directly with shareholders to better understand the concerns that influenced the vote. The Board and the Compensation Committee would consider constructive feedback obtained through this process in making future decisions about executive compensation programs.

### Advisory Non-Binding Resolution

The text of the resolution, which if thought fit, will be passed as an advisory non-binding resolution at the Annual General Meeting, is as follows:

RESOLVED, that shareholders approve, on an advisory basis, the compensation of the Company's Named Executive Officers, as disclosed in the Compensation Discussion & Analysis section of this proxy statement.

The Board unanimously recommends that shareholders vote **FOR** this proposal.

## PROPOSAL NUMBER SIX – ADVISORY VOTE ON THE FREQUENCY OF THE EXECUTIVE COMPENSATION VOTE

The Dodd-Frank Act requires us to include, at least once every six years, an advisory vote regarding how often shareholders wish to cast the advisory vote on executive compensation. In casting their advisory vote, shareholders may choose among four options (1) an annual vote, (2) a vote every two years (biennial), (3) a vote every three years (triennial) or (4) to abstain from voting.

The Board believes that an annual vote is appropriate for the Company because it provides shareholders the opportunity to provide frequent feedback on overall compensation philosophy, design and implementation.

The advisory vote on the frequency of the advisory vote on executive compensation is non-binding, meaning that our board will not be obligated to take any actions or to adjust the frequency of the advisory vote on executive compensation as a result of the vote. Although the vote is non-binding, our Board and the Compensation Committee will review the voting results and consider the feedback obtained through this process in making future decisions about the frequency of the advisory vote on executive compensation.

The Board unanimously recommends that shareholders elect the **ANNUAL** option when casting their advisory vote with respect to this proposal.

## PROPOSAL NUMBER SEVEN – APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE GOALS UNDER THE JOHNSON CONTROLS INTERNATIONAL PLC 2012 SHARE AND INCENTIVE PLAN

Our Board has proposed approval of the material terms of the performance goals under the Johnson Controls International plc 2012 Share and Incentive Plan, as amended and restated (the "Plan"), to preserve our ability grant fully tax-deductible performance-based awards under the Plan. The Plan was previously approved by shareholders on September 14, 2012, and, other than as set forth below, shareholders are not currently being asked to approve any amendment to the Plan or to otherwise approve the Plan itself; they are being asked only to (i) approve the material terms of the performance goals under the Plan and (ii) adjust the limit on the amount of equity awards that can be granted to each non-executive director under the Plan so that a total of \$600,000 of equity awards may be granted in a fiscal year (compared to the current limit of \$200,000 in annual awards plus additional awards of up to 19,100 shares).

Section 162(m) ("Section 162(m)") of the Internal Revenue Code of 1986, as amended (the "Code"), imposes a \$1 million limit on the amount that a public company may deduct for compensation paid to the company's CEO or any of the company's three most highly compensated executive officers (other than the CFO) who are employed as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for "performance-based" compensation. One of the requirements for compensation to qualify as performance-based under Section 162(m) is that the material terms of the performance goals, including the list of permissible business criteria for performance objectives under the plan, be disclosed to and approved by shareholders, generally every five years. Because the Plan was last approved by shareholders in 2012, we are seeking shareholder approval of the material terms of the performance goals at our 2017 Annual General Meeting to preserve our ability to continue to grant fully tax-deductible performance-based awards. In addition, we are seeking shareholder approval to increase the limit on the amount of equity awards that can be granted to each non-executive director under the Plan so that a total of \$600,000 of equity awards may be granted in a fiscal year. The current limit on equity awards to non-executive directors is \$200,000 for the annual equity grant, plus additional awards that may be granted with respect to up to 19,100 shares in any fiscal year. The amendment is intended to simplify the limits applicable to equity awards made to non-executive directors in the future. Remuneration for non-executive directors consists of an annual cash retainer of \$110,000 and an annual grant of restricted stock units with a grant date value of approximately \$140,000 and a one-year vesting term.

### Material Terms of the Performance Goals Under the Plan

For purposes of Section 162(m), the material terms of the performance goals include: (a) the employees eligible to receive compensation; (b) the description of the business criteria on which the performance goals may be based; and (c) the maximum amount, or the formula used to calculate the maximum amount, of compensation that can be paid to an employee under the performance goals. Each of these aspects is discussed below, and shareholder approval of this Proposal Seven constitutes approval of each of these aspects for purposes of the Section 162(m) shareholder approval requirements. The following summary is qualified in its entirety by reference to the complete text of the Plan, which is attached hereto as Annex II.

*Eligibility.* In general, participants eligible to receive awards under the Plan include employees and directors of the Company and its subsidiaries (including prospective employees and directors), and consultants who provide bona fide services to the Company or any of its subsidiaries. As of December 31, 2016, approximately 130,000 employees, including eleven executive officers, nine non-

employee directors and no consultants are eligible to receive awards under the Plan. The group of employees whose compensation would be subject to the performance goals described in this Proposal Seven would include some or all of the Company's executive officers. Although Section 162(m) only limits deductibility for compensation paid to the CEO or any of the Company's three most highly compensated executive officers (other than the CFO) who are employed as of the end of the year, we may apply the performance goals to all executive officers in the event that any of them becomes a covered employee under Section 162(m) during the time that they hold an award described in this Proposal Seven.

*Performance Goals.* Share options and share appreciation rights granted under the Plan are designed to be exempt from the \$1,000,000 deduction limit imposed by Section 162(m) due to the Plan's requirement that they have an exercise price per share no lower than the fair market value of a share on the date of grant. The Plan also provides for short-term and long-term performance awards that may be granted in the form of cash or ordinary shares (including share options). The Compensation Committee (the "Committee"), in its discretion and as set forth in the document evidencing the grant of an award, which we refer to as the award certificate, will fix the amount, terms and conditions of short-term or long-term performance awards, subject to the following restrictions if the awards are granted to employees or directors who are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended (a "Reporting Person"):

- *Performance Cycles*—Short-term performance awards will be granted in connection with performance periods of between 6 and 12 months. Long-term performance awards will be granted in connection with performance periods that may not be shorter than 12 months or longer than five years.
- *Performance Measures*—The target amounts and/or vesting percentages for any short-term or long-term performance award must be determined by reference to the level of performance attained in relation to one or more performance measures selected by the Committee. The performance measures that the Committee may select include any one or combination of the following:
  - Basic earnings per ordinary share for the Company on a consolidated basis;
  - Diluted earnings per ordinary share for the Company on a consolidated basis;
  - Earnings (including earnings before or after interest and the provision for income taxes (EBIT) and earnings before or after interest, the provision for income taxes, depreciation, and amortization (EBITDA));
  - Total shareholder return;
  - Share price or fair market value of shares;
  - Revenues, sales or net sales;
  - Costs or cost of sales;
  - Expense management, including selling, general and administrative expenses;
  - Gross profit;
  - Profitability of an identifiable business unit or product;

- Economic value added, or other measure of profitability that considers the cost of capital employed;
- Maintenance or improvement of profit margins;
- Operating income;
- Segment EBIT;
- Net income;
- Accounts receivable;
- Inventories;
- Credit rating;
- Working capital or trade working capital;
- Changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital);
- Improvements in capital structure;
- Return on invested capital and/or return on investment before or after cost of capital;
- Return on equity or return on shareholder equity;
- Return on assets;
- Return on sales;
- Cash flow or free cash flow;
- Net cash provided by operating activities;
- Net increase (decrease) in cash and cash equivalents;
- Customer satisfaction, which may include customer backlog and/or relationships;
- Market share;
- Quality;
- Safety;
- Independent industry ratings or assessments;
- Realization or creation of innovation projects or products;
- Employee engagement;

- Employee retention;
- Improvement in employee, workforce and/or supplier diversity;
- Sustainability measures, such as reduction in greenhouse gases;
- Closing of corporation transactions and/or completion of integration of acquired businesses;
- Strategic plan development and implementation and/or strategic activities; and
- Development, completion and implementation of succession planning.

Any performance measure used may be measured, as applicable, (a) in absolute terms, (b) in relative terms (including the passage of time and/or against other companies or financial metrics), (c) on a per share basis, (d) against the performance of the Company as a whole or against particular entities, segments, operating units or products of the Company, (e) on a pre-tax or after-tax basis, and (f) in tandem with any other performance measure. Awards issued to persons who are not key employees may take into account any other factors deemed appropriate by the Committee. No short-term or long-term performance award will be delivered until the Committee certifies in writing the level of performance attained for the performance period in relation to the applicable performance measures. In determining performance, the Committee may, in its discretion, exclude unusual, infrequently occurring or other items that it deems appropriate in compliance with the applicable requirements of Code Section 162(m).

*Limitations and Maximum Awards under the Plan.* The Plan limits the amounts of awards that may be granted or paid. For awards granted on and after the date of the 2017 Annual General Meeting, no participant may:

- be granted share options, share appreciation rights, other share-based awards or substitute awards that, in each case, are not short-term performance awards or long-term performance awards, with respect to more than 5,730,000 shares in any calendar year;
- be paid more than \$6 million per calendar year (whether in cash or shares) with respect to short-term performance awards;
- be paid more than 5,730,000 shares per calendar year (less the number of shares related to any other awards granted in the same calendar year) with respect to long-term performance awards payable in shares; or
- be paid more than \$6 million per calendar year with respect to long-term performance awards payable in cash.

However, additional awards in excess of these limitations relating to up to 9,550,000 shares may be granted to a Reporting Person who has been hired within the calendar year so long as the additional awards are made in the form of share options, share appreciation rights or long-term performance based awards.

The limits described above are not intended to indicate that all of these awards will be made, or that awards will be made up to these limits.

These limits are subject to anti-dilution adjustments in the event of share splits, mergers, consolidations, share dividends, recapitalizations and similar transactions, but may not otherwise be amended without shareholder approval.

## Summary of Material Provisions of the Plan

The following is a summary of the material terms and provisions of the Plan other than the material terms of the performance goals, which were summarized above. This summary is qualified in its entirety by reference to the complete text of the Plan, which is attached hereto as Annex II. To the extent that there is a conflict between this summary and the Plan, the terms of the Plan will govern. Any capitalized terms that are used but not defined in this summary have the meaning given to them in the Plan.

*Plan Administration.* The Plan is administered by the Committee, which has broad discretion and authority under the Plan to (1) interpret and administer the Plan; (2) prescribe, amend and rescind rules and regulations relating to the Plan; (3) select participants to receive awards; (4) determine the form of an award, the number of ordinary shares subject to an award, and the terms and conditions of each award; (5) determine whether awards will be granted singly, in combination or in tandem; (6) establish and interpret performance criteria in connection with performance-based awards and evaluate and certify the level of performance attained; (7) waive, correct or amend any terms, conditions, restrictions or limitations on an award (except that (a) the Plan's prohibition on the repricing of share options and share appreciation rights cannot be waived and (b) any waiver or amendment must comply with, or be subject to an exemption from, Section 409A of the Code); (8) make any adjustments to the Plan (including but not limited to adjustment of the number of ordinary shares available under the Plan, as described below, or any award) and any award granted under the Plan that may be appropriate, in accordance with the Plan's adjustment provisions (see "Adjustments" below); (9) determine under which circumstances awards may be deferred; (10) determine whether any awards may be transferable; (11) establish subplans and make any modifications to the Plan to implement and administer the Plan in foreign countries; (12) appoint agents to help administer the Plan; and (13) take any and all other actions it deems necessary or advisable for the proper operation or administration of the Plan.

The Committee may delegate any of its duties and authority under the Plan, except for the authority to grant and administer awards to directors, key employees and other Reporting Persons, or to employees to whom the Committee has delegated authority under the Plan. The Committee may not delegate its duty to establish and certify performance measures.

*Shares Available for Issuance.* The total number of shares reserved for awards under the Plan is the sum of (a) 47,750,000, (b) any shares subject, as of October 1, 2012 to the outstanding awards under the Tyco International Ltd. 2004 Share and Incentive Plan that cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable shares) and (c) a number of shares equal to the number of shares of Johnson Controls, Inc. common stock remaining available under the Johnson Controls, Inc. 2012 Omnibus Incentive Plan and the Johnson Controls, Inc. 2003 Share Plan for Outside Directors (the "Legacy Johnson Controls Plans") as of the date of the merger (the "Merger") between us and Johnson Controls, Inc. (the "Legacy Johnson Controls Shares"). The share reserve may be adjusted upon the occurrence of certain events (see "Adjustments" below).

In accordance with the NYSE Listed Company Manual and interpretive guidance thereunder, including Rule 303A.08, (a) awards in respect of Legacy Johnson Controls Shares granted following the Merger may be granted only to persons other than any individuals who were employed, immediately before the Merger, by us or entities that were our subsidiaries immediately before the Merger and (b) the time during which the Legacy Johnson Controls Shares are available for grant under the Plan will not be extended beyond the period when they would have been available for grant under the Legacy Johnson Controls Plans.

Awards denominated in shares that are granted as share options or share appreciation rights will at the time of grant, reduce, on a 1-for-1 basis, the number of shares available under the Plan. Awards denominated in shares that are granted as restricted shares, restricted units, performance units, other share-based awards, or in respect of short-term performance awards or long-term performance awards (other than performance based share options) will at the time of grant reduce the number of shares available under the Plan on (a) if the award is denominated in shares that are not Legacy Johnson Controls Shares (as determined by the Committee or its designee), a 1-for-3.32 basis, or (b) if the award is denominated in shares that are Legacy Johnson Controls Shares (as determined by the Committee or its designee), a 1-for-2.65 basis.

Shares related to the following events restore the shares available in the same amount in which the award reduced the shares available set forth above:

- Shares related to awards paid in cash;
- Shares related to awards that expire, are forfeited or cancelled, or terminate for any other reason without issuance of shares;
- Shares issuable in connection with awards that are assumed, converted or substituted as a result of the acquisition of an acquired company by us or a combination of our company with another company; and
- Any restricted shares that are returned to us as restricted shares.

In addition, any shares that became issuable under the Plan as a result of an adjustment to an outstanding award in connection with our spin-offs of The ADT Corporation and Tyco Flow Control International Ltd. and related transactions were not counted against the share authorization.

*Adjustments.* In the event of a change in the outstanding shares of the Company by reason of a share split, reverse share split, dividend or other distribution (whether in the form of cash, shares, other securities or other property), extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of shares or other securities or similar corporate transaction or event, the Committee will make appropriate adjustments to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan (including adjustments to shares available).

*Share Options and Share Appreciation Rights.* Share options awarded under the Plan may be in the form of nonqualified share options or incentive share options or a combination of the two, at the discretion of the Committee and as set forth in the award certificate. Share appreciation rights may be awarded either alone or in tandem with share options. Unless determined otherwise by the Committee and set forth in the award certificate or as required by law, share options and share appreciation rights granted under the Plan are subject to the following terms and conditions:

- *Exercise Price*—The exercise price for each ordinary share subject to a share option or for a share appreciation right will be set by the Committee at the time of grant, and will typically be equal to the fair market value of an ordinary share as of the date of grant (with fair market value being set by reference to the closing price on the NYSE). The Committee also has the discretion to grant premium-priced share options. The exercise price of a share appreciation right granted in tandem with a share option will be equal to the exercise price of the share option.
- *No Repricing*—The exercise price of a Share option or share appreciation right may not be decreased after the date of grant, unless approval of the repricing is obtained from the Company's shareholders.

- *Vesting*—The Committee will set the vesting schedule and term of share options and share appreciation rights awarded under the Plan in the award certificate.
- *Payment of Exercise Price*—Unless the award certificate provides otherwise, payment of the exercise price may be made in cash, check, wire transfer or money order or, if permitted by the Committee, (a) by delivering irrevocable instructions to a broker to deliver to us the amount of sale proceeds with respect to ordinary shares having a fair market value equal to the exercise price, (b) by tendering to us ordinary shares owned by the participant for at least six months having an aggregate fair market value equal to the exercise price, or (c) by instructing us to withhold ordinary shares that would otherwise be issued having an aggregate fair market value equal to the exercise price.
- *Incentive Share Options*—Incentive share options may be granted only to employees of the Company or a subsidiary, and may not be transferred by an employee other than by will or the laws of descent and distribution and may be exercised only by an employee during the employee's lifetime. A maximum of 9.55 million shares may be available for grant in the form of incentive share options.
- *Share Appreciation Rights*—Share appreciation rights will be paid in cash or ordinary shares or a combination of cash and ordinary shares, as determined by the Committee at the time of grant. Cash payments will be equal to the excess of the fair market value of an ordinary share on the date of exercise over the exercise price of the share appreciation right. If ordinary shares are paid for the share appreciation right, the number of ordinary shares that will be paid is determined by dividing the cash payment amount by the fair market value of an ordinary share on the date of exercise.

*Short-Term and Long-Term Performance Awards.* The Plan provides for short-term and long-term performance awards that may be granted in the form of cash or ordinary shares (including share options). The Committee, in its discretion and as set forth in the award certificate, will fix the amount, terms and conditions of short-term and long-term performance awards, subject to the following restrictions if such awards are granted to Reporting Persons:

- *Performance Cycles*—Short-term performance awards will be granted in connection with performance periods of between 6 and 12 months. Long-term performance awards will be granted in connection with performance periods that may not be shorter than 12 months or longer than five years.
- *Performance Measures*—The target amounts and/or vesting percentages for any short-term or long-term performance award must be determined by reference to the level of performance attained in relation to one or more performance measures selected by the Committee. See above under the heading “*Material Terms of the Performance Goals Under the Plan—Performance Goals*” for a discussion of the performance measures that the Committee may select.

*Other Share-Based Awards.* Awards other than share options, share appreciation rights and short-term and long-term performance awards may be granted under the Plan. The Committee has the discretion to fix the amount, terms and conditions applicable to awards of restricted share, restricted units and deferred share units, and other equity-based awards.

*Director Awards.* Annually, the Committee will grant an award to each nonemployee director in such an amount as the Board, in its discretion, may approve in advance; provided that the fair market value on the grant date of such award does not exceed \$600,000. Unless the Committee determines

otherwise, the form of the awards will be restricted units with a one year vesting period, and will be granted on the business day following the annual general meeting of shareholders. In addition to the annual awards provided for above, the Committee may, in its discretion, grant additional awards to nonemployee directors or prospective nonemployee directors, provided that in no event will the fair market value on the grant date of such award, when combined with any awards previously granted in the applicable fiscal year, exceed \$600,000 in any fiscal year.

*Substitute Awards.* The Committee may make awards under the Plan to grantees of an acquired company through the assumption of, or in substitution for, outstanding equity-based awards previously granted to the grantees. Unless otherwise agreed, the assumed or substituted awards will be subject to the terms and conditions of the original awards made by the acquired company, with any adjustments that the Committee considers necessary to comply with applicable law or appropriate to give effect to the relevant provisions of any agreement for the acquisition of the acquired company.

*Change in Control.*

For awards granted prior to the date of the Merger, the following applies in connection with a change in control:

- Unless the applicable award certificate provides otherwise, for any participant who incurs a change in control termination, all unvested share options and share appreciation rights will become exercisable as of the later of (a) the effective date of the change in control and (b) the effective date of the change in control termination, and all conditions to vesting will be waived with respect to all other unvested awards that are denominated in shares. in such a case, with respect to long-term performance awards, performance will be deemed to have been achieved at a level of performance, as determined in the sole discretion of the Committee, at the higher of 100% of the participant's target amount and the level of actual performance as of the date of the change in control.
- In addition to the foregoing, no later than 90 days after the date of change in control, the Committee (as constituted prior to the date of change in control) will provide for the following actions to apply to each award that is outstanding as of the date of change in control: (a) an adjustment to such award as the Committee deems appropriate to reflect such change in control, (b) the acquisition of such award, or substitution of a new right therefor, by the acquiring or surviving entity after such change in control, or (c) the purchase of such award for an amount of cash equal to the amount that could have been attained upon the exercise or redemption of such award immediately prior to the change in control had such award been exercisable or payable at such time; subject to certain limitations to promote compliance with Code Section 409A(a)(2).

For awards granted on or after the date of the Merger, the following applies:

- If the participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any subsidiary that discusses the effect of a change in control on the participant's awards, then that agreement will control. In all other cases, unless provided otherwise in an award certificate or by the Committee prior to the date of the change in control, in the event of a change in control:
- If the purchaser, successor or surviving corporation (or parent thereof) (the "Survivor") so agrees, some or all outstanding awards will be assumed, or replaced with the same type of award with similar terms and conditions, by the Survivor in the change in control transaction. If applicable, each award which is assumed by the Survivor will be appropriately adjusted, immediately after such change in control, to apply to the number and class of securities which would have been issuable to the participant upon the consummation of such change in control

had the award been exercised, vested or earned immediately prior to such change in control, and other appropriate adjustments in the terms and conditions of the award will be made.

- To the extent the Survivor in the change in control transaction does not agree to assume the awards or issue replacement awards as provided above, immediately prior to the date of the change in control:
  - (a) Each share option or share appreciation right that is then held by a participant who is employed by or in the service of the Company or a subsidiary will become immediately and fully vested, and, unless otherwise determined by the Board or Committee, all share options and share appreciation right will be cancelled on the date of the change in control in exchange for a cash payment equal to the excess of the change in control price of the shares covered by the share option or share appreciation right that is so cancelled over the purchase or grant price of such shares under the award.
  - (b) All restricted shares, restricted units and deferred share units (that are not short-term performance awards or long-term performance awards) that are not then vested will vest.
  - (c) All short-term performance awards and long-term performance awards that are earned but not yet paid will be paid and all short-term performance awards and long-term performance awards for which the performance period has not expired will be deemed to have been earned in an amount equal to (1) the target value payable to the participant under such award and (2) a fraction, the numerator of which is the number of days after the first day of the performance period on which the change in control occurs and the denominator of which is the number of days in the performance period, and will be cancelled in exchange for a cash payment equal to such earned amount within 30 days of the change in control.
  - (d) All dividend equivalent units that are not vested will vest and be paid in cash, and all other awards that are not vested will vest and if an amount is payable under such vested award, such amount will be paid in cash based on the value of the award.
- In the event that (a) the Survivor terminates the participant's employment or service without cause or (b) if the participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any subsidiary that contemplates the termination of his or her employment or service for good reason, and the participant terminates his or her employment or service for good reason (as defined in such agreement), in the case of either (a) or (b) within 24 months following a change in control, then outstanding awards or replacement awards will generally be subject to either pro rata or fully accelerated vesting and will be canceled in exchange for a cash payment.
- Except as otherwise expressly provided in any agreement between a participant and the Company or a subsidiary, if the receipt of any payment by a participant under the circumstances described above would result in the payment by the participant of any excise tax provided for in Section 280G and Section 4999 of the Code, then the amount of such payment will be reduced to the extent required to prevent the imposition of such excise tax.

*Vesting upon Death, Disability and Retirement.* For awards granted prior to the date of the Merger, unless the applicable award certificate provides otherwise, upon the death or disability of a participant, all unvested awards held by such participant will vest, and with respect to all of a participant's share

options and share appreciation rights, the awards will be exercisable until the earlier of their original expiration date and the date that is three years after the date on which the participant dies or incurs a disability. Unless the applicable award certificate provides otherwise, upon a participant's termination of employment for any reason other than death, disability or due to a change in control, if the participant has attained age 55, and the sum of the participant's age and years of service with the Company is 60 or higher, a pro rata portion of each award granted prior to the date of the Merger held by such participant will vest based on the number of full months of service completed commencing on the grant date of such award and ending on the date of termination of employment divided by the full number of months required to achieve complete vesting. with respect to all of such participant's share options and share appreciation rights, such awards will be exercisable until the earlier of their original expiration date and the date that is three years after the date of termination of employment. For awards granted on or after the date of the Merger, the Committee will determine the effect of the death, disability or termination of employment of a participant on the participant's awards.

*Dividend Equivalents.* At the discretion of the Committee and as set forth in the applicable award certificate, dividends issued on shares may be credited with respect to any award other than a share option or share appreciation right in the form of dividend equivalents. Dividend equivalents will be subject to such vesting and other terms as are determined by the Committee and set forth in the applicable award certificate. Unless the award certificate provides otherwise, for any award that is entitled to dividend equivalents, (a) such dividend equivalent will equal, on a per share basis, the quotient produced by dividing the cash value of the dividend by the fair market value of one share as of the date the dividend is paid, and (b) such dividend equivalent will vest at the same time, and only to the extent that, the underlying award vests (taking into account any applicable performance conditions).

*Transfer.* Awards may not be transferred by a participant other than by will or the laws of descent and distribution. The Committee may permit a participant to transfer an award (other than an incentive share option) to family members, a trust for the benefit of family members and certain family partnerships. Any award so transferred will be subject to the same terms and conditions as the original grant and may be exercised by the transferee only to the extent that the award would have been exercisable or payable in the hands of the participant had no transfer occurred.

*Forfeiture; Clawback.* The Committee may, in its discretion, provide in an award certificate provisions it deems appropriate related to non-competition, non-solicitation, confidentiality, anti-disparagement and similar matters. The Committee may, in its discretion, specify in an award or a policy that will be incorporated into an award agreement by reference, that the participant's rights, payments, and benefits with respect to an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an award. Such events may include, but will not be limited to, termination of employment for cause, termination of the participant's provision of services to the Company or any of its subsidiaries, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the participant, or restatement of the Company's financial statements to reflect adverse results from those previously released financial statements, as a consequence of errors, omissions, fraud, or misconduct. In addition, for awards granted on or after the date of the Merger, (a) any such awards, and any shares issued or cash paid pursuant to such awards, will be subject to (1) any recoupment, clawback, equity holding, share ownership or similar policies adopted by the Company from time to time and (2) any recoupment, clawback, equity holding, share ownership or similar requirements made applicable by law, regulation or listing standards to the Company from time to time, (b) unless the award certificate specifies otherwise, the Committee may cancel any award at any time if the participant is not in compliance with all applicable provisions of the award certificate and the Plan and (c) the Company will have the right to offset, from any amount payable or shares

deliverable hereunder, any amount that the participant owes to the Company or any subsidiary without the consent of the participant or any individual with a right to the participant's award.

*Amendment and Termination.* The Plan may be amended or terminated by the Board at any time without shareholder approval, except that any material revision to the terms of the Plan requires shareholder approval before it can be effective. A revision is "material" for this purpose if it materially increases the number of ordinary shares that may be issued under the Plan (other than an increase pursuant to an "Adjustment," as described above), expands the types of awards under the Plan, materially expands the class of persons eligible to receive awards under the Plan, materially extends the term of the Plan, materially decreases the exercise price at which share options or share appreciation rights may be granted, reduces the exercise price of outstanding share options or share appreciation rights, or results in the replacement of outstanding share options or share appreciation rights with awards that have a lower exercise price, or otherwise requires the consent of shareholders under applicable law, regulation or exchange listing standard. The Board may, in its discretion, amend the Plan to increase the maximum amount of awards that may be granted to a director in any fiscal year. With respect to awards granted prior to the date of the Merger, no amendment of the Plan will adversely affect the rights of any participant with respect to any such outstanding award without the participant's written consent. With respect to awards granted on or after the date of the Merger, the Board or the Committee may amend such awards; provided that no amendment of the Plan or any outstanding award made without the participant's written consent may adversely affect any right of a participant with respect to an outstanding award, except that the Committee need not obtain participant (or other interested party) consent for the modification, amendment or cancellation of an award pursuant to an "Adjustment," as described above, or as follows: (a) to the extent the Committee deems such action necessary to comply with any applicable law or the listing requirements of any principal securities exchange or market on which the shares are then traded; (b) to the extent the Committee deems necessary to preserve favorable accounting or tax treatment of any award for the Company; or (c) to the extent the Committee determines that such action does not materially and adversely affect the value of an award or that such action is in the best interest of the affected participant or any other person(s) as may then have an interest in the award. Unless earlier terminated by the Board, the Plan will automatically terminate on October 1, 2022. No awards may be granted under the Plan after it is terminated, but any previously granted awards will remain in effect until they expire.

## Summary of Federal Income Tax Consequences of Awards

The following is a brief summary of the principal United States federal income tax consequences of the grant, exercise and disposition of awards under the Plan. This summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign tax consequences.

*Nonqualified Share Options and Share Appreciation Rights.* A participant will not recognize any income at the time a nonqualified share option or share appreciation right is granted, nor will the Company be entitled to a deduction at that time. When a nonqualified share option is exercised, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the ordinary shares received as of the date of exercise over the exercise price. When a share appreciation right is exercised, the participant will recognize ordinary income in an amount equal to the cash received or, if the share appreciation right is paid in ordinary shares, the fair market value of the ordinary shares received as of the date of exercise. Payroll taxes are required to be withheld from the participant on the amount of ordinary income recognized by the participant. The Company will be entitled to a tax deduction with respect to a nonqualified share option or share appreciation right at the same time and in the same amount as the participant recognizes income.

*Incentive Share Options ("ISOs").* A participant will not recognize any income at the time an ISO is granted. Nor will a participant recognize any income at the time an ISO is exercised. However, the

excess of the fair market value of the ordinary shares on the date of exercise over the exercise price paid will be a preference item that could create a liability under the alternative minimum tax. If a participant disposes of the ordinary shares acquired on exercise of an ISO after the later of two years after the date of grant of the ISO or one year after the date of exercise of the ISO (the “holding period”), the gain (i.e., the excess of the proceeds received on sale over the exercise price paid), if any, will be long-term capital gain eligible for favorable tax rates. If the participant disposes of the ordinary shares prior to the end of the holding period, the disposition is a “disqualifying disposition”, and the participant will recognize ordinary income in the year of the disqualifying disposition equal to the excess of the lesser of (a) the fair market value of the ordinary shares on the date of exercise or (b) the amount received for the ordinary shares, over the exercise price paid. The balance of the gain or loss, if any, will be long-term or short-term capital gain or loss, depending on how long the ordinary shares were held by the participant prior to disposition. The Company is not entitled to a deduction as a result of the grant or exercise of an ISO unless a participant recognizes ordinary income as a result of a disqualifying disposition, in which case the Company will be entitled to a deduction at the same time and in the same amount as the participant recognizes ordinary income.

*Short-Term and Long-Term Performance Awards.* A participant will not recognize any income at the time a short-term or long-term performance award is granted, nor will the Company be entitled to a deduction at that time. To the extent a short-term or long-term performance award is paid in cash, a participant will recognize compensation income in the year of payment and in the amount of cash payable. To the extent a short-term or long-term performance award is paid in share, a participant will recognize compensation in the year of payment in the amount of the fair market value of the share as of the date of payment. Payroll taxes are required to be withheld on the amount paid. The Company will be entitled to a deduction at the same time and in the same amount as the participant recognizes income.

*Restricted Shares.* A participant will not recognize any income at the time restricted shares are granted, nor will the Company be entitled to a deduction at that time. In the year in which restrictions on restricted shares lapse, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the ordinary shares on the date of vesting over the amount, if any, the participant paid for the ordinary shares. A participant may, however, elect within 30 days after receiving restricted shares to recognize ordinary income in the year of receipt instead of the year of vesting. If an election is made, the amount of income recognized by the participant will be equal to the excess of the fair market value of the ordinary shares on the date of receipt over the amount, if any, the participant paid for the ordinary shares. Payroll taxes are required to be withheld on the income recognized by the participant. The Company will be entitled to a tax deduction at the same time and in the same amount as the participant recognizes income.

*Restricted Units and Deferred Share Units.* A participant will not recognize any income at the time a restricted unit or deferred share unit is granted, nor will the Company be entitled to a deduction at that time. When payment on a restricted unit or deferred share unit is made, the participant will recognize ordinary income in an amount equal to the fair market value of the ordinary shares received. If a restricted unit is paid in cash, the participant will recognize ordinary income in the amount payable. Payroll taxes are required to be withheld on the income recognized by the participant. The Company will be entitled to a tax deduction at the same time and in the same amount as the participant recognizes income.

*Code Section 162(m).* With certain exceptions, Section 162(m) limits the Company’s deduction for compensation in excess of \$1 million paid to covered employees (referred to in the Plan as “Key Employees”). Compensation paid to Key Employees is not subject to the deduction limitation, however, if it is considered qualified “performance-based compensation” within the meaning of Section 162(m). The Plan is designed so that, if shareholders approve the material terms of the performance goals

under the Plan, the Company may elect to qualify certain awards under the Plan as qualified “performance-based compensation.”

*Code Section 409A.* Section 409A of the Code requires acceleration of income and imposes an additional 20% tax, and in some cases an additional tax in the nature of interest, in the case of “non-qualified deferred compensation” arrangement that do not comply with the requirement of Section 409A. Therefore, if any award potentially constitutes non-qualified deferred compensation, it will be necessary that the award be structured to comply with Section 409A to avoid the imposition of additional tax, penalties and interest on the participant.

## New Plan Benefits

We currently cannot determine other awards that may be granted under the Plan in the future to eligible participants. The Committee will make future awards under the Plan in its discretion from time to time, and the benefits received will depend on the amounts awarded and the extent to which performance goals set by the Committee are achieved. The closing price of our ordinary shares on the NYSE was \$41.19 per share on December 30, 2016.

## Equity Compensation Plan Information

The following table provides information as of September 30, 2016 with respect to our ordinary shares issuable under our equity compensation plans:

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders	22,332,233	\$32.07	46,471,348
Equity compensation plans not approved by shareholders	-	-	-
<b>Total</b>	<b><u>22,332,233</u></b>	<b><u>\$32.07</u></b>	<b><u>46,471,348</u></b>

The Board recommends that shareholders vote **FOR** approval of the material terms of the performance goals under the Johnson Controls International plc 2012 Share and Incentive Plan.

## PROPOSAL NUMBER EIGHT – AUTHORIZATION FOR THE DIRECTORS TO ALLOT COMPANY SHARES

Under Irish law, directors of an Irish public limited company must have authority from its shareholders to issue any shares, including shares which are part of the company's authorized but unissued share capital. The Company's current authorization, approved by shareholders at our 2016 Extraordinary General Meeting, is to issue up to 33% of the authorized but unissued share capital of the Company, which authorization will expire on March 8, 2017 - the date of the 2017 Annual General Meeting. We are presenting this proposal to renew the Board's authority to issue authorized but unissued shares on the terms set forth below. If this proposal is not passed, the Company will have a limited ability to issue new ordinary shares.

It is customary practice in Ireland to seek shareholder authority to issue shares up to an aggregate nominal value of up to 33% of the aggregate nominal value of the company's issued share capital and for such authority to be renewed each year. Therefore, in accordance with customary practice in Ireland, we are seeking approval to issue up to a maximum of 33% of our issued ordinary capital for a period expiring on the earlier of the date of the Company's annual general meeting in 2018 or September 8, 2018, unless otherwise varied, revoked or renewed. The Directors of the Company expect to propose renewal of this authorization on a regular basis at the Annual General Meeting in subsequent years.

Granting the Board this authority is a routine matter for public companies incorporated in Ireland and is consistent with Irish market practice. This authority is fundamental to our business and enables us to issue shares, including, if applicable, in connection with funding acquisitions and raising capital. We are not asking you to approve an increase in our authorized share capital or to approve a specific issuance of shares. Instead, approval of this proposal will only grant the Board the authority to issue shares that are already authorized under our Articles of Association upon the terms below. In addition, because we are a NYSE-listed company, our shareholders continue to benefit from the protections afforded to them under the rules and regulations of the NYSE and SEC, including those rules that limit our ability to issue shares in specified circumstances. This authorization is required as a matter of Irish law and is not otherwise required for other companies listed on the NYSE with whom we compete. Accordingly, approval of this resolution would merely place us on par with other NYSE-listed companies.

### Ordinary Resolution

The text of the resolution in respect of Proposal 8 (which is proposed as an ordinary resolution) is as follows:

**"RESOLVED** that the directors be and are hereby generally and unconditionally authorized to exercise all powers to allot and issue relevant securities (within the meaning of section 1021 of the Companies Act 2014) up to an aggregate nominal value of US\$3,050,000 (being equivalent to approximately 33% of the aggregate nominal value of the issued share capital of the Company as at the last practicable date prior to the issue of the notice of this meeting) and the authority conferred by this resolution shall expire on the earlier of the date of the Company's annual general meeting in 2018 or September 8, 2018, unless previously renewed, varied or revoked; provided that the Company may make an offer or agreement before the expiry of this authority, which would or might require any such securities to be allotted after this authority has expired, and in that case, the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired."

As required under Irish law, the resolution in respect of this proposal is an ordinary resolution that requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.

The Board unanimously recommends that shareholders vote **FOR** this proposal.

## PROPOSAL NUMBER NINE – WAIVER OF STATUTORY PRE-EMPTION RIGHTS

Under Irish law, unless otherwise authorized, when an Irish public limited company issues shares for cash to new shareholders, it is required first to offer those shares on the same or more favorable terms to existing shareholders of the company on a pro-rata basis (commonly referred to as the pre-emption right). Our current authorization, approved by shareholders at our 2016 Extraordinary General Meeting, will expire on March 8, 2017 - the date of the 2017 Annual General Meeting. We are therefore proposing to renew the Board's authority to opt-out of the pre-emption right on the terms set forth below.

It is customary practice in Ireland to seek shareholder authority to opt-out of the pre-emption rights provision in the event of the issuance of shares for cash, if the issuance is limited to up to 5% of a company's issued ordinary share capital. It is also customary practice for such authority to be renewed on an annual basis.

Therefore, in accordance with customary practice in Ireland, we are seeking this authority, pursuant to a special resolution, to authorize the directors to issue shares for cash up to a maximum of approximately 5% of the Company's authorized share capital without applying statutory pre-emption rights for a period expiring on the earlier of the Annual General Meeting in 2018 or September 8, 2018, unless otherwise varied, renewed or revoked. We expect to propose renewal of this authorization on a regular basis at our Annual General Meetings in subsequent years.

Granting the Board this authority is a routine matter for public companies incorporated in Ireland and is consistent with Irish customary practice. Similar to the authorization sought for Proposal 8, this authority is fundamental to our business and, if applicable, will facilitate our ability to fund acquisitions and otherwise raise capital. We are not asking you to approve an increase in our authorized share capital. Instead, approval of this proposal will only grant the Board the authority to issue shares in the manner already permitted under our Articles of Association upon the terms below. Without this authorization, in each case where we issue shares for cash, we would first have to offer those shares on the same or more favorable terms to all of our existing shareholders. This requirement could cause delays in the completion of acquisitions and capital raising for our business. This authorization is required as a matter of Irish law and is not otherwise required for other companies listed on the NYSE with whom we compete. Accordingly, approval of this resolution would merely place us on par with other NYSE-listed companies.

### Ordinary Resolution

The text of the resolution in respect of Proposal 9 (which is proposed as a special resolution) is as follows:

**"RESOLVED** that the directors be and are hereby empowered pursuant to section 1023 of the Companies Act 2014 to allot equity securities (as defined in section 1023 of that Act) for cash, pursuant to the authority conferred by proposal 8 of the notice of this meeting as if sub-section (1) of section 1022 of that Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of US\$450,000 (being equivalent to approximately 5% of the aggregate nominal value of the issued share capital of the Company as at the last practicable date prior to the issue of the notice of this meeting) and the authority conferred by this resolution shall expire on the earlier of the Company's annual general meeting in 2018 or March 8, 2018, unless previously renewed, varied or revoked; provided

that the Company may make an offer or agreement before the expiry of this authority, which would or might require any such securities to be allotted after this authority has expired, and in that case, the directors may allot equity securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired."

As required under Irish law, the resolution in respect of Proposal 9 is a special resolution that requires the affirmative vote of at least 75% of the votes cast. In addition, under Irish law, the Board may only be authorized to opt-out of pre-emption rights if it is authorized to issue shares, which authority is being sought in Proposal 8.

The Board unanimously recommends that shareholders vote **FOR** this proposal.

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# GOVERNANCE OF THE COMPANY

## Vision and Values of Our Board

Our vision is a more comfortable, safe, and sustainable world. In addition to achieving financial performance objectives, our Board and management believe that we must assume a leadership position in the area of corporate governance to fulfill our vision. Our Board believes that good governance requires not only an effective set of specific practices but also a culture of responsibility throughout the company, and governance at Johnson Controls is intended to optimize both. Johnson Controls also believes that good governance ultimately depends on the quality of its leadership, and it is committed to recruiting and retaining Directors and officers of proven leadership ability and personal integrity. Our Board has adopted *Corporate Governance Guidelines* which provide a framework for the effective governance of Johnson Controls. These guidelines address matters such as the Board's duties, director independence, director responsibilities, Board structure and operation, director criteria and qualifications, Board succession planning, Board compensation, management evaluation and development, Board orientation and training, Lead Director responsibilities and our *Ethics Policy*. The Governance Committee regularly reviews developments in corporate governance and updates the *Corporate Governance Guidelines* and other governance materials as it deems necessary and appropriate.

## Johnson Controls Values: How We Seek to Conduct Ourselves

- *Integrity First*

*We promise honesty and transparency. We uphold the highest standards of integrity and honor the commitments we make.*

- *Purpose Led*

*We believe in doing well by doing good and hold ourselves accountable to make the world a better place through the solutions we provide, our engagement in society, the way we do business, and our commitment to protect people and the environment.*

- *Customer Driven*

*We win when our customers win. Our long-term strategic relationships provide unique insights and the ability to deliver exceptional customer experiences and solutions.*

- *Future Focused*

*Our culture of innovation and continuous improvement drives us to solve today's challenges while constantly asking 'what's next'*

- *One Team*

*We are one team, dedicated to working collaboratively together to create the purposeful solutions that propel the world forward*

## Board of Directors

### Mission of the Board of Directors: What the Board Intends to Accomplish

The mission of Johnson Controls' Board is to promote the long-term value and health of Johnson Controls in the interests of the shareholders and set an ethical "tone at the top." To this end, the Board provides management with strategic guidance, and also ensures that management adopts and implements procedures designed to promote both legal compliance and the highest standards of honesty, integrity and ethics throughout the organization.

#### Focus Areas of Our Board:

##### **Strategy and Operations:**

Ensuring that processes are in place designed to maintain the integrity and ethical conduct of the Company; reviewing and approving strategic plans and profit plans; reviewing corporate performance and staying apprised of relations with shareholders

##### **Talent:**

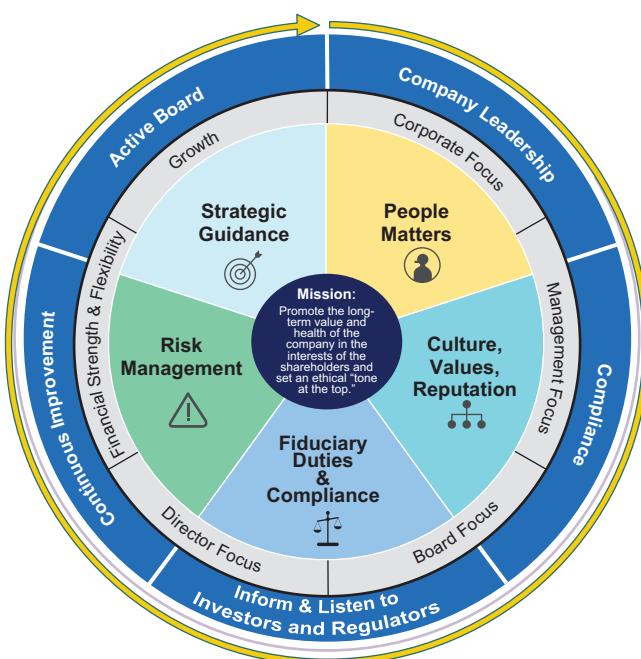
Overseeing and evaluating management's systems and senior management performance and compensation; and providing advice and counsel to senior management and plan for effective succession

##### **Governance and Risk Management:**

Overseeing and evaluating management's systems and processes for the identification, assessment, management, mitigation, and reporting of major risks; establishing corporate governance standards

##### **Board Composition and Effectiveness:**

Recommending candidates to the shareholders for election to the Board; setting standards for Director qualification, orientation and continuing education; reviewing and assessing the Board's leadership structure; and undertaking an annual performance evaluation regarding the effectiveness of the Board



## Board Responsibilities

All corporate authority resides with the Board as fiduciaries of the Company's shareholders, except for those matters reserved to the shareholders. The Board has retained oversight authority—defining and overseeing the implementation of and compliance with standards of accountability and monitoring the effectiveness of management policies and decisions in an effort to ensure that the Company is managed in such a way to achieve its objectives. The board delegates its authority to management for managing the everyday affairs of the company. The board requires that senior management review major actions and initiatives with the board prior to implementation. Management, not the Board, is responsible for managing the Company.

## Board Leadership

The Board's leadership structure generally includes a combined Chairman and CEO role with a strong, independent non-executive lead director. The Board believes our overall corporate governance measures help ensure that strong, independent directors continue to effectively oversee our management and key issues related to strategy, risk and integrity; executive compensation; CEO evaluation; and succession planning. In choosing generally to combine the roles of Chairman and CEO, the Board takes into consideration the importance of in-depth, industry-specific knowledge and a thorough understanding of our business environment and risk management practices in setting agendas and leading the Board's discussions. Combining the roles also provides a clear leadership structure for the management team and serves as a vital link between management and the Board. This allows the Board to perform its oversight role with the benefit of management's perspective on our business strategy and all other aspects of the business. Because our CEO has an in-depth knowledge of the complexity of a large and diversified international company, our businesses and their management structures, and our overall company strategy—all of which are of critical importance to our performance—the Board believes that our CEO generally is best suited to serve as Chairman and help ensure that the independent directors' attention is devoted to the issues of greatest importance to Johnson Controls and our shareholders. Our Board periodically reviews its determination to have a single individual act both as Chairman and CEO.

Johnson Controls continues to have a strong governance structure, which includes:

- a designated lead independent Director with a well-defined role (Mr. Jeff Joerres);
- a Board entirely composed of independent members, with the exception of Messrs. Molinaroli and Oliver;
- annual election of Directors by a majority of votes represented at the Annual General Meeting;
- committees that are entirely composed of independent Directors; and
- established governance and ethics guidelines.

The lead Director acts as an intermediary between the Board and senior management. Among other things, the lead Director's duties include:

- In collaboration with Mr. Molinaroli, developing Board and committee meeting schedules to assure that there is sufficient time for discussion of all agenda items and to ensure that topics deemed important by the independent directors are included in Board discussions and sufficient executive sessions are scheduled as needed;
- Calling meetings of the independent directors;
- Developing the agenda for and chairing executive sessions of independent directors;

- Serving as principal liaison between the independent directors and Mr. Molinaroli on sensitive issues;
- Serving as chairman of meetings of the Board when Mr. Molinaroli is not present;
- In collaboration with Mr. Molinaroli, consulting with the appropriate members of senior management about what information pertaining to the Company's finances, operations, strategic alternatives, compliance and members of management is to be sent to the Board in conjunction with meetings and between meetings; and
- If requested by the Company's major stockholders, making himself reasonably available for direct communication.

## Board Oversight of Risk

The Board's role in risk oversight at Johnson Controls is consistent with Johnson Controls' leadership structure, with management having day-to-day responsibility for assessing and managing Johnson Controls' risk exposure and the Board and its committees providing oversight in connection with those efforts, with particular focus on the most significant risks facing Johnson Controls. The Board performs its risk oversight role in several ways. Board meetings regularly include strategic overviews by the CEO that describe the most significant issues, including risks, affecting Johnson Controls. In addition, the Board is regularly provided with business updates from the leaders of Johnson Controls' business units, and updates from the General Counsel and other functional leaders. The Board reviews the risks associated with Johnson Controls' financial forecasts, business plan and operations. These risks are identified and managed in connection with Johnson Controls' robust enterprise risk management ("ERM") process. The Company's ERM process provides the enterprise with a common framework and terminology to ensure consistency in identification, reporting and management of key risks. It is also directly linked to the strategic planning process, and includes a formal process to identify and document the key risks to Johnson Controls perceived by a variety of stakeholders in the enterprise. The results of the ERM process are presented to the Board at least annually.

The Board has delegated to each of its committees responsibility for the oversight of specific risks that fall within the committee's areas of responsibility. For example:

- The Audit Committee reviews and discusses with management the Company's major financial reporting, tax, accounting, internal controls, information technology and compliance risk exposures and the steps management has taken to monitor and control such exposures;
- The Compensation Committee reviews and discusses with management the extent to which the Company's compensation policies and practices create or mitigate risks for the Company; and
- The Governance Committee reviews and discusses with management the implementation and effectiveness of the Company's corporate governance policies and EHS programs, oversees the ERM process and is deeply involved in key management succession planning.

## Board Capabilities

The Johnson Controls Board as a whole is strong in its diversity, vision, strategy and business judgment. It possesses a robust collective knowledge of management and leadership, business operations, crisis management, risk assessment, industry knowledge, accounting and finance, corporate governance and global markets.

The culture of the Board is such that it can operate swiftly and effectively in making key decisions and facing major challenges. Board meetings are conducted in an environment of trust, open dialogue and mutual respect that encourages constructive commentary. The Board strives to be informed, proactive and vigilant in its oversight of Johnson Controls and protection of shareholder assets.

## Board Committees

To conduct its business the Board maintains three standing committees: Audit, Compensation and Governance, and each of these NYSE required committees are entirely composed of independent Directors. The Board also maintains an Executive Committee comprised of the Chairman, lead Director and each committee chair that meets at least annually to review the Company's retirement plans and other matters as delegated to it by the Board. Assignments to, and chairs of, the Audit and Compensation Committees are recommended by the Governance Committee and selected by the Board. The independent Directors as a group elect the members and the chair of the Governance Committee. All committees report on their activities to the Board.

The lead Director may also convene "special committees" to review discrete matters that require the consideration of a Board committee, but do not fit within the mandate of any of the standing committees. Special committees report their activities to the Board.

To ensure effective discussion and decision making while at the same time having a sufficient number of independent Directors for its three standing committees, the Board is normally constituted of between ten and thirteen Directors. The minimum and maximum number of Directors is set forth in Johnson Controls' Articles of Association.

The Governance Committee reviews the Board's governance guidelines annually and recommends appropriate changes to the Board.

## Board Meetings

The Board meets at least four times annually, and additional meetings may be called in accordance with our Articles of Association. Frequent board meetings are critical not only for timely decisions but also for Directors to be well informed about Johnson Controls' operations and issues. One of these meetings will be scheduled in conjunction with the Annual General Meeting of shareholders and Board members are required to be in attendance at such meeting either in person or by telephone. The lead Director and the chair of the Board are responsible for setting meeting agendas with input from the other Directors.

Committee meetings are normally held in conjunction with Board meetings. Major committee decisions are reviewed and approved by the Board. The Board chair and committee chairs are responsible for conducting meetings and informal consultations in a fashion that encourages informed, meaningful and probing deliberations. Presentations at Board meetings are concise and focused, and they include adequate time for discussion and decision-making. An executive session of independent Directors, chaired by the lead Director, is held at least annually, and in practice at most Board meetings.

Directors receive the agenda and materials for regularly scheduled meetings in advance. Best efforts are made to make materials available as soon as one week in advance, but no later than three days in advance. When practical, the same applies to special meetings of the Board. Directors may ask for additional information from, or meetings with, senior managers at any time.

Strategic planning and succession planning sessions are held annually at a regular Board meeting. The succession planning meeting focuses on the development and succession of not only the CEO but also the other senior executives.

The Board's intent is for Directors to attend all regularly scheduled Board and committee meetings. Directors are expected to use their best efforts to attend regularly scheduled Board and committee meetings in person. All independent Board members are welcome to attend any committee meeting.

## Board and Committee Calendars

A calendar of agenda items for the regularly scheduled Board meetings and all regularly scheduled committee meetings is prepared annually by the chair of the Board in consultation with the lead Director, committee chairs, and all interested Directors.

## Board Communication

Management speaks on behalf of Johnson Controls, and the Board normally communicates through management with outside parties, including shareholders, business journalists, analysts, rating agencies and government regulators. In certain circumstances Directors may also meet with shareholders to discuss specific governance topics. The Board has established a process for interested parties to communicate with members of the Board, including the lead Director. If you have any concern, question or complaint regarding our compliance with any policy or law, or would otherwise like to contact the Board, you can reach the Johnson Controls Board of Directors via email at [directors@johnsoncontrols.com](mailto:directors@johnsoncontrols.com). Shareholders, customers, vendors, suppliers and employees can also raise concerns at <https://www.vitalJohnsonControlsconcerns.com>. Inquiries can be submitted anonymously and confidentially.

All inquiries are received and reviewed by the Office of the Ombudsman. A report summarizing all items received resulting in cases is prepared for the Audit Committee of the Board. The Office of the Ombudsman directs cases to the applicable department (such as customer service, human resources or in the case of accounting or control issues, forensic audit) and follows up with the assigned case owner to ensure that the cases are responded to in a timely manner. The Board also reviews non-trivial shareholder communications received by management through the Corporate Secretary's Office or Investor Relations.

## Board Advisors

The Board and its committees (consistent with the provisions of their respective charters) may retain their own advisors, at the expense of Johnson Controls, as they deem necessary in order to carry out their responsibilities.

## Board Evaluation

The Governance Committee coordinates an annual evaluation process by the Directors of the Board's performance and procedures, as well as that of each committee. This evaluation leads to a full Board discussion of the results. In connection with the evaluation process:

- each Director submits specific written feedback on the Board's performance and Board governance and processes;
- the lead Director and chair of the Governance Committee informally consult with each of the Directors;
- the qualifications and performance of all Board members are reviewed in connection with their re-nomination to the Board;

- the Governance Committee, the Audit Committee and the Compensation Committee each conduct an annual self-evaluation of their performance and procedures, including the adequacy of their charters, and report those results to the Board.

## Board Compensation and Stock Ownership

The Governance Committee periodically reviews the Directors' compensation and recommends changes in the level and mix of compensation to the full Board. See the Compensation Discussion and Analysis for a detailed discussion of the Compensation Committee's role in determining executive compensation.

To help align Board and shareholder interests, Directors are encouraged to own Johnson Controls common stock or its equivalent, with the guideline set at five times the annual cash retainer. Directors are expected to attain this minimum stock ownership guideline within five years of joining the Board. Once a Director satisfies the minimum stock ownership recommendation, the Director will remain qualified, regardless of market fluctuations, under the guideline as long as the Director does not sell any stock. The legacy Tyco directors have met the minimum amount of five times the annual cash retainer. The legacy Johnson Controls directors are each expected to reach the minimum stock ownership level within the recommended time period. Messrs. Molinaroli and Oliver receive no additional compensation for service as a Director.

## Director Independence

To maintain its objective oversight of management, the board consists of a substantial majority of independent directors. Our Board annually determines the independence of each director and nominee for election as a director based on a review of the information provided by the directors and the executive officers, and a survey by our legal and finance departments. The Board makes these determinations under the *NYSE Listed Company Manual's* independence standards and our *Corporate Governance Guidelines*, which are more restrictive than the NYSE independence standards. Independent directors:

- are not former officers or employees of the Johnson Controls or its subsidiaries or affiliates, nor have they served in that capacity within the last five years;
- have no current or prior material relationships with Johnson Controls aside from their directorship that could affect their judgment;
- have not worked for, nor have any immediate family members that have worked for, been retained by, or received anything of substantial value from Johnson Controls aside from his or her compensation as a director;
- have no immediate family member who is an officer of Johnson Controls or its subsidiaries or has any current or past material relationship with Johnson Controls;
- do not work for, nor does any immediate family member work for, consult with, or otherwise provide services to, another publicly traded company on whose board of directors Johnson Controls' CEO or other senior executive serves;
- do not serve as, nor does any immediate family member serve as, an executive officer of any entity with respect to which Johnson Controls' annual sales to, or purchases from, exceed the greater of two percent of either entity's annual revenues for the prior fiscal year or \$1,000,000.

- do not serve, nor does any immediate family member serve, on either the board of directors or the compensation committee of any corporation that employs either a nominee for director or a member of the immediate family of any nominee for director; and
- do not serve, nor does any immediate family member serve, as a director, trustee, executive officer or similar position of a charitable or non-profit organization with respect to which the company or its subsidiaries made charitable contributions or payments in excess of the greater of \$1,000,000 or two percent of such organization's charitable receipts in the last fiscal year.

Directors meet stringent definitions of independence and for those Directors that meet this definition, the Board will make an affirmative determination that a Director is independent. The Board has determined that all of the Director nominees, with the exception of Messrs. Molinaroli and Oliver meet these standards and are therefore independent of the Company.

## Director Service

Directors are elected by an affirmative vote of an absolute majority of the votes represented (in person or by proxy) by shareholders at the Annual General Meeting. They are elected to serve for one-year terms (except in instances where a director is elected during a special meeting), ending after completion of the next succeeding Annual General Meeting. If a Director resigns or otherwise terminates his or her Directorship prior to the next Annual General Meeting, the Board may appoint an interim Director until the next Annual General Meeting. Any nominee for Director who does not receive an affirmative vote of an absolute majority of votes represented (in person or by proxy) by shareholders at the Annual General Meeting is not elected to the Board.

Each Director must offer to resign from the Board at the Annual General Meeting following his or her 72nd birthday. The Board may, in its discretion, waive this limit in special circumstances. The rotation of committee chairs and members is considered on an annual basis to ensure diversity of Board member experience and variety of perspectives across the committees, but there is no strict committee chair rotation policy. Any changes in committee chair or member assignments are made based on committee needs, Director interests, experience and availability, and applicable regulatory and legal considerations. Moreover, the value of rotation is weighed carefully against the benefit of committee continuity and experience.

Directors are also expected to inform the Governance Committee of any significant change in their employment or professional responsibilities and are required to offer their resignation to the Board in the event of such a change. This allows for discussion with the Governance Committee to determine if it is in the mutual interest of both parties for the Director to continue on the Board.

The Governance Committee is responsible for the review of all Directors, and where necessary will take action to recommend to shareholders the removal of a Director for performance, which requires the affirmative vote of a majority of the votes represented (in person or by proxy) at a duly called shareholder meeting.

## Board Tenure

Our directors have served an average of 4 years on our Board, with 7 Directors serving for three years or less and 1 Director serving over ten years. The current short tenure of the majority of our Directors is due to the merger between Johnson Controls, Inc. and a subsidiary of Tyco International plc, with six Directors from Johnson Controls, Inc. joining our board on September 2, 2016. We believe this combination of boards is a positive, with more experienced Directors from each of legacy Johnson Controls and legacy Tyco having a deep knowledge of their respective companies and our newer Directors bringing fresh ideas and perspectives to board discussions. We continually review our board

composition to ensure we maintain the right balance of expertise and diverse viewpoints. We also review our board leadership structure and committee memberships each year, taking into account the guidelines outlined in our Corporate Governance Guidelines.

## Director Orientation and Education

A formal orientation program is provided to new Directors by the Corporate Secretary on Johnson Controls' mission, values, governance, compliance and business operations. In addition, a program of continuing education is annually provided to incumbent Directors, and it includes review of the Company's Ethics Policy. Directors are also encouraged to take advantage of outside continuing education relating to their duties as a Director and to subscribe to appropriate publications at the Company's expense.

## Other Directorships, Conflicts and Related Party Transactions

We recognize the importance of having Directors with significant experience in other businesses and activities; however, Directors are expected to ensure that other commitments, including outside board memberships, do not interfere with their duties and responsibilities as members of the Johnson Controls' Board. In order to provide sufficient time for informed participation in their Board responsibilities non-executive Directors are required to limit their external directorships of other public companies to three and Audit Committee members are required to limit their audit committee membership in other public companies to two. The Board may, in its discretion, waive these limits in special circumstances. When a Director, the CEO or the Chief Operating Officer intend to serve on another board, the Governance Committee is required to be notified. The Governance Committee reviews the possibility of conflicts of interest or time constraints and must approve the officer's or Director's appointment to the outside board. Each Director is required to notify the Corporate Secretary of any conflicts. The CEO may serve on no more than one other public company board. Further, except as contemplated by the CEO succession plan described above, the CEO shall resign or retire from the Board upon resigning or retiring from his role as CEO, following a transition period mutually agreed upon between the CEO and the Compensation Committee.

The company has a formal, written procedure intended to ensure compliance with the related party provisions in our Ethics Policy and with our corporate governance guidelines. For the purpose of the policy, a "related party transaction" is a transaction in which we participate and in which any related party has a direct or indirect material interest, other than ordinary course, arms-length transactions of less than 1% of the revenue of the counterparty. Transactions exceeding the 1% threshold, and any transaction involving consulting, financial advisory, legal or accounting services that could impair a Director's independence, must be approved by our Governance Committee. Any related party transaction in which an executive officer or a Director has a personal interest, or which could present a possible conflict under the Ethics Policy, must be approved by a majority of disinterested directors, following appropriate disclosure of all material aspects of the transaction.

Under the rules of the Securities and Exchange Commission, public issuers such as Johnson Controls must disclose certain "related person transactions." These are transactions in which Johnson Controls is a participant where the amount involved exceeds \$120,000, and a Director, executive officer or holder of more than 5% of our ordinary shares has a direct or indirect material interest. Although Johnson Controls engaged in commercial transactions in the normal course of business with companies where Johnson Controls' Directors were employed and served as officers, none of these transactions exceeded 1% of Johnson Controls' gross revenues and these transactions are not considered to be related party transactions.

## Ethics Policy

We have adopted the Ethics Policy, which applies to all employees, officers, and Directors of Johnson Controls. The Ethics Policy meets the requirements of a “code of ethics” as defined by Item 406 of Regulation S-K and applies to our CEO, Chief Financial Officer and Chief Accounting Officer, as well as all other employees. The Ethics Policy also meets the requirements of a code of business conduct and ethics under the listing standards of the NYSE. The Ethics Policy is posted on our website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) under the heading “About—Ethics and Compliance.” We will also provide a copy of the Ethics Policy to shareholders upon request. We disclose any amendments to the Ethics Policy, as well as any waivers for executive officers or Directors on our website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) under the heading “About Us —Ethics and Compliance.” The Board of Directors annually certifies their compliance with the Ethics Policy. The Company maintains established procedures by which employees may anonymously report a possible violation of the Ethics Policy. The Audit Committee maintains procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters. The Audit Committee also maintains procedures for employees to report concerns regarding questionable accounting or auditing policies or practices on a confidential, anonymous basis.

## Nomination of Directors and Board Diversity

The Governance Committee, in accordance with the Board’s governance principles, seeks to create a Board that as a whole is strong in its collective knowledge and has a diversity of skills and experience with respect to vision and strategy, management and leadership, business operations, business judgment, crisis management, risk assessment, industry knowledge, accounting and finance, corporate governance and global markets. The Johnson Controls Board does not have a specific policy regarding diversity. Instead, the Governance Committee considers the Board’s overall composition when considering a potential new candidate, including whether the Board has an appropriate combination of professional experience, skills, knowledge and variety of viewpoints and backgrounds in light of Johnson Controls’ current and expected future needs. In addition, the Governance Committee believes that it is desirable for new candidates to contribute to a variety of viewpoints on the Board, which may be enhanced by a mix of different professional and personal backgrounds and experiences. The Governance Committee periodically reviews these criteria and qualifications to determine any need to revise such criteria and qualifications based upon corporate governance best practices and Johnson Controls’ needs at the time of the review.

General criteria for the nomination of Director candidates include:

- the highest ethical standards and integrity;
- a willingness to act on and be accountable for Board decisions;
- an ability to provide wise, informed and thoughtful counsel to top management on a range of issues;
- a history of achievement that reflects superior standards for themselves and others;
- loyalty and commitment to driving the success of the Company;
- an ability to take tough positions while at the same time working as a team player; and
- individual backgrounds that provide a portfolio of experience and knowledge commensurate with the Company’s needs.

The Company also strives to have all non-employee Directors be independent. In addition to having such Directors meet the NYSE definition of independence, the Board has set its own more rigorous standard of independence. The Governance Committee must also ensure that the members of the Board as a group maintain the requisite qualifications under NYSE listing standards for populating the Audit, Compensation and Governance Committees. In addition, the Governance Committee ensures that each member of the Compensation Committee is a “Non-Employee” Director as defined in the Securities Exchange Act of 1934 and is an “outside director” as defined in section 162(m) of the U.S. Code.

As provided in its charter, the Governance Committee will consider Director candidates recommended by shareholders. To recommend a Director candidate, a shareholder should write to Johnson Controls’ Secretary at Johnson Controls’ current registered address: One Albert Quay, Cork, Ireland. Such recommendation must include:

- the name and address of the candidate;
- a brief biographical description, including his or her occupation for at least the last five years, and a statement of the qualifications of the candidate, taking into account the qualification requirements set forth above;
- the candidate’s signed consent to serve as a Director if elected and to be named in the proxy statement;
- evidence of share ownership of the person making the recommendation; and
- all of the information required by Article 62 of our Memorandum and Articles of Association to be included in notices for any nomination by a shareholder of an individual for election to the Board.

The recommendation must also follow the procedures set forth in Articles 54—68 of our Memorandum and Articles of Association to be considered timely and complete in order to be considered for nomination to the Board.

To be considered by the Governance Committee for nomination and inclusion in the Company’s proxy statement for the 2017 Annual General Meeting, shareholder recommendations for Director must be received by Tyco’s Corporate Secretary no later than September 22, 2017. Once the Company receives the recommendation, the Company may deliver a questionnaire to the candidate that requests additional information about the candidate’s independence, qualifications and other information that would assist the Governance Committee in evaluating the candidate, as well as certain information that must be disclosed about the candidate in the Company’s proxy statement, if nominated. Candidates must complete and return the questionnaire within the time frame provided to be considered for nomination by the Governance Committee. No candidates were recommended by shareholders in connection with the Annual General Meeting.

The Governance Committee employs an unrelated search firm to assist the Committee in identifying candidates for Director when a vacancy occurs. The Committee also receives suggestions for Director candidates from Board members. All of our nominees for Director are current members of the Board. In evaluating candidates for Director, the Committee uses the qualifications described above, and evaluates shareholder candidates in the same manner as candidates from all other sources. Based on the Governance Committee’s evaluation of the current Directors, each nominee was recommended for election.

## For More Information

We believe that it is important that Johnson Controls' stakeholders and others are able to review its corporate governance practices and procedures. Our corporate governance guidelines are embodied in a formal document that has been approved by Johnson Controls' Board of Directors. It is available on our website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) under the heading "Investors-Corporate Governance." We will also provide a copy of the corporate governance principles to shareholders upon request. Our corporate governance guidelines and general approach to corporate governance as reflected in our memorandum and articles of association and our internal policies and procedures are guided by U.S. practice and applicable federal securities laws and regulations and NYSE requirements. Although we are an Irish public limited company, we are not subject to, nor have we adopted, the U.K. Corporate Governance Code or any other non-statutory Irish or U.K. governance standards or guidelines. While there are many similarities and overlaps between the U.S. corporate governance standards applied by us and the U.K. Corporate Governance Code and other Irish/U.K. governance standards or guidelines, there are differences, in particular relating to the extent of the authorization to issue share capital and effect share repurchases that may be granted to the Board and the criteria for determining the independence of directors.

## COMPENSATION OF NON-EMPLOYEE DIRECTORS

Director compensation for fiscal 2016 through September 8, 2016 for non-employee directors consisted of an annual cash retainer of \$110,000 and restricted stock units (“RSUs”) with a grant date value of approximately \$140,000 and a one-year vesting term. On September 8, 2016, these amounts were increased to \$120,000 for the annual cash retainer and \$155,000 for the grant date value of RSUs. The Lead Director received an additional \$30,000 and the chairs of each of standing committees (other than the Lead Director) received an additional fee of \$25,000. In addition, any member of a special committee of the Board receives meeting fees in an amount of \$1,500 per day (\$750 for telephonic meetings) for each special committee meeting that he or she attends. A Director who is also an employee receives no additional remuneration for services as a Director.

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
<b><i>Current Directors</i></b>				
Mr. David Abney	\$ 9,130	\$ -	\$ -	\$ 9,130
Ms. Natalie Black (GC)	\$ 11,033	\$ -	\$ -	\$ 11,033
Mr. Michael E. Daniels	\$ 122,938	\$ 140,015	\$ -	\$ 262,953
Mr. Juan Pablo del Vale Perochena	\$ 9,130	\$ -	\$ -	\$ 9,130
Mr. Brian Duperreault	\$ 154,771	\$ 140,015	\$ -	\$ 294,786
Mr. Jeffrey Joerres (L)(CC)	\$ 12,174	\$ -	\$ -	\$ 12,174
Mr. Jürgen Tinggren (AC)	\$ 124,840	\$ 140,015	\$ -	\$ 264,855
Mr. Mark Vergnano	\$ 11,033	\$ -	\$ -	\$ 11,033
Mr. R. David Yost	\$ 118,067	\$ 140,015	\$ 5,000	\$ 263,082
<b><i>Former Directors</i></b>				
Mr. Edward D. Breen	\$ 123,471	\$ 140,015	\$ 72,091	\$ 335,577
Mr. Herman E. Bulls	\$ 101,630	\$ 140,015	\$ 14,903	\$ 256,548
Mr. Frank M. Drendel	\$ 101,630	\$ 140,015	\$ 10,000	\$ 251,645
Mr. Rajiv L. Gupta	\$ 112,550	\$ 140,015	\$ -	\$ 252,565
Mr. Brendan R. O'Neill	\$ 112,550	\$ 140,015	\$ -	\$ 252,565
Ms. Sandra S. Wijnberg	\$ 101,630	\$ 140,015	\$ 15,000	\$ 256,645

(L)= Lead Director

(AC)= Audit Committee Chair

(CC)= Compensation Committee Chair

(GC)= Governance Committee Chair

- (1) Fees are pro rated for the change in compensation described above.
- (2) This column reflects the fair value of the entire amount of awards granted to Directors calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 718, excluding estimated forfeitures. The fair value of RSUs is computed by multiplying the total number of shares subject to the award by the closing market price of the Company's ordinary shares on the date of grant. RSUs granted to Board members generally vest and the underlying units are converted to shares and delivered to Board members on the anniversary of the grant date.
- (3) All other compensation includes the aggregate value of all matching charitable contributions made by the Company on behalf of the Directors during the fiscal year for Messrs. Bulls, Drendel and Yost and Ms. Wijnberg. In calendar 2016, the Company matched the contributions of Directors made to qualifying charities up to a maximum of \$10,000. The amount reported for Mr. Breen, related to his role as a former employee, reflects a tax gross-up reimbursement (related to compensation awarded to him prior to January 1, 2009) of state taxes owed by him to New York for legacy Tyco work performed in that State. The amount related to state taxes for Mr. Breen for fiscal 2016 is an estimate, pending receipt of the relevant personal state tax return information for calendar year 2016. This estimate is based primarily on amounts realized by Mr. Breen in fiscal 2016 that is deemed by New York State to have been earned by Mr. Breen in New York prior to 2009. Mr. Breen waived the New York tax gross-up with respect to compensation award after January 1, 2009.

## Charitable Contributions

The Board understands that its members, or their immediate family members, serve as directors, trustees, executives, advisors and in other capacities with a host of other organizations. If Johnson Controls directs a charitable donation to an organization in which a Johnson Controls Director, or their immediate family member, serves as a director, trustee, executive, advisor, or in other capacities with the organization, the Board must approve the donation. Any such donation approved by the Board will be limited to an amount that is less than 2% of that organization's annual charitable receipts, and less than 2% of Johnson Controls' total annual charitable contributions. In line with its matching gift policy for employees, going forward Johnson Controls will make an annual matching gift of up to \$5,000 for each Director to qualifying charities.

## COMMITTEES OF THE BOARD

The table below sets forth committee membership as of the end of fiscal year 2016 and meeting information for each of the Board Committees.

Name	Audit	Governance	Compensation	Executive	Date Elected/ Appointed to Board
Mr. David Abney	X				9/2/2016
Ms. Natalie Black		X(C)		X	9/2/2016
Mr. Michael E. Daniels			X		3/10/2010
Mr. Juan Pablo del Vale Perochena	X				9/2/2016
Mr. Brian Duperreault		X			3/25/2004
Mr. Jeffrey Joerres (LD)			X(C)	X	9/2/2016
Mr. Jürgen Tinggren		X(C)		X	3/5/2014
Mr. Mark Vergnano	X				9/2/2016
Mr. R. David Yost			X		3/12/2009
Number of Meetings During Fiscal Year 2016	10	5	11	-	

(L) = Lead Director

(C) = Committee Chair

During fiscal 2016, the full Board met seven times. All of our Directors attended at least 90% of the meetings of the Board and the committees on which they served in fiscal 2016. The Board's governance principles provide that Board members are expected to attend each Annual General Meeting in person or by phone. At the 2016 Annual General Meeting, all of our current Board members who were Board members at such time were in attendance.

**Audit Committee.** The Audit Committee monitors the integrity of Johnson Controls' financial statements, the independence and qualifications of the independent auditors, the performance of Johnson Controls' internal auditors and independent auditors, Johnson Controls' compliance with legal and regulatory requirements and the effectiveness of Johnson Controls' internal controls. The Audit Committee is also responsible for retaining, subject to shareholder approval, evaluating, setting the remuneration of, and, if appropriate, recommending the termination of Johnson Controls' auditors. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Securities

Exchange Act of 1934, as amended. The Audit Committee operates under a charter approved by the Board. The charter is posted on Johnson Controls' website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) and we will provide a copy of the charter to shareholders upon request. The current members of the Audit Committee are Messrs. Tinggren, Abney and Vergnano, each of whom is independent under NYSE listing standards and SEC rules for audit committee members. Mr. Tinggren is the chair of the Audit Committee. The Board has determined that each of Messrs. Tinggren, Abney and Vergnano is an audit committee financial expert.

**Governance Committee.** The Governance Committee is responsible for identifying individuals qualified to become Board members, recommending to the Board the Director nominees for the Annual General Meeting, developing and recommending to the Board a set of corporate governance principles, and playing a general leadership role in Johnson Controls' corporate governance. In addition, the Governance Committee oversees our environmental, health and safety management system and enterprise risk assessment activities. The Governance Committee operates under a charter approved by the Board. The charter is posted on Johnson Controls' website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) and we will provide a copy of the charter to shareholders upon request. The current members of the Governance Committee are Ms. Black and Messrs. Duperreault and del Valle Perochena, each of whom is independent under NYSE listing standards. Ms. Black chairs the Governance Committee.

**Compensation Committee.** The Compensation Committee reviews and approves compensation and benefits policies and objectives, determines whether Johnson Controls' officers, Directors and employees are compensated according to these objectives, and assists the Board in carrying out certain of its Board's responsibilities relating to the compensation of Johnson Controls' executives. The Compensation Committee operates under a charter approved by the Board. The charter is posted on Johnson Controls' website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) and we will provide a copy of the charter to shareholders upon request. The current members of the Compensation Committee are Messrs. Joerres, Daniels and Yost. Mr. Joerres is the chair of the Compensation Committee as well as our independent lead director. The Board of Directors has determined that each of the members of the Compensation Committee is independent under NYSE listing standards. In addition, each member is a "Non-Employee" Director as defined in the Securities Exchange Act of 1934 and is an "outside director" as defined in section 162(m) of the U.S. Code. For more information regarding the Compensation Committee's roles and responsibilities, see the Compensation Discussion and Analysis.

**Executive Committee.** The Executive Committee assists the Board in fulfilling its oversight responsibility with its review and monitoring of major corporate actions including external corporate development activities, business portfolio optimization, capital appropriations and capital expenditures. The Executive Committee was established in September of 2016 and operates under a charter approved by the Board. The charter is posted on Johnson Controls' website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com) and we will provide a copy of the charter to shareholders upon request. The current members of the Executive Committee were Messrs. Molinaroli, Joerres, Tinggren and Ms. Black. Mr. Molinaroli is the chair of the Executive Committee.

## Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee during fiscal 2016 or as of the date of this proxy statement is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company's Compensation Committee or Board of Directors.

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# COMPENSATION DISCUSSION & ANALYSIS

## EXECUTIVE SUMMARY

On September 2, 2016, Johnson Controls, Inc. and Tyco International plc combined to create Johnson Controls International plc (“Johnson Controls” or the “Company”), a global leader in building products and technology, integrated solutions and energy storage. We refer to this transaction throughout this CD&A as the “Merger.” Our newly combined organization’s executive compensation programs are designed to provide competitive total rewards while aligning executive interests to those of our shareholders.

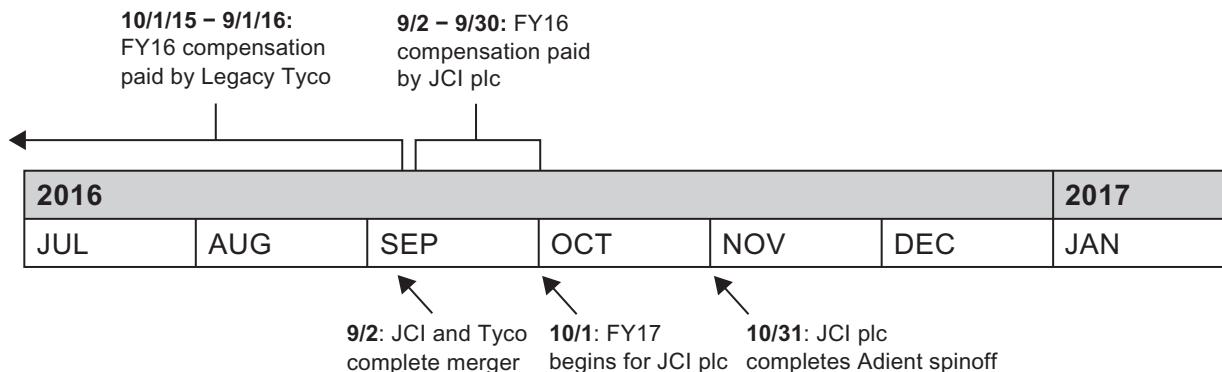
Going forward, the following philosophy will guide the development, review and approval of the compensation for our executive officers:

Objectives	Philosophy
<p>Our executive compensation program is designed to:</p> <ul style="list-style-type: none"><li>● Build long-term shareholder value</li><li>● Deliver sustained, strong business and financial results</li><li>● Attract, motivate and retain a highly qualified and effective executive team</li></ul>	<p>Our executive compensation philosophy is built on several principles:</p> <ul style="list-style-type: none"><li>● Align compensation with shareholder interests</li><li>● Avoid excessive risk-taking</li><li>● Pay for performance (both company and individual)</li><li>● Focus on the long term</li><li>● Align compensation to market; targeting the 50<sup>th</sup> percentile</li><li>● Provide an appropriate pay mix, with an increase in at-risk and performance-based compensation as executive responsibilities increase</li></ul>

### Important Information to Know When Reading this CD&A

Due to the Merger, this compensation discussion and analysis (CD&A) includes information related to individuals who were executives of Tyco International plc (which we refer to as “Legacy Tyco”, and which individuals we refer to as “Legacy Tyco NEOs”) and Johnson Controls, Inc. (which we refer to as “Legacy Johnson Controls”, and which individuals we refer to as “Legacy Johnson Controls NEOs”) prior to the Merger. Because Tyco was the legal acquirer of Legacy Johnson Controls, the compensation of Legacy Tyco NEOs for periods prior to and after the Merger is discussed and analyzed. The compensation of Legacy Johnson Controls NEOs is discussed and analyzed for periods subsequent to the Merger (September 2 – September 30, 2016). Therefore, this CD&A primarily addresses Legacy Tyco programs and the decisions made by the Legacy Tyco Compensation Committee. Where necessary, we have also described Legacy Johnson Controls programs and the decisions made by the Legacy Johnson Controls Compensation Committee. We also provide a discussion and analysis of the Johnson Controls International plc executive

compensation programs going forward, which reflect the decisions made by the Johnson Controls International plc Compensation Committee subsequent to the Merger.



The following individuals are our named executive officers (or "NEOs") for 2016:

NEO	Position in Johnson Controls International plc	Previous Position in Legacy Company
<b>Alex A. Molinaroli</b>	Chairman of the Board & Chief Executive Officer ("CEO")	Legacy Johnson Controls Chairman of the Board, President & CEO
<b>George R. Oliver</b>	President and Chief Operating Officer ("COO")	Legacy Tyco CEO
<b>Brian Stief</b>	Executive Vice President & Chief Financial Officer	Legacy Johnson Controls Executive Vice President & Chief Financial Officer
<b>Bruce McDonald<sup>1</sup></b>	N/A	Legacy Johnson Controls Executive Vice President & Vice Chairman
<b>Judy Reinsdorf</b>	Executive Vice President & General Counsel	Legacy Tyco Executive Vice President & General Counsel
<b>William Jackson</b>	Vice President & President Global Products—Building Technologies & Solutions	Legacy Johnson Controls Vice President & President—Building Efficiency
<b>Robert E. Olson<sup>2</sup></b>	Transition role	Legacy Tyco Executive Vice President & Chief Financial Officer
<b>Arun Nayar<sup>2</sup></b>	N/A	Legacy Tyco Executive Vice President & Chief Financial Officer

<sup>1</sup> Mr. McDonald became the Chairman and CEO of Adient upon its spinoff from Johnson Controls International plc on October 31, 2016.

<sup>2</sup> Mr. Olson is expected to remain with the Company for a six month transition period following completion of the Merger. Mr. Nayar was Legacy Tyco's Executive Vice President and Chief Financial Officer through November 13, 2015, at which time he was succeeded by Mr. Olson, and left Legacy Tyco on December 31, 2015.

## 2016 Business Performance

2016 was a year of transformation for Johnson Controls. It was truly a momentous year in which a new Johnson Controls emerged as the global leader in building technologies, integrated solutions and

energy storage. We believe the Company is well-positioned strategically for long term success and to operationally deliver strong growth and profitability in 2017. During 2016, the Company successfully executed on several actions to improve long-term shareholder value, including:

- Formation of the Hitachi joint venture on October 1, 2015,
- Completion of the Merger with Tyco on September 2, 2016,
- Completion of the Separation of the Automotive Experience business creating Adient (NYSE: ADNT) on October 31, 2016.

At the same time, the Company exceeded external commitments for fiscal 2016. For the full year, Johnson Controls reported \$37.7 billion in sales, segment EBIT of \$3.0 billion and a GAAP net loss from continuing operations of \$868 million, which includes one month of Legacy Tyco results as well as several special items. GAAP diluted loss per share from continuing operations for the year was \$1.30 compared to earnings per share from continuing operations of \$2.18 in the prior year.

Adjusting for special items and excluding the Legacy Tyco results, non-GAAP adjusted diluted earnings per share\* from continuing operations increased 16 percent to \$3.98 from \$3.42 in the prior year. Financial highlights from continuing operations for the full year include:

- Adjusted net sales\* of \$36.9 billion versus \$37.2 billion in the prior year. Increased volume and incremental sales from the Hitachi joint venture were more than offset by the impact of the Automotive Interiors deconsolidation. Excluding the impact of these items and foreign exchange, adjusted sales increased 1 percent.
- Adjusted segment EBIT\* of \$3.7 billion compared with \$3.2 billion in the prior year, up 16 percent. Excluding the impact of the Hitachi joint venture, foreign exchange and the Automotive Interiors deconsolidation, adjusted segment EBIT increased 9 percent.
- Adjusted segment EBIT\* margin of 10.1 percent was 150 basis points higher than the prior year.
- Adjusted diluted EPS\* of \$3.98 exceeded original 2016 guidance of \$3.70 to \$3.90.

While the macro-economic environment in fiscal 2016 remained challenging in some key markets, each of the Company's businesses generated profit and margin improvements. We believe the performance of the executive officers named in this proxy statement has positioned the Company to continue to deliver strong financial results in fiscal 2017 and beyond. We believe the Company has the financial capability to invest strategically in our businesses and to generate increased shareholder value.

\* Represents Non-GAAP financial measures. See reconciliation to GAAP metrics in Annex I

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## Our Future Together

The merger of Legacy Johnson Controls and Legacy Tyco has brought together best-in-class product, technology and service capabilities across controls, fire, security, HVAC, power solutions and energy storage. Going forward, the new Johnson Controls will link complementary branch networks and independent channels to drive global growth, enhancing the revenue and earnings growth profile of two established businesses. We are confident that the integration will create a world leader in buildings and energy, uniquely positioned to deliver superior value to customers, employees and shareholders through a powerful strategic combination.

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## Compensation Discussion & Analysis

### Program Details

#### Impact of the Merger on Compensation

The completion of the Merger was an event that had an outsized effect on the reported compensation of our named executive officers in fiscal 2016. As described in more detail below, in connection with the Merger, we entered into new employment contracts with Alex Molinaroli, formerly Legacy Johnson Control's Chairman, President and CEO, and with George Oliver, formerly Legacy Tyco's CEO. These agreements implement the CEO succession plan announced at the time of the Merger, which provides that Mr. Molinaroli will serve as Chairman and CEO, and Mr. Oliver will serve as President and COO, until the 18-month anniversary of the Merger (or such earlier time that Mr. Molinaroli ceases to be CEO), at which time Mr. Oliver will succeed Mr. Molinaroli as our CEO. At that time, Mr. Molinaroli will become our Executive Chairman, with the executive functions set forth in his employment agreement, and will serve in such role for 12 months. Following such 12-month period (or such earlier time that Mr. Molinaroli ceases to be Executive Chairman), Mr. Oliver will become Chairman and continue as our CEO. We refer to the 30-month period described above as the "Succession Period." ***If the succession plan proceeds as planned, we do not expect to make any severance payment to either Mr. Molinaroli or Mr. Oliver in connection with the Merger.*** Each of Messrs. Molinaroli's and Oliver's employment agreements are described in more detail below.

The Merger also had a significant impact on key elements of the compensation of our named executive officers, as described below:

#### Legacy Tyco Base Salary

Prior to the Merger, there were no changes to base salary for any of the Legacy Tyco NEOs. Mr. Oliver's and Ms. Reinsdorf's base salaries were increased upon the completion of the Merger because these individuals accepted positions within the new company. Such increases were based on market pay and assessments of the individuals' capabilities and performance.

#### Annual Incentive Performance Programs

Under the terms of Legacy Tyco's 2012 Stock and Incentive Plan, as of the date of the Merger, each Legacy Tyco NEO (other than Mr. Nayar) became entitled to receive 100% of his or her target annual bonus for the fiscal 2016 plan year. As discussed in more detail below, Legacy Johnson Controls NEOs received annual incentive payments based on Legacy Johnson Controls results through the end of fiscal 2016 (excluding any contribution from Legacy Tyco).

#### Treatment of Long-Term Incentives for Legacy Tyco

##### ***ADJUSTMENT OF RESTRICTED STOCK UNITS (RSU) AND SHARE OPTIONS***

In connection with the Merger, the exercise price of, and number of shares subject to, each share option award held by a Legacy Tyco NEO was adjusted to take into account the 0.955-for-one share consolidation applicable to Legacy Tyco ordinary shares that occurred immediately prior to the Merger. The adjustment was done in a manner intended to preserve the aggregate intrinsic value of the original share option award—as measured immediately before and immediately after the Merger, subject to rounding. Likewise, the number of shares subject to each restricted share unit award was adjusted in a

manner intended to preserve the aggregate intrinsic value of the original Legacy Tyco restricted share unit award as measured immediately before and immediately after the Merger, subject to rounding. Each adjusted award otherwise remained subject to the same terms and conditions that applied to the original Legacy Tyco award immediately prior to the Merger, except that for share options, in the event of certain qualifying termination events, the options will remain outstanding until the earlier of (i) the original expiration date or (ii) three years from the effective date of such qualifying termination.

#### ***ADJUSTMENT OF PERFORMANCE SHARE UNITS***

Each Legacy Tyco performance share unit held by a Legacy Tyco NEO was also adjusted for the share consolidation in a manner intended to preserve the aggregate intrinsic value of the original performance share unit award as measured immediately before and immediately after the Merger, subject to rounding. In addition, in accordance with the terms and conditions applicable to each award, performance under each performance share unit award was deemed by the Legacy Tyco Compensation Committee to have been achieved at the target level for each outstanding award as of the date of the Merger. As a result, each outstanding Legacy Tyco performance share unit was effectively converted on the Merger date into a restricted share unit of the Company with the same terms and conditions (excluding performance conditions) as applied to the Legacy Tyco performance share unit award as of immediately prior to the Merger, including accelerated vesting upon specified qualifying terminations of employment.

#### ***Treatment of Long-Term Incentive Performance Program (LTIPP) Awards for Legacy Johnson Controls***

##### ***STOCK OPTIONS, STOCK APPRECIATION RIGHTS (SAR), RESTRICTED STOCK AWARDS (RSA), RESTRICTED STOCK UNITS (RSU)***

Each equity award (option, SAR, RSA or RSU) of Legacy Johnson Controls common stock that was outstanding and unexercised as of immediately prior to the merger was assumed by the Company and converted into an option, SAR, RSA, RSU in respect of a number of Company ordinary shares equal to the number of shares of Legacy Johnson Controls common stock subject to such Johnson Controls equity award. The exercise price per Company ordinary share was equal to the exercise price per share of Legacy Johnson Controls common stock of such Johnson Controls equity award. Each equity award as so assumed and converted continues to have, and will be subject to, the same terms and conditions as applied to the Legacy Johnson Controls equity award immediately prior to the Merger, including accelerated vesting upon specified qualifying terminations of employment (other than Legacy Johnson Controls restricted stock awards granted under the Johnson Controls, Inc. 2001 Restricted Stock Plan, which vested upon consummation of the merger).

##### ***PERFORMANCE SHARE UNITS (PSU)***

Each Legacy Johnson Controls PSU award that was outstanding as of immediately prior to the Merger was assumed by the Company and converted into a restricted share unit award of the Company with respect to a number of Company ordinary shares equal to the number of shares of Legacy Johnson Controls common stock subject to such Legacy Johnson Controls performance share unit award (based upon the actual performance for the award for the performance period of fiscal years 2014 to 2016, and disregarding 2017 fiscal year performance for the performance period of fiscal years 2015 to 2017). The charts below summarize the performance payout factor.

FY 2014 – FY 2016 Legacy Johnson Controls LTIPP Award Payout Factor

Fiscal Year	Pre-Tax Earnings Growth Target	Pre-Tax Earnings Growth Actual	ROIC Target	ROIC Actual	Performance Factor (percentage of target)	Annual Weighting	Annual Weighted Performance
2016	6.5%	14.1%	20.5%	24.3%	196.0%	1/3	65.3%
2015	6.5%	14.6%	19.9%	23.6%	200.0%	1/3	66.7%
2014	10.0%	21.0%	18.9%	19.8%	200.0%	1/3	66.7%
<b>Actual LTIPP Payout for 2014-2016 Performance Cycle</b>							<b>198.7%</b>

FY 2015 – FY 2017 Legacy Johnson Controls LTIPP Award Payout Factor

Fiscal Year	Pre-Tax Earnings Growth Target	Pre-Tax Earnings Growth Actual	ROIC Target	ROIC Actual	Performance Factor (percentage of target)	Annual Weighting	Annual Weighted Performance
2016	6.5%	15.9%	20.1%	23.1%	200.0%	1/2	100.0%
2015	8.0%	14.4%	18.6%	21.5%	200.0%	1/2	100.0%
<b>Actual LTIPP Payout for 2015-2017 Performance Cycle</b>							<b>200.0%</b>

The Legacy Johnson Controls LTIPP Awards were based on the financial metrics described below.

**Performance Measure Definitions**

**Year-over-Year Pre-Tax Earnings**

We define pre-tax earnings as income before income taxes, adjusted for certain significant special items, such as transaction/integration/separation costs, acquisitions/divestitures, impairment charges, restructuring costs, and the adoption of new accounting pronouncements, all as reflected in our audited financial statements that appear in our Annual Report on Form 10-K.

**Return on Invested Capital (ROIC)**

We define ROIC as income before income taxes adjusted for certain significant special items, such as transaction/integration/separation costs, acquisitions/divestitures, impairment charges, restructuring costs, and the adoption of new accounting pronouncements, divided by pre-tax invested capital. Pre-tax invested capital is defined as the monthly weighted average sum of shareholders equity plus total debt, less cash and income tax accounts, adjusted for acquisitions/divestitures and other special items

**QUANTIFICATION OF PAYMENTS**

Under the Legacy Johnson Controls 2012 Omnibus Incentive Plan (the “Johnson Controls Omnibus Plan”), Legacy Johnson Controls equity awards that were assumed by the Company will vest if a Legacy Johnson Controls NEO’s employment is terminated by the Company without cause or by the executive officer with good reason, during a specified period following a change of control. As described below, the Merger has been deemed to constitute a “change of control” for purposes of the Legacy Johnson Controls equity awards described above.

## Molinaroli Amended and Restated Employment Agreement

Mr. Molinaroli's amended and restated change of control employment agreement, dated as of January 24, 2016 and amended as of April 1, 2016 (referred to as the "amended Molinaroli change of control agreement"), sets forth the terms of his employment during the Succession Period. The amended Molinaroli change of control agreement supersedes his employment agreement with Legacy Johnson Controls that was in effect prior to the Merger. Pursuant to the amended Molinaroli change of control agreement, Mr. Molinaroli agreed to the terms of the succession plan described above, including his transition from Chief Executive Officer to Executive Chairman no later than 18 months following the completion of the Merger. **As a result, if the succession plan proceeds as planned, we do not expect to make any severance payment to Mr. Molinaroli in connection with the Merger.**

Under the terms of the amended Molinaroli change of control agreement, the Merger has been deemed to constitute a change of control, although the provisions of the agreement related to guaranteed continued compensation do not apply in respect of the change of control triggered by the Merger (other than with respect to base salary). In addition, the amended Molinaroli change of control agreement provides that, in addition to the events constituting "good reason" as described in the agreement, a failure by the Company to provide target incentive compensation opportunities at least as favorable as those provided immediately prior to the closing of the Merger, or a failure to provide perquisites at least as favorable as those provided to similarly situated executives of the Company from time to time, will provide a basis for Mr. Molinaroli to terminate employment for "good reason" under the agreement.

In addition, the amended Molinaroli change of control agreement provided for a restricted share unit award of the Company having an aggregate grant date fair value equal to \$20 million, which the Company granted on September 8, 2016. The restricted share unit award will vest at the end of the Succession Period (i.e., on the date that is 30 months following the closing of the Merger), subject to Mr. Molinaroli's continued employment through such date and to accelerated vesting only in the event of his earlier death or disability. As noted above, if the succession plan proceeds as planned, Mr. Molinaroli will not be entitled to any severance in connection with the Merger. Instead, the restricted share units granted on September 8, 2016 will vest at the end of the Succession Period. As of September 30, 2016, Mr. Molinaroli would have been entitled to a cash severance payment equal to approximately \$41 million assuming he had experienced a qualifying termination on such date. It is important to note that under the terms of Mr. Molinaroli's employment agreement in effect prior to the Merger, a transition from CEO to Executive Chairman would have provided Mr. Molinaroli with "good reason" as defined in that agreement, and therefore to receive severance benefits. As a result, the Legacy Johnson Controls Compensation Committee viewed the \$20 million restricted share unit grant as a shareholder friendly vehicle to facilitate the consummation of the Merger and the success of the integration.

## Oliver Amended and Restated Employment Agreement

Under the terms of Legacy Tyco's Change in Control Severance Plan for Certain U.S. Officers and Executives (the "Tyco CIC Severance Plan"), Mr. Oliver would have been entitled to severance benefits as a result of the Merger due to his no longer being CEO of the Company. Therefore, in order to facilitate the Merger and the orderly CEO succession plan contemplated thereby, Mr. Oliver and Legacy Tyco entered into an employment agreement, dated as of January 24, 2016, which became effective upon the completion of the Merger (the "Oliver Employment Agreement"). The terms of the Oliver Employment Agreement generally are comparable to the amended Molinaroli change of control agreement. During the 33 month period following the Merger date (the "initial employment period"),

Mr. Oliver is entitled to a base salary of \$1,250,000 per year, a target annual bonus opportunity of 135% of his then-current base salary, and an annual long-term incentive compensation opportunity target of at least \$8.25 million. The Oliver Employment Agreement also includes severance provisions that are comparable to Mr. Molinaroli's during the initial employment period. **As is the case for Mr. Molinaroli, if the succession plan proceeds as planned, we do not expect to make any severance payment to Mr. Oliver in connection with the Merger.** For a discussion and analysis of these provisions, see the section entitled "Potential Payments upon Termination".

## Change of Control Employment Agreements with Other Legacy Johnson Controls NEOs

Each of the Legacy Johnson Controls NEOs (other than Mr. McDonald and Mr. Molinaroli) is party to a change of control employment agreement that provides for severance benefits in the event of a qualifying termination or a termination due to the executive's death or disability. As a result of each Legacy Johnson Controls NEO entering into a letter agreement with Legacy Johnson Controls acknowledging that (i) the provisions of their agreements related to guaranteed continued compensation will not apply in respect of the change of control triggered by the Merger (other than with respect to base salary) and (ii) that implementation of the CEO succession plan described above will not constitute good reason to terminate employment under the change of control employment agreement, the Merger has been deemed to constitute a change of control under such agreement.

The change of control employment agreements, as amended by the letter agreement, provide that upon a qualifying termination or a termination due to the executive officer's death or disability within 36 months following the Merger, the terminated Legacy Johnson Controls NEO would be entitled to the following under the change of control employment agreement:

- A lump sum severance payment equal to three times the executive officer's annual cash compensation, which includes the executive officer's annual base salary and the greater of (a) the average of the executive officer's annualized annual cash bonuses and long-term performance awards for the three fiscal years preceding the change of control, and (b) the sum of the annual cash bonuses and long-term performance awards for the most recently completed fiscal year (such greater amount, "average performance bonus");
- Payment of a pro rata portion of the executive officer's average performance bonus (reduced, if the executive officer's termination occurs on the change of control date, by the amount paid under the Johnson Controls Omnibus Plan in respect of performance stock unit awards as a result of a qualifying termination);
- a cash payment equal to the lump sum value of the additional benefits the executive officer would have accrued for the remainder of the employment period under the Legacy Johnson Controls' pension plan and the Legacy Johnson Controls' Retirement Restoration Plan, assuming the executive officer is fully vested in such benefits at the time of termination; and
- continued medical and welfare benefits for two years following termination of employment without cause or with good reason.

The change of control employment agreements require Legacy Johnson Controls NEOs to comply with confidentiality provisions during employment and for two years following termination of employment.

The Legacy Johnson Controls NEOs would generally have “good reason” to resign under their respective change of control employment agreements if, as determined in good faith by such executive:

- the Company assigned the executive officer to duties inconsistent with the executive officer’s position or the combined company took other actions to reduce the executive officer’s authority or responsibilities;
- the Company breached any provision of the change of control employment agreement relating to salary and any benefits required to be paid or provided following the merger (subject to the acknowledgment in the letter agreement described above);
- the Company required the executive officer to relocate;
- the Company terminated the executive officer’s employment other than as permitted by the change of control employment agreement; or
- the Company requested that the executive officer perform an illegal or wrongful act in violation of the combined company’s code of conduct.

## Merger Retention RSU Awards

As an incentive to reward extraordinary effort required through the execution of the integration process and provide cohesive leadership to the new Company, certain executive officers (other than Mr. Molinaroli, whose award is discussed above), including the following Named Executive Officers received a restricted share unit grant on September 8, 2016:

	Number of RSUs	Value of RSUs	Vesting <sup>1</sup>
Brian Stief	52,235	\$2,500,000	3-year cliff
Judy Reinsdorf	50,146	\$2,400,000	2-year cliff
William Jackson	52,235	\$2,500,000	3-year cliff
Robert E. Olson <sup>2</sup>	N/A	N/A	N/A

<sup>1</sup> Awards fully vest in the event of death or disability (and solely for Mr. Stief, continue to vest following retirement) and vest pro rata for any other termination except for cause.

<sup>2</sup> As previously disclosed, Mr. Olson received a cash-based retention award of \$600,000 that vested on December 31, 2016.

## RSU Awards Related to Legacy Johnson Controls Nonqualified Plans

Under Legacy Johnson Controls Nonqualified Deferred Compensation and Retirement Restoration Plans, all amounts under the plans automatically became vested and payable in a lump sum cash payment as a result of the Merger. In order to partially offset the lost opportunity to earn additional supplemental benefits resulting from the accelerated payments, the Legacy Johnson Controls Compensation Committee implemented a special program for all current employee and retiree participants in these plans. Under the special program, each active and retiree participant in these

plans received an increase in his or her distribution based on a formula applied consistently across all participants. Using the same methodology, the Legacy Johnson Controls NEOs who participated in these plans were granted a restricted share award on September 8, 2016.

	Number of RSUs	Grant Date Value of RSUs	Vesting <sup>1</sup>
Alex Molinaroli	146,763	\$7,024,099	30 months
Brian Stief	36,571	\$1,750,307	3-year cliff
Bruce McDonald	105,537	\$5,051,013	3-year cliff
William Jackson	10,449	\$ 500,101	3-year cliff

<sup>1</sup> Awards fully vest in the event of a termination for any reason other than “cause”

## New Johnson Controls International plc Programs for 2017

Johnson Controls International plc's newly formed compensation committee (referred to as the “Johnson Controls plc Compensation Committee”), which held its first formal meeting following the completion of the Merger, has approved the following executive programs and policies for 2017 and beyond:

- Executive Peer Group
- Amended and Restated Share and Incentive Plan
- Equity Granting Policy
- Executive Stock Ownership Policy
- Executive Compensation Recoupment Policy
- Executive Severance and Change-in-Control Policy
- Executive Perquisite Program

As part of its preparation for the Merger, the Johnson Controls plc Compensation Committee held several informal meetings prior to the Merger to discuss the Company's go-forward executive compensation philosophy, programs and practices, and to consult with advisors on matters related to benchmarking analyses, shareholder interests and expectations, market best practices, market norms, and Legacy Tyco and Legacy Johnson Controls programs and policies, all in an effort to determine the best future-state policies and programs for the Company. The following section highlights the changes that were approved by the Johnson Controls plc Compensation Committee following the Merger, and that have become effective for fiscal year 2017 and beyond.

### Executive Peer Group

The Johnson Controls plc Compensation Committee, with input from its advisors and management, conducted a detailed review of the Company's potential peer group and approaches to compensation benchmarking. Going forward, the Company will benchmark against both general

industry data (excluding financial service companies) adjusted for the approximate size and complexity of the Company, as well as the peer group of companies listed below:

#### **Johnson Controls International plc Compensation Peer Group for 2017**

3M Company	Eaton Corporation	International Paper Company
Alcoa Inc.	E.I. du Pont de Nemours and Company	Lockheed Martin Corporation
Caterpillar Inc.	Emerson Electric Co.	Northrop Grumman Corporation
Danaher Corp.	General Dynamics Corporation	Raytheon Company
Deere & Company	Honeywell International, inc.	United Technologies Corporation
		Whirlpool Corporation

### **Annual Incentive Program**

The Annual Performance Incentive for fiscal year 2017 encourages executive officers to focus on financial performance based on earnings before interest and taxes (EBIT), return on sales (ROS), and trade working capital (TWC) improvements. These measures focus our executive officers on the Company's performance and each business unit's profitability, operating strength and efficiency. The Johnson Controls plc Compensation Committee believes focusing on these measures will create long-term shareholder value.

### **Long-term Incentive Program**

The Johnson Controls International plc Compensation Committee expects to review the design and structure of the long-term incentive program on an annual basis to ensure that it continues to be appropriate for the size and scope of the Company. For fiscal 2017, the Johnson Controls International plc Compensation Committee decided to continue Legacy Johnson Controls' practice of granting to the named executive officers the annual equity award split between PSUs (50%), stock options (25%) and RSUs (25%). These weightings reflect a heavy performance orientation toward the long-term incentive performance plan, while also encouraging retention by granting RSUs to the executives. PSUs for fiscal year 2017 will continue to be tied to NEO performance over a three-year performance cycle. Target opportunities will be based on pre-tax earnings growth and pre-tax return on invested capital (ROIC), and the program will include a relative total shareholder return (TSR) modifier. These measures link directly to both our income statement and balance sheet and have a significant impact on long-term stock price and on meeting the investment community's expectations. Share option grants will generally vest in two equal installments on the second and third anniversary of the grant date, have a 10 year term and have an exercise price equal to the Company's closing stock price on the date of grant. RSUs will generally vest in equal installments over three years. For Messrs. Molinaroli, Oliver and Stief, who are retirement eligible, upon retirement (i) each unexercisable share option that was granted at least one year prior to the retirement date will become fully exercisable and will remain exercisable until the award's expiration date and (ii) each unvested RSU that was granted at least one year prior to the retirement date will continue to vest according to its original vesting schedule.

## Equity Granting Policy

In September 2016, the Johnson Controls plc Compensation Committee approved an equity granting policy that states:

- All equity awards must be granted on the date of a Compensation Committee meeting and will be based on the Company's closing stock price on such date;
- Annual grants for RSU and stock option awards occur on the date of the Compensation Committee meeting in October; annual grants for PSUs occur on the date of the Compensation Committee meeting in November;
- The Compensation Committee approves grants for all officers who are subject to Section 16 of the Securities Exchange Act of 1934 ("executive officers"); and
- The Board of Directors reviews grants for the CEO and COO and delegates approval of such equity grants to the Compensation Committee.

## Executive Stock Ownership Policy

Consistent with past practice at both Legacy Tyco and Legacy Johnson Controls, going forward, the Company's executive officers will have five years to meet the following stock ownership requirements:

- CEO: 6x base salary
- Other executive officers: 3x base salary

## Executive Compensation Recoupment Policy

The Johnson Controls plc Compensation Committee has adopted an executive compensation recoupment policy that overrides any pre-existing policy at either Legacy Tyco or Legacy Johnson Controls. The policy provides that, if the Johnson Controls plc Compensation Committee determines that:

- the payment or the delivery of ordinary shares in connection with a performance incentive award was predicated upon the achievement of certain financial results with respect to a performance period that were subsequently the subject of a material restatement other than a restatement due to changes in accounting policy;
- in the Johnson Controls plc Compensation Committee's view, the recipient of such award engaged in conduct that caused or partially caused the need for the restatement; and
- a lower payment would have been made, or fewer ordinary shares delivered, to such individual based upon the restated financial results,

then the Johnson Controls plc Compensation Committee will, unless prohibited by applicable law, require reimbursement from any such individual of (a) an amount equal to the amount of any overpayment of any such incentive paid to such individual or (b) any excess number of ordinary shares delivered to such individual (or the fair market value of such excess number of ordinary shares), with respect to such performance period.

## Executive Severance and Change in Control Policy

Following the Merger, the Johnson Controls plc Compensation Committee has approved the executive severance and change in control policy (the "Severance and CIC Policy") described below. The Severance and CIC Policy will apply to all new executive hires, promotions and, with respect to executive officers who are currently covered by an employment agreement<sup>1</sup>, on the termination date

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<sup>1</sup> The Company does not have any evergreen employment agreements with executive officers

specified in such agreement. Consistent with market practice, the Company does not intend to enter into individual written employment agreements with its executive officers:

	<b>Change in Control Termination</b>	<b>Severance</b>
Triggering Events	<ul style="list-style-type: none"> <li>■ Involuntary termination other than for Cause, permanent disability or death within the period beginning 60 days prior to and ending two years following a change in control</li> <li>■ Good Reason Resignation within the same time period</li> </ul>	<ul style="list-style-type: none"> <li>■ Involuntary termination other than for Cause, permanent disability or death</li> <li>■ Good Reason Resignation</li> </ul>
Cash Severance	3x base salary and target annual bonus	1.5x base salary and target annual bonus
Release of Claims	Required	Required
Benefits Continuation	Yes – aligned with two-year protection period	No
Equity Acceleration	<ul style="list-style-type: none"> <li>■ Compensation Committee to provide either for adjustment/ assumption of award for a cash settlement</li> <li>■ Vest in full upon a subsequent termination without cause or with good reason within two years after the transaction (PSUs based on the higher of actual performance or target)</li> </ul>	None; equity canceled
Excise Tax Gross-up Payment	None	None
Restrictive Covenants	<ul style="list-style-type: none"> <li>■ Perpetual confidentiality covenant</li> <li>■ One-year post-termination noncompetition covenant</li> <li>■ Two-year post-termination non-solicitation covenant (employees, customers)</li> </ul>	<ul style="list-style-type: none"> <li>■ Perpetual confidentiality covenant</li> <li>■ One-year post-termination noncompetition covenant</li> <li>■ Two-year post-termination non-solicitation covenant (employees, customers)</li> </ul>

Also consistent with market practice and in response to shareholder feedback, the Johnson Controls plc Compensation Committee has eliminated the use of any long-term bonus in the cash severance calculation in the event of a change of control for new officers and as existing officer employment agreements expire.

## Executive Perquisite Program

Similar to the Legacy Johnson Controls perquisite program, for fiscal 2017, the Johnson Controls plc Compensation Committee has approved a perquisite allowance of 5% of base salary (based on October 1<sup>st</sup> salaries) annually. Perquisite funds not used in any given year may be carried over, but they may not be taken as cash or used for any purpose other than those listed below. Upon termination, any unused funds are forfeited.

Allowable perquisites include:

- Club dues;
- Financial and tax planning; and
- Corporate aircraft use capped at the amount available under the perquisite allowance for the CEO and COO, and \$10,000 per year for the other NEOs.

## Shareholder Outreach

Each of Legacy JCI and Legacy Tyco regularly conducted shareholder outreach to solicit input and feedback on its executive compensation practices. As we move forward as a combined company, we intend to continue to engage with shareholders and continue to consider shareholder input, including the advisory “say-on-pay” vote, as we continue to evaluate the design of our executive compensation programs and the specific compensation decisions for each of our NEOs.

Johnson Controls International plc is committed to the interests of our shareholders and the delivery of shareholder value through sustainable growth strategies. We believe that, as part of this commitment, it is important to maintain ongoing dialogue with shareholders to solicit and respond to feedback about our executive compensation program.

## Determining Legacy Tyco Compensation for 2016

As noted above, because Legacy Tyco was the legal acquirer of Legacy Johnson Controls in the Merger, the following discussion relates to the programs in place at Legacy Tyco, and the decisions made by the Legacy Tyco Compensation Committee, prior to the Merger:

Legacy Tyco Program Highlights	What Legacy Tyco Did Not Do
<ul style="list-style-type: none"><li>✓ Pay for performance</li><li>✓ Target pay based on market-competitive norms</li><li>✓ Deliver total direct compensation primarily through variable pay</li><li>✓ Set challenging short- and long-term incentive award goals</li><li>✓ Provide strong oversight that ensures adherence to incentive grant regulations and limits</li><li>✓ Maintain robust stock ownership requirements</li><li>✓ Adhere to an incentive compensation recoupment policy ("clawback" policy)</li><li>✓ Maintain insider trading, anti-hedging and anti-pledging policies</li><li>✓ Consult with an independent advisor on pay</li></ul>	<ul style="list-style-type: none"><li>✗ Provide tax gross-ups, except in limited circumstances</li><li>✗ Provide single trigger change in control arrangements</li><li>✗ Re-price stock options</li><li>✗ Provide excessive perquisites</li><li>✗ Reward executives without a link to performance</li></ul>

### Going Forward:

The Johnson Controls plc Compensation Committee believes the features outlined here represent sound executive compensation governance practices and intends to continue to adhere to them in the future.

Legacy Tyco's Compensation Committee evaluated many factors when designing and establishing executive compensation plans and targets. In determining appropriate compensation levels, the Legacy Tyco Compensation Committee considered critical data including the relative complexity and importance of the executive's role within the organization, the executive's experience, record of performance and potential, the compensation levels paid to similarly positioned executives at peer companies, general industry compensation data, and internal pay equity considerations. The peer group of companies that the Legacy Tyco Compensation Committee used to review relative compensation levels was an important part of the pay-setting process.

## Role of the Legacy Tyco Compensation Committee and Independent Compensation Consultant

The Legacy Tyco Compensation Committee's role was to review and approve compensation and benefits policies and objectives, determine whether officers, Directors and employees were compensated according to these objectives, and assist the Board in carrying out responsibilities relating to the compensation of Legacy Tyco executives. The Legacy Tyco Compensation Committee operated under a charter approved by the Legacy Tyco Board. In addition to meeting the NYSE independence standards, each member of the Legacy Tyco Compensation Committee was a "Non-Employee" Director as defined in the Securities Exchange Act of 1934 and an "outside director" as defined in section 162(m) of the Internal Revenue Code.

### **Going Forward:**

In establishing and reviewing the Company's compensation programs, the Johnson Controls plc Compensation Committee will consider whether the programs encourage unnecessary or excessive risk taking and has determined that they do not.

In carrying out its role in establishing executive compensation plans, the Legacy Tyco Compensation Committee received advice from its independent compensation consultant, Farent Advisors LLC ("Farent"). Prior to the Merger in fiscal 2016, Farent's responsibilities included:

- providing an ongoing review and critique of Legacy Tyco executive compensation philosophy, the strategies associated with it, and the composition of Legacy Tyco's peer group of companies;
- Preparing periodic competitive analyses and conveying advice regarding Legacy Tyco compensation program design, pay mix, corporate performance and goal-setting, and pay-for-performance alignment;
- Presenting updates on market trends; and
- Regularly conducting private meetings with the Legacy Tyco Compensation Committee and/or Board without management representatives.

Farent did not provide any additional work to the company and satisfied NYSE consultant independence standards. Commencing with the Merger, the Johnson Controls plc Compensation Committee has selected Willis Towers Watson as its independent compensation consultant. In assessing the independent compensation consultant, the Committee reviewed the Company's relationship with Willis Towers Watson and considered the factors impacting independence that New York Stock Exchange rules require. During fiscal 2016, in addition to providing executive compensation consulting, other one-time professional services provided by Willis Towers Watson to Legacy Johnson Controls and Legacy Tyco totaled \$200,146 and included stock compensation accounting and risk consulting and software services.

The chart below summarizes Legacy Tyco's process for developing, recommending and approving pay actions and strategies and the individuals and groups responsible for approving these decisions.

Pay Strategy and Recommendations		Advice	Recommendation	Approval
CEO	Independent Consultant		Legacy Tyco Compensation Committee	Independent members of the Legacy Tyco Board
Other Executive Officers	Independent consultant/CEO/ EVP HR			
Senior Executives <sup>1</sup>			CEO	Legacy Tyco Compensation Committee
Annual Incentive Plan and Equity Awards for All Employees <sup>2</sup>	Independent consultant/EVP HR			
All other employee pay actions and programs	Legacy Tyco Compensation Committee granted CEO and his designees approval authority			

<sup>1</sup> Other direct reports to CEO and employees earning over a certain base salary level

<sup>2</sup> Incentive pools, performance goals, equity award terms, etc.

## Benchmarking

At least annually, the Legacy Tyco Compensation Committee and its independent advisor engaged in a detailed analysis of Legacy Tyco's peers to ensure that the peer group remained relevant from a comparator business and talent perspective. The composition of the peer group was based on a number of factors, including whether the company had overlapping business lines and competed with Legacy Tyco for talent. The Legacy Tyco Compensation Committee, with the assistance of its independent compensation consultant, analyzed up to 17 factors in confirming inclusion. In December 2015, Legacy Tyco removed DirectTV and added EcoLab, Level 3 Communications and RR Donnelley & Sons. DirectTV was removed because it was acquired. The other two were added to better balance out the peer group by including more service oriented companies focused on the development of integrated platforms.

In addition to relying on the peer group, Legacy Tyco also used general industry data (excluding financial service companies) adjusted for the approximate size and complexity of, and other benchmark data from third party providers, as a secondary source to help determine compensation for its named executive officers. Legacy Tyco's talent strategy called for both the development of internal leadership and the recruitment of highly experienced external leaders. In developing executive compensation levels, Legacy Tyco broadly targeted total direct compensation at the 50th percentile of the benchmark data adjusted for size. Although these benchmarks represented useful guidelines, the Legacy Tyco Compensation Committee exercised discretion in setting individual executive compensation levels so that they appropriately reflected the executive's value and expected

contributions, as well as the executive's leadership, commitment to Company values, and potential for advancement.

Legacy Tyco Compensation Peer Group for 2016		
Cintas Corporation Danaher Corp. Eaton Corporation plc Ecolab Emerson Electric Co. Honeywell International Inc.	Ingersoll-Rand Plc Level 3 Communications, Inc. Motorola Solutions, Inc. Pitney Bowes Inc. Republic Services, Inc.	Rockwell Automation Inc. R.R. Donnelley & Sons Company Stanley Black & Decker, Inc. Waste Management, Inc. Xerox Corp.

## Elements of the 2016 Legacy Tyco Executive Compensation Program

Legacy Tyco's executive compensation programs were designed to align the interests of executives and shareholders and to encourage the personal and collective growth of executives through improved performance. The following chart highlights the key elements of Legacy Tyco's total rewards program and how each linked to program objectives.

Element	Purpose	Type of Compensation	Primary Influence Factors
Base Pay	Provides a fixed level of cash compensation that recognizes the value of an individual's role to the company	Cash	<ul style="list-style-type: none"> <li>■ Role</li> <li>■ Skill</li> <li>■ Sustained performance</li> </ul>
Annual Incentive	<p>Provides a cash-based incentive opportunity tied to the execution of the operating plan and other strategic goals which supported the long-term sustainability of Legacy Tyco.</p> <p>Annual incentive award opportunities ranged from 0% - 200% of target based on the extent to which pre-established objectives were met as well as individual contributions and behaviors.</p>	Cash	<ul style="list-style-type: none"> <li>■ Financial performance</li> <li>■ Operating income</li> <li>■ Revenue</li> <li>■ Working capital days</li> <li>■ Strategic initiatives</li> <li>■ Growth and innovation <ul style="list-style-type: none"> <li>- Increase sales in high growth markets</li> <li>- Grow software related revenue</li> </ul> </li> <li>■ Infrastructure efficiencies <ul style="list-style-type: none"> <li>- Sourcing savings</li> <li>- Reduce real-estate footprint</li> </ul> </li> <li>■ M&amp;A effectiveness - performance of acquisitions vs. plan</li> <li>■ Individual performance and behaviors that demonstrate our core values of integrity, excellence, teamwork and accountability</li> </ul>

Element	Purpose	Type of Compensation	Primary Influence Factors
Long-Term Incentive	<p>Intended to attract, retain and motivate talent, and to align the interests of executives with the interests of shareholders by linking a significant portion of the officer's total pay opportunity to share price performance.</p> <p>■ Performance Share Units (PSUs)</p> <p>■ Stock Options</p> <p>■ Restricted Share Units (RSUs)</p> <p>Provided long-term accountability for executives, and offered opportunities for capital accumulation for executives.</p>	Long-Term Equity	<ul style="list-style-type: none"> <li>■ Share price performance</li> <li>■ Earnings per share (EPS)</li> <li>■ Relative total shareholder return (TSR)</li> <li>■ Return on invested capital (ROIC)</li> </ul>
Health and Welfare and Retirement Benefits	Provided for opportunities to contribute toward retirement savings and promote health and wellness.	Benefit	Broadly applicable to all executives
Termination and Transition Benefits	Essential for attracting and retaining talent and helping to insure orderly exits and transitions of executives.	Benefit	<ul style="list-style-type: none"> <li>■ Governed by formal plan documents approved by the Board</li> <li>■ No individual agreements for executive officers</li> </ul>
Other Benefits and Perquisites	Help NEOs be more productive and efficient, and they provided protection from business risks and threats.	Benefit	<ul style="list-style-type: none"> <li>■ Benefits consistent with what all employees receive</li> <li>■ Perquisites limited in amount</li> <li>■ Legacy Tyco maintained a strict policy regarding eligibility and use</li> </ul>

## Analysis of Legacy Tyco 2016 Compensation

Prior to the Merger, all compensation decisions including those made with respect to fiscal 2016 pay levels for Messrs. Oliver and Olson and Ms. Reinsdorf were made by the Legacy Tyco Compensation Committee. The Johnson Controls International plc Compensation Committee assumed responsibility for NEO compensation, including Messrs. Molinaroli, Stief, McDonald and Jackson as of September 2, 2016.

### Base Pay

Base pay recognizes the value of an individual based on his/her role, skill, performance, contribution, leadership and potential.

#### 2016 Base Pay Decisions

The following table outlines base pay decisions made by the Legacy Tyco Compensation Committee at the beginning of fiscal year 2016. The salaries below were effective through September 2, 2016.

#### Establishing Base Pay - Going Forward

When establishing base pay for NEOs, the Johnson Controls plc Compensation Committee expects to consider an initial guideline the 50th percentile of the general industry data for comparable roles.

Base Salary			
NEO	2015	2016 (through 9/2/16)	Percent Change
George R. Oliver	\$1,000,000	\$1,000,000	0%
Robert E. Olson	N/A	\$535,000	N/A
Judy Reinsdorf	\$535,000	\$535,000	0%

The following table outlines base salary decisions made by Johnson Controls International plc's Compensation Committee to recognize changes in responsibilities resulting from the Merger. The salaries below were effective beginning September 2, 2016.

Base Salary			
NEO	Effective 10/1/15	Effective 9/2/16	Percent Change
Alex A. Molinaroli <sup>1</sup>	N/A	\$1,622,000	N/A
George R. Oliver <sup>2</sup>	\$1,000,000	\$1,250,000	25%
Brian Stief <sup>1</sup>	N/A	\$721,000	N/A
Bruce McDonald <sup>1</sup>	N/A	\$1,030,000	N/A
Judy Reinsdorf	\$535,000	\$600,000	12%
William Jackson <sup>1</sup>	N/A	\$824,000	N/A
Robert E. Olson	N/A	\$535,000	N/A

<sup>1</sup> We are required to include information regarding compensation paid to Messrs. Molinaroli, Stief, McDonald and Jackson by the Company for the time period from September 2 - 30, 2016. Therefore, the table above does not include base salary paid by Legacy Johnson Controls.

<sup>2</sup> Mr. Oliver received a base pay increase in connection with his agreement to succeed Mr. Molinaroli as CEO 18 months following the merger. See page X for details.

## Annual Incentive

Because the Merger occurred on September 2, 2016, with only a month remaining in each respective company's fiscal year, NEOs were measured on the results of their legacy company for the full fiscal year.

### Legacy Tyco Annual Incentive Program

Annual incentive compensation for the Legacy Tyco NEOs was paid in the form of an annual performance bonus under the 2012 Share and Incentive Plan (the "2012 SIP"). Annual incentive compensation rewards executives for their execution of the operating plan and other strategic initiatives, as well as for financial performance that benefits business and drives long-term shareholder value creation. It places a meaningful proportion of total cash compensation at risk, thereby aligning executive rewards with financial results. It also offers an opportunity for meaningful pay differentiation tied to the performance of individuals and groups.

In fiscal 2016, the quantitative and qualitative measures applicable to Legacy Tyco NEOs were:

Quantitative Performance Metrics (Non-GAAP)	Qualitative Strategic Initiatives (+/- 25% modifier) (applicable to each executive)
<ul style="list-style-type: none"><li>■ 45% Tyco Operating Income</li><li>■ 35% Tyco Revenue</li><li>■ 20% Working Capital Days</li></ul>	<ul style="list-style-type: none"><li>■ Growth and Innovation<ul style="list-style-type: none"><li>- Increase Sales in High Growth Markets</li><li>- Grow software related revenue</li></ul></li><li>■ Infrastructure Efficiencies<ul style="list-style-type: none"><li>- Sourcing Savings</li><li>- Reduce real-estate footprint</li></ul></li><li>■ M&amp;A Effectiveness - performance of acquisitions vs. plan</li></ul>

As noted above, as a result of the Merger, pursuant to the terms of the 2012 SIP, each Legacy Tyco NEO was deemed to have achieved a level of performance, as of the date of the Merger, that would cause all (100%) of such NEO's target amount to become payable.

### Legacy Johnson Controls Annual Incentive Performance Program (AIPP)

The Legacy Johnson Controls AIPP was a one-year cash award that encouraged Legacy Johnson Controls NEOs to focus on financial objectives that were expected to translate into stock price performance and value creation for shareholders.

For fiscal year 2016, 80% of the targeted AIPP award was based on financial metrics, as described below. The remaining 20% of the targeted award was based on a discretionary assessment of individual performance, as assessed by the Legacy Johnson Controls Compensation Committee. The Committee made this assessment for the CEO based on its subjective evaluation of performance relative to strategic, financial and leadership objectives that the Legacy Johnson Controls Compensation Committee approved and has discretion to decrease the amount of the incentive award that the CEO would otherwise receive. The CEO makes this assessment for the other NEOs.

For the 80% of the AIPP award based on financial metrics, segment earnings before interest and tax (EBIT), return on sales (ROS) and return on assets (ROA) were used as the measures linked to the strategic plan and expected to result in long-term shareholder value creation.

Legacy Johnson Controls used simple weightings for the performance measures by placing a specific weighting on each metric for purposes of determining the amounts of the awards earned. In fiscal year 2016, the financial portion of the annual incentive measures had the following weights: 70% segment EBIT, 20% ROS, and 10% ROA. An executive officer could not receive a payout under an award if threshold performance levels were not met.

Performance Measure Definitions		
Year-over-Year Segment EBIT	ROS	ROA
Legacy Johnson Controls defined Segment EBIT as net income attributable to each business unit (Corporate is the aggregate of the three business units and corporate) adjusted for income tax expense, financing costs, non-controlling interests, and certain significant special items, such as transaction/integration/separation costs, acquisitions/divestitures, impairment charges, restructuring costs, mark-to-market pension gains/losses, and the adoption of new accounting pronouncements, all as reflected in our audited financial statements that appear in SEC filings.	Legacy Johnson Controls defined ROS as an internal financial measure that related Segment EBIT to the sales of the business unit. Corporate is the aggregate of the three business units and corporate.	Legacy Johnson Controls defined ROA as an internal financial measure that related Segment EBIT to the average net operating assets of the business unit. Corporate is the aggregate of the three business units and corporate. Net Operating Assets are defined as (+) Total Assets; (-) Cash; (-) Income Tax Assets; (-) Post Employment Assets; (-) Derivative Assets; (-) Total Liabilities; (+) Debt; (+) Income Tax Liabilities; (+) Post Employment Liabilities; (+) Restructuring liabilities; (+) Derivative Liabilities; (+) Dividends Payable.

For Messrs. Molinaroli, Stief and McDonald, 100% of the financial portion of the annual incentive earned was based on performance relative to enterprise results. For Mr. Jackson 50% of the financial portion of the annual incentive earned was based on performance relative to Building Efficiency results and 50% relative to corporate results.

#### *Legacy Johnson Controls 2016 AIPP Performance*

Based on its review of the above information, the Legacy Johnson Controls Compensation Committee chose to set the earnings growth thresholds, targets and maximums for fiscal year 2016 primarily in line with analyst consensus earnings estimates for the S&P 500 Industrials as well as the broader S&P 500 Index. The Committee chose to set the thresholds, targets and maximums for return on sales (ROS) and return on assets (ROA) relative to Legacy Johnson Controls strategic and financial plans. This approach ensured competitive incentive compensation was provided based on market competitive performance, with continued focus on strategic deliverables.

As part of the process for establishing fiscal year 2016 targets for the AIPP, the Legacy Johnson Controls Compensation Committee reviewed the following data:

- Its strategic and financial plans;
- The global macroeconomic environment for fiscal year 2016 compared to fiscal year 2015, including global Gross Domestic Product growth as well as growth estimates in those countries where Legacy Johnson Controls had significant business operations;
- Growth estimates for automotive production and construction spending on a regional basis;
- Company-specific factors including capital expenditure levels, restructuring and other investment initiatives;

- Movement of analyst consensus earnings estimates over time; and
- Projected earnings growth estimates from Legacy Johnson Controls compensation peer group and the broader S&P 500 companies.

Performance Measures	2016 Goals			2016 Performance Actual	2016 Actual Awards (Non-Discretionary Portion)
	Threshold	Target	Maximum		
<b>Corporate</b>					
Year-Over-Year Segment EBIT	3%	8%	13%	13.3%	200%
Return on Sales (ROS)	8.7%	9.2%	9.7%	10.1%	
Pre-Tax ROA	17.8%	18.7%	19.7%	20.2%	
<b>Building Efficiency</b>					
Year-Over-Year Segment EBIT	3%	6.5%	10%	9.4%	187.3%
Return on Sales (ROS)	8.1%	8.6%	9%	9.4%	
Pre-Tax ROA	15.8%	16.6%	17.5%	17.6%	

For the discretionary portion of the award based on individual performance, a payout was authorized only if the minimum threshold performance levels under the financial portion were achieved, and negative discretion is used to deliver the intended award amount. In no event could payments under the discretionary portion of the award exceed target.

The table below summarizes the threshold, target, and maximum award potential, actual payout as a percent of target, and actual payout amounts for Messrs. Molinaroli, Stief, McDonald and Jackson for fiscal year 2016 after reflecting the exercise of discretion discussed above. Actual payout could range from zero to two times the target payout percentage for the financial portion of the AIPP, depending on the achievement of goals, with the potential payments increasing as performance improved (though not above two times the target payout percentage).

NEO	Award Targets			2016 Actual Payout As a % of Target	2016 Actual Payout Amount (\$)
	Threshold (\$) <sup>(1)</sup>	Target (\$) <sup>(2)</sup>	Maximum (\$) <sup>(3)</sup>		
Alex A. Molinaroli	1,135,400	2,838,500	5,677,000	192.0%	5,449,922
Brian J. Stief	324,450	811,125	1,622,250	192.0%	1,557,362
R. Bruce McDonald	618,000	1,545,000	3,090,000	192.0%	2,966,402
William C. Jackson	350,200	875,500	1,751,000	170.4%	1,491,959

- (1) Assumes threshold payout from financial portion of AIPP, and zero payout from discretionary portion.
- (2) Assumes target payout from financial portion of AIPP, and target payout from discretionary portion.
- (3) Assumes 200% payout from financial portion of AIPP, and full payout from discretionary portion.

## Long-Term Incentives

### Legacy Tyco Long-Term Equity Incentive Compensation

A key element in the compensation of Legacy Tyco's executive team was long-term equity incentive awards (LTI compensation), which tied a significant portion of compensation to the company's long-term performance. The design and structure of the LTI compensation program was reviewed annually to ensure that it was appropriate for the size and scope of the company.

In 2016, three different types of long-term incentives were granted to the Legacy Tyco NEOs:

- Share options, which were intended to provide value to the holder only if shareholders receive additional value after the date of grant;
- Restricted share units, which vest at the end of a three-year period and have a value that changes based on changes in the stock price; and
- Performance share units, which vest at the end of three year-performance period and, except under unusual circumstances, pay out only if specific performance metrics are met.

See *Impact of the Merger on Compensation* above for an explanation of how these awards were adjusted as a result of the Merger.

The allocation percentage between each equity vehicle was distributed as shown below. These weightings reflected a heavy performance orientation toward the long-term incentive performance plan, while also encouraging retention by granting RSUs to executives below the CEO level.

	Share Options	Restricted Share Units	Performance Share Units
CEO	50%	0%	50%
Other NEOs	40%	20%	40%

## Other Legacy Tyco Benefits

### *Change in Control Severance Benefits*

Legacy Tyco provided employment and severance arrangements essential to attract and retain executive talent and competitive with those provided to executive officers at other peer companies. All cash payments and benefits are governed by a formal plan document. Prior to the Merger, none of the Legacy Tyco NEOs had individual written termination agreements with the company providing for benefits outside the formal plan document. Under the 2012 Share and Incentive Plan equity awards are subject to double-trigger equity vesting in the event of a change in control. Double-trigger equity vesting requires both a change in control and executive termination to vest the equity awards.

### *Perquisites and Other Benefits*

Legacy Tyco NEOs, including the CEO, were eligible to participate in substantially the same benefit plans available to all other Legacy Tyco U.S. employees. These benefit programs included Tyco's tax-qualified 401(k) Retirement Savings and Investment Plan ("RSIP") and its medical insurance, dental insurance, life insurance, long-term disability and long-term care plans.

All eligible executives earning more than \$115,000 per year were also eligible to participate in the Tyco Supplemental Savings and Retirement Plan (“SSRP”), which is a deferred compensation plan that permits the elective deferral of base salary and performance-based bonuses. The SSRP provided executives with the opportunity to defer compensation on a tax-deferred basis and receive tax-deferred market-based notional investment growth. The plan allowed executives to defer amounts above those permitted by the RSIP as well as receive any Company contributions that were reduced under the RSIP due to IRS compensation limits.

Legacy Tyco provided limited perquisites and other benefits that consisted of the following:

- **Executive Physicals** - Legacy Tyco invested in the health and well-being of executives as an important component in providing continued effective leadership for the Company. This benefit was capped at \$3,000 per year.
- **Use of Corporate Aircraft** - Corporate aircraft was used primarily for business purposes. Legacy Tyco maintained a formal aircraft policy overseen by the Nominating and Governance Committee which stipulated that the CEO was the only executive pre-approved to use Company aircraft for non-business purposes. Use was limited to \$150,000 of incremental value. Other executives could do so, by exception, if expressly approved by the CEO or the Board. There were no gross-ups paid with respect to personal use of aircraft.

### Compensation Committee Report on Executive Compensation

The Compensation Committee has reviewed and discussed with management this Compensation Discussion & Analysis and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion & Analysis be included in the Company’s Annual Report on Form 10-K and this proxy statement.

Submitted by the Compensation Committee:

Jeffrey A. Joerres, Chair  
Michael E. Daniels  
R. David Yost

# Executive Compensation Tables

The following table summarizes the compensation earned by our named executive officers in the fiscal years noted. For Messrs. Molinaroli, Stief, McDonald and Jackson, it is important to note that this information generally relates only to compensation paid by Johnson Controls International plc during the period after the Merger (i.e., from September 2, 2016 until September 30, 2016), and does not include compensation that Legacy Johnson Controls paid prior to the Merger in fiscal 2016 or prior years. Mr. Nayar stepped down from his role as Executive Vice President and Chief Financial Officer of Legacy Tyco in November 2015 and was employed in an advisory capacity for a short transition period in 2016.

## Summary Compensation Table for Fiscal Years 2016, 2015 and 2014

Name and Principal Position (a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock / Unit Awards (\$)(1)(2)(e)	Option Awards (\$)(2)(f)	Non-Equity Incentive Plan Compensation (\$)(1)(3)(g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(4)(h)	All Other Compensation (\$)(5)(i)	Total (\$)(j)
<b>Alex A. Molinaroli</b>	2016	\$ 135,167	\$ -	\$ 27,024,053	\$ -	\$ 5,449,922	\$ 733,491	\$ 13,054,137	\$ 46,396,770
Chairman and Chief Executive Officer									
<b>George Oliver</b>	2016	\$ 1,018,939	\$ -	\$ 3,605,930	\$ 3,550,446	\$ 1,250,000	\$ -	\$ 182,560	\$ 9,607,875
Chief Operating Officer	2015	\$ 1,000,000	\$ -	\$ 3,712,813	\$ 3,982,890	\$ -	\$ -	\$ 276,248	\$ 8,971,951
	2014	\$ 993,750	\$ -	\$ 3,150,175	\$ 3,233,130	\$ 1,312,500	\$ -	\$ 308,752	\$ 8,998,307
<b>Brian J. Stief</b>									
EVP & Chief Financial Officer	2016	\$ 60,083	\$ -	\$ 4,250,255	\$ -	\$ 1,557,362	\$ -	\$ -	\$ 5,867,700
<b>Robert E. Olson</b>	2016	\$ 520,814	\$ -	\$ 795,778	\$ 527,490	\$ 428,000	\$ -	\$ 29,818	\$ 2,301,900
EVP and Legacy Tyco Chief Financial Officer									
<b>R. Bruce McDonald</b>	2016	\$ 85,833	\$ -	\$ 5,051,013	\$ -	\$ 2,966,402	\$ 295,618	\$ 4,527,175	\$ 12,926,041
EVP and Vice Chairman									
<b>William C. Jackson</b>	2016	\$ 68,667	\$ -	\$ 3,000,101	\$ -	\$ 1,491,959	\$ -	\$ -	\$ 4,560,727
VP and President									
<b>Judith A. Reinsdorf</b>	2016	\$ 539,678	\$ -	\$ 3,318,187	\$ 608,649	\$ 428,000	\$ -	\$ 21,810	\$ 4,916,324
EVP and General Counsel	2015	\$ 535,000	\$ -	\$ 894,014	\$ 637,251	\$ -	\$ -	\$ 60,756	\$ 2,127,021
	2014	\$ 535,000	\$ -	\$ 929,998	\$ 646,622	\$ 449,400	\$ -	\$ 111,286	\$ 2,672,306
<b>Former Officers (at fiscal year end)</b>									
<b>Arun Nayar</b>	2016	\$ 131,250	\$ -	\$ -	\$ -	\$ 105,574	\$ -	\$ 10,500	\$ 247,324
EVP and Chief Financial Officer	2015	\$ 525,000	\$ -	\$ 894,014	\$ 637,251	\$ -	\$ -	\$ 55,594	\$ 2,111,859
	2014	\$ 510,417	\$ -	\$ 805,999	\$ 560,401	\$ 441,000	\$ -	\$ 101,218	\$ 2,419,035

(1) **Deferred Amounts Included:** We have not reduced amounts that we show to reflect a named executive officer's election, if any, to defer the receipt of compensation into our qualified and nonqualified deferred compensation plans

(2) **Stock/Unit Awards and Option Awards:** The amounts in columns (e) and (f) reflect the fair value of equity awards granted in fiscal 2016, 2015, and 2014. For Messrs. Molinaroli, Stief, McDonald and Jackson, the equity awards that the Company granted in fiscal 2016 (excluding any awards

Legacy Johnson Controls granted prior to the Merger) consisted of restricted stock units (“RSUs”) granted in connection with the closing of the Merger as described above under “Impact of the Merger on Compensation—Merger Retention RSU Awards” and “—RSU Awards Related to Legacy Johnson Controls Nonqualified Plans.” For Messrs. Oliver and Olson and Ms. Reinsdorf, the equity awards granted in fiscal 2016 consisted of stock options, RSUs and performance-vesting restricted stock units (“PSUs”). The amounts in columns (e) and (f) represent the fair value of the entire amount of the award calculated in accordance with Financial Accounting Standards Board ASC Topic 718, excluding the effect of estimated forfeitures. For stock options, amounts are computed by multiplying the fair value of the award (as determined under the Black-Scholes option pricing model) by the total number of options granted. For RSUs, fair value is computed by multiplying the total number of shares subject to the award by the closing market price of our ordinary shares on the date of grant. For PSUs, fair value is based on a model that considers the closing market price of our ordinary shares on the date of grant, the range of shares subject to such stock award, and the estimated probabilities of vesting outcomes. The value of PSUs included in the table assumes target performance. In connection with the Merger, as described above under “Treatment of Long-Term Incentives for Legacy Tyco,” the PSUs were converted into time-vesting RSUs at target. The following amounts represented the maximum potential PSU value (i.e., the PSUs that would have been earned if the performance goals had been achieved at the maximum performance level) at the time of grant by individual for fiscal 2016: Mr. Oliver—\$7,211,860; Mr. Olson—\$1,071,414; and Ms. Reinsdorf—\$1,236,294. For Legacy Johnson Controls NEOs, footnote 12 to our audited financial statements for the fiscal year ended September 30, 2016, which appears in our Annual Report on Form 10-K that we filed with the Securities and Exchange Commission on November 23, 2016, includes assumptions that we used in the calculation of the equity award values. For Legacy Tyco NEOs, footnote 13 to Legacy Tyco’s unaudited financial statements for the fiscal quarter ended December 25, 2015, which appears in its Quarterly Report on Form 10-Q that was filed with the Securities and Exchange Commission on January 29, 2016, includes the assumptions used in the calculation of equity award values applicable to such individuals.

(3) **Non-Equity Incentive Plan Compensation:** The amounts reported in column (g) for each named executive officer reflect annual cash incentive compensation (which was based on, for Messrs. Molinaroli, Stief, McDonald and Jackson with respect to fiscal 2016, Legacy Johnson Controls and individual performance, and for Messrs. Oliver, Olson and Nayar and Ms. Reinsdorf, Legacy Tyco and individual performance, in fiscal 2016, 2015 and 2014). As noted above under “Impact of the Merger on Compensation,” awards for Legacy Tyco NEOs for fiscal 2016 were paid at target amounts.

(4) **Change In Pension Value:** The amounts reported in column (h) for each named executive officer reflect the actuarial increase in the present value of benefits under the qualified defined benefit pension plan established by Legacy Johnson Controls, determined as of the measurement dates used for financial statement reporting purposes for fiscal year 2016 and using interest rate and mortality rate assumptions consistent with those reflected in our audited financial statements for the fiscal year ended September 30, 2016. The value that an executive will actually receive under these benefits will differ to the extent facts and circumstances vary from what the calculations assume. Changes in the present value of the named executive officer’s benefits are the result of the assumptions applied (as discussed in the footnotes to the “Pension Benefits as of September 30, 2016” table below). No named executive officer received preferential or above market earnings on nonqualified deferred compensation.

(5) **All Other Compensation:** The fiscal 2016 amounts reported in column (i) for each named executive officer represent consist of the following:

Named Executive	Personal Use of Company Aircraft <sup>(a)</sup>	Relocation Benefits <sup>(b)</sup>	Tax Gross-Up <sup>(c)</sup>	Retirement Plan Contributions <sup>(d)</sup>	Non-Qualified Defined Benefit Distribution <sup>(e)</sup>	Company Vehicle <sup>(f)</sup>	Miscellaneous <sup>(g)</sup>	Total All Other Compensation
Alex A. Molinaroli	\$ -	\$ -	\$ -	\$ -	\$13,052,772	\$1,041	\$ 324	\$13,054,137
George Oliver	\$194,350	\$ -	\$ -	\$29,560	\$ -	\$ -	\$ 3,000	\$ 226,910
Robert E. Olson	\$ -	\$10,074	\$ 6,370	\$13,375	\$ -	\$ -	\$ -	\$ 29,819
R. Bruce McDonald	\$ -	\$ -	\$ -	\$ -	\$ 4,513,275	\$1,357	\$12,294	\$ 4,526,926
Judith A. Reinsdorf	\$ -	\$ -	\$ -	\$21,810	\$ -	\$ -	\$ -	\$ 21,810
Arun Nayar	\$ -	\$ -	\$ -	\$10,500	\$ -	\$ -	\$ -	\$ 10,500

(a) As the then-CEO of Legacy Tyco, Mr. Oliver was authorized to use Legacy Tyco-owned or -leased aircraft for personal travel during fiscal 2016. Other executive officers were permitted to use Legacy Tyco-owned or -leased aircraft if expressly approved by the Legacy Tyco Board or the CEO. The Summary Compensation Table reflects, the aggregate incremental pre-tax cost to the Company for personal use of aircraft for fiscal 2016, which was calculated using a method that takes into account the incremental cost of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and other variable costs, including incremental costs associated with executives that are not in control of the aircraft, reduced by any amounts paid to the Company by the executive in respect of personal use. Because our aircraft are used primarily for business travel, the calculation does not include the fixed costs that do not change based on usage, such as pilots' salaries, the acquisition costs of the Company-owned or -leased aircraft, and the cost of maintenance not related to trips.

(b) Legacy Tyco provided relocation benefits in accordance with company policy to Mr. Olson in fiscal 2016, to assist his relocation to Legacy Tyco's headquarters upon his hiring.

(c) The amount shown for Mr. Olson represents a tax gross-up payment made with respect to the relocation benefits disclosed in the preceding footnote.

(d) Retirement plan contributions include matching contributions made by Legacy Tyco on behalf of each executive to its tax-qualified 401(k) Retirement Savings and Investment Plan ("RSIP") and to its non-qualified Supplemental Savings and Retirement Plan ("SSRP").

(e) Each of the Legacy Johnson Controls nonqualified deferred compensation plans, including the Legacy Johnson Controls Retirement Restoration Plan, provided that all amounts deferred under the applicable plan (determined based on the actuarial equivalent value in the case of supplemental defined benefit pension benefits under the Legacy Johnson Controls Retirement Restoration Plan) became vested (to the extent not previously vested) and paid out in a lump sum following the consummation of the Merger. A portion of the payments to Mr. Molinaroli will be delayed until they are deductible under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The amounts shown in this column reflect the amounts that were (or will be, in the case of the portion of the payments that were delayed for Mr. Molinaroli) paid out under the pension component of the Legacy Johnson Controls Retirement Restoration Plan.

(f) Amounts reflect costs attributable to personal use of a vehicle.

(g) Miscellaneous compensation includes payments with respect to an executive physical for Mr. Oliver and country club dues for Messrs. Molinaroli and McDonald.

## Grants of Plan-Based Awards Table

The following table summarizes cash-based and equity-based awards for each of the Company's named executive officers that were granted in fiscal year 2016.

Name (a)	Grant Date (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>				Estimated Possible Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>				All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup> 0	All Other Option Awards: Number of Underlying Options (#) <sup>(4)</sup> (k)	Exercise or Base Price of Option Awards (\$/Sh) (l)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(4)</sup> (m)	
		Board or Approval Date (c)	Threshold (\$) (d)	Target (\$) (e)	Maximum (\$) (f)	Threshold (#) (g)	Target (Mid-Point) (#) (h)	Maximum (#) (i)						
<b>Alex A. Molinaroli</b>	9/8/2016	9/8/2016	N/A <sup>(5)</sup>	N/A <sup>(5)</sup> \$ 1,135,400	\$ 2,838,500	\$ 5,677,000				564,648			\$ 27,024,053	
<b>George Oliver</b>	N/A <sup>(6)</sup>	10/12/2015	N/A <sup>(6)</sup> \$ 625,000	\$ 1,250,000	\$ 2,500,000		46,321	92,641	185,282		436,986	\$37.79	\$ 3,605,930	
<b>Brian J. Stief</b>	10/12/2015	10/12/2015											\$ 3,550,446	
<b>Robert Olson</b>	N/A <sup>(5)</sup>	9/8/2016	N/A <sup>(5)</sup> \$ 324,450	\$ 811,125	\$ 1,622,250					88,806			\$ 4,250,255	
<b>R. Bruce McDonald</b>	N/A <sup>(6)</sup>	10/12/2015	N/A <sup>(6)</sup> \$ 214,000	\$ 428,000	\$ 856,000		6,882	13,763	27,526		6,882	64,923	\$37.79	\$ 527,490
<b>William C. Jackson</b>	9/8/2016	9/8/2016	N/A <sup>(5)</sup>	618,000	1,545,000	3,090,000					105,537			\$ 5,051,001
<b>Judith A. Reinsdorf</b>	N/A <sup>(6)</sup>	10/12/2015	N/A <sup>(6)</sup> \$ 350,200	\$ 875,500	\$ 1,751,000					62,684			\$ 3,000,056	
<b>Former Officer</b>														
<b>Arun Nayar</b>	N/A <sup>(6)</sup>													

- (1) Amounts reported in columns (d) through (f) represent the range of potential cash payments under the annual performance bonuses that Messrs. Molinaroli, Stief, McDonald and Jackson could have earned under the Legacy Johnson Controls Annual Incentive Performance Plan for fiscal 2016, as described above under the heading “Annual Incentive—Legacy Johnson Controls Annual Incentive Performance Program (AIPP),” and that Messrs. Oliver, Olson and Nayar and Ms. Reinsdorf could have earned under the Company’s annual incentive plan for fiscal 2016, as described under the heading “Annual Incentive—Legacy Tyco Annual Incentive Program.” With respect to Legacy Tyco NEOs, the Board approved a maximum bonus payout of 0.50% of net income before special items for the CEO, subject to a cap of \$5.0 million imposed by the 2012 SIP, and 0.25% for the other Legacy Tyco NEOs, subject to a cap of \$2.5 million. The Legacy Tyco Compensation Committee further established a maximum payout of 200% of target for Legacy Tyco NEOs. Threshold amounts assume minimum performance levels are achieved with respect to each performance measure.
- (2) Amounts in columns (g) through (i) represent potential share payouts with respect to PSUs granted to Legacy Tyco NEOs assuming that threshold, target and maximum performance conditions are achieved. In connection with the Merger, as described above under “Treatment of Long-Term Incentives for Legacy Tyco,” the PSUs were converted into time-vesting RSUs at target.
- (3) Amounts in column (j) show the value of the RSUs granted in connection with the closing of the Merger as described above under “Impact of the Merger on Compensation—Merger Retention RSU Awards” and “-RSU Awards Related to Legacy Johnson Controls Nonqualified Plans.”
- (4) Amounts in column (m) show the grant date fair value of the option awards, RSUs and PSUs granted to named executive officers (and with respect to Legacy Johnson Controls NEOs, only those granted after the Merger). These amounts represent the fair value of the entire amount of the award calculated in accordance with Financial Accounting Standards Board ASC Topic 718 (ASC Topic 718), excluding the effect of estimated forfeitures. For grants of stock options, amounts are computed by multiplying the fair value of the award (as determined under the Black-Scholes option pricing model) by the total number of options granted. For grants of RSUs, fair value is computed by multiplying the total number of shares subject to the award by the closing market price of our ordinary shares on the date of grant. For grants of PSUs, fair value is based on a model that considers the closing market price of our ordinary shares on the date of grant, the range of shares subject to such stock award, and the estimated probabilities of vesting outcomes. The value of PSUs included in the table assumes target performance.
- (5) The award reflected in this row is an annual incentive performance award that Legacy Johnson Controls granted for the performance period of fiscal year 2016, the material terms of which we describe above under the heading “Annual Incentive—Legacy Johnson Controls Annual Incentive Performance Program (AIPP).”
- (6) The award reflected in this row is an annual incentive performance award that Legacy Tyco granted for the performance period of fiscal year 2016, the material terms of which we describe above under the heading “Annual Incentive—Legacy Tyco Annual Incentive Program.”

## Outstanding Equity Awards at 2016 Fiscal Year-End Table

The following table shows, for each of the named executive officers, all equity awards that were outstanding as of September 30, 2016. Dollar amounts are based on the NYSE closing price of \$46.53 for the Company's common stock on September 30, 2016.

Name (a)	Option Awards					Stock Awards				
	Number of Securities Underlying Unexercised Options: (#) Exercisable (b)	Number of Securities Underlying Unexercised Options: (#) Unexercisable <sup>(1)</sup> (c)	Option Exercise Price (\$) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup> (f)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (g)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(3)</sup> (h)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (i)		
<b>Alex A. Molinaroli</b>	90,000	-	\$40.21	10/1/2017	1,145,883	\$53,317,936	-	\$ -		
	135,000	-	\$30.54	10/1/2020						
	125,000	-	\$28.54	10/7/2021						
	72,900	-	\$27.85	10/5/2022						
	65,100	-	\$30.73	1/23/2023						
	76,530	76,531	\$48.37	11/19/2023						
	-	169,924	\$50.23	11/18/2024						
	-	217,604	\$43.86	10/7/2025						
<b>George R. Oliver</b>	67,634	-	\$23.03	8/17/2018	204,827	\$ 9,530,600	-	-		
	249,860	-	\$15.01	10/6/2018						
	183,964	-	\$17.47	9/30/2019						
	153,433	-	\$19.30	10/11/2020						
	129,084	-	\$22.94	10/11/2021						
	244,313	81,437	\$28.42	11/19/2022						
	162,827	-	\$28.42	11/19/2022						
	142,814	142,814	\$38.91	11/19/2023						
<b>Brian J. Stief</b>	76,440	229,320	\$45.43	11/24/2024						
	-	436,986	\$37.79	10/11/2025						
	35,000	-	\$30.54	10/1/2020	197,656	\$ 9,196,934	-	\$ -		
	34,500	-	\$28.54	10/7/2021						
	21,500	-	\$27.85	10/5/2022						
<b>Robert Olson</b>	7,176	7,177	\$48.37	11/19/2023						
	-	32,175	\$50.23	11/18/2024						
	-	45,627	\$43.86	10/7/2025						
<b>R. Bruce McDonald</b>	-	64,923	\$37.79	10/11/2025	21,196	\$ 986,250	-	\$ -		
	47,248	-	\$40.21	10/1/2017	430,350	\$20,024,186	-	\$ -		
	160,000	-	\$28.79	10/1/2018						
	170,000	-	\$24.87	10/1/2019						
	150,000	-	\$30.54	10/1/2020						
	140,000	-	\$28.54	10/7/2021						
	74,800	-	\$27.85	10/5/2022						
	24,659	24,660	\$48.37	11/19/2023						
	-	80,437	\$50.23	11/18/2024						
	-	104,562	\$43.86	10/7/2025						

Name (a)	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options: (#) Exercisable (b)	Number of Securities Underlying Unexercised Options: (#) Unexercisable <sup>(1)</sup> (c)	Option Exercise Price (\$) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup> (f)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (g)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(3)</sup> (h)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (i)	
<b>William C. Jackson</b>	86,000	-	\$28.54	10/7/2021	199,111	\$9,264,635	-	\$ -	
	53,800	-	\$27.85	10/5/2022					
	20,476	20,476	\$48.37	11/19/2023					
	-	41,441	\$50.23	11/18/2024					
	-	49,961	\$43.86	10/7/2025					
<b>Judith A. Reinsdorf</b>	37,858	-	\$17.47	9/30/2019	107,548	\$5,004,208	-	\$ -	
	64,449	-	\$19.30	10/11/2020					
	109,760	-	\$22.94	10/11/2021					
	58,590	19,529	\$28.42	11/19/2022					
	48,800	-	\$28.42	11/19/2022					
	28,563	28,562	\$38.91	11/19/2023					
	12,230	36,690	\$45.43	11/24/2024					
	-	74,912	\$37.79	10/11/2025					
<b>Former Officers</b>									
<b>Arun Nayar</b>	25,785	-	\$38.91	12/31/2018	-	\$ -	-	\$ -	
	12,229	-	\$45.43	12/31/2018					
	-	12,230	\$45.43	11/20/2019					
	-	12,229	\$45.43	11/20/2020					
	-	12,230	\$45.43	11/20/2021					

(1) Vesting information for each outstanding option award for the named executive officers is described in the table below.

Vesting Date	Exercise Price	Alex A. Molinaroli	George Oliver	Brian J. Stief	Robert Olson	R. Bruce McDonald	William C. Jackson	Judith A. Reinsdorf	Arun Nayar
				Number Of Shares Underlying Vesting Awards					
<b>2016</b>									
11/12/2016	\$37.79		109,247		16,231			18,728	
11/20/2016	\$45.43		76,440					12,230	
11/20/2016	\$38.91		71,407					14,281	
11/20/2016	\$28.42		81,437					19,529	
11/19/2016	\$48.37	76,531		7,177		24,660	20,476		
11/18/2016	\$50.23	84,962		16,087		40,218	20,720		
<b>2017</b>									
10/12/2017	\$37.79		109,247		16,231			18,728	
11/20/2017	\$45.43		76,440					12,230	
11/20/2017	\$38.91		71,407					14,281	
11/18/2017	\$50.23	84,962		16,088		40,219	20,721		
10/7/2017	\$43.86	108,802		22,813		52,281	24,980		
<b>2018</b>									
10/12/2018	\$37.79		109,246		16,231			18,728	
11/20/2018	\$45.43		76,440					12,230	
10/7/2018	\$43.86	108,802		22,814		52,281	24,981		
<b>2019</b>									
10/12/2019	\$37.79		109,246		16,230			18,728	

(2) The amounts in columns (f) and (g) reflect, for each named executive officer, the number and market value of RSUs which had been granted as of September 30, 2016, but which remained subject to additional vesting requirements. Scheduled vesting of all RSUs and the number of shares underlying awards, for each of the named executive officer is as follows:

Vesting Date	Alex A. Molinaroli	George Oliver	Brian J. Stief	Robert Olson	R. Bruce McDonald	William C. Jackson	Judith A. Reinsdorf	Arun Nayar
	Number Of Shares Underlying Vesting Awards							
<b>2016</b>								
10/12/2016				1,767			2,038	
11/20/2016		23,690					13,701	
11/19/2016	46,516		4,362		14,988	12,445		
<b>2017</b>								
9/29/2017		86,017					13,763	
10/12/2017			1,767				2,038	
11/20/2017							3,761	
1/23/2017	10,900							
11/18/2017	52,571		9,954		24,885	12,821		
12/7/2017	210,282		39,816		99,542	51,244		
<b>2018</b>								
9/2/2018							50,146	
9/28/2018		95,120		14,131			16,306	
10/12/2018			1,766				2,038	
11/20/2018							1,719	
9/24/2018				60,000				
10/7/2018	260,966		54,718		125,398	59,917		
<b>2019</b>								
3/8/2019	564,648							
9/2/2019		88,806			105,537	62,684		
10/12/2019			1,765				2,038	

## Option Exercises and Stock Vested Table

The following table shows, for each of the named executive officers, the amounts realized from options that were exercised and RSUs that vested during fiscal 2016. For Messrs. Molinaroli, Stief, McDonald and Jackson the table includes only vesting events that occurred during the period after the Merger.

Name (a)	Option Awards			Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e) <sup>(1)</sup>	
Alex A. Molinaroli	-	\$ -	226,958	\$ 10,599,247	
George R. Oliver	-	\$ -	110,869	\$ 4,828,570	
Brian Stief	-	\$ -	23,694	\$ 1,114,005	
Robert Olson	-	\$ -	-	\$ -	
R. Bruce McDonald	-	\$ -	76,230	\$ 3,586,992	
William Jackson	-	\$ -	66,422	\$ 3,080,896	
Judith A. Reinsdorf	-	\$ -	34,525	\$ 1,409,173	
Arun Nayar	283,645	\$ 3,749,865	52,479	\$ 2,045,302	

(1) The amounts in column (e) represent the product of the number of shares a named executive officer acquired on vesting and the closing market price of the shares on the vesting date, plus the value of dividend equivalents released, if any.

## Pension Benefits As of September 30, 2016

The following table sets forth certain information with respect to the potential benefits to our named executive officers under the Legacy Johnson Controls qualified pension plan and the pension component of the Legacy Johnson Controls Retirement Restoration Plan as of September 30, 2016. Only those named executive officers who participate in these plans are included in the table.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit <sup>(1)</sup> (\$)	Payments During Last Fiscal Year <sup>(2)</sup> (\$)
Alex A. Molinaroli	Johnson Controls Pension Plan	30.00	\$ 1,271,579	
	Retirement Restoration Plan	30.00		\$13,052,770
R. Bruce McDonald	Johnson Controls Pension Plan	13.17	\$549,392	
	Retirement Restoration Plan	13.17		\$4,513,275

- (1) Amounts in this column reflect the following assumptions: A calculation date of September 30, 2016, a 4.42% discount rate for the Johnson Controls Pension Plan, retirement occurring at normal retirement age based on Social Security Normal Retirement Age minus three years, and applicability of the 2009 Static Mortality Table for Annuitants per Treasury Regulation 1.430(h)(3)-1(e), that we used for financial reporting purposes as of September 30, 2016. The valuation method used to determine the present value of the accumulated benefit is the same as the method we used for Financial reporting purposes as of September 30, 2016. The value that an executive will actually receive under these benefits will differ to the extent facts and circumstances vary from what these calculations assume
- (2) Amounts in this column reflect the value of the immediate lump sum distribution of the defined benefit portion of the Legacy Johnson Controls Retirement Restoration Plan as a result of the Merger. Tax regulations under Section 409A of the Code allowed the deferral of Mr. Molinaroli's Retirement Restoration Plan lump sum payment until it is deductible under Section 162(m) of the Code.

**Legacy Johnson Controls Pension Plan.** The Legacy Johnson Controls Pension Plan is a frozen defined benefit pension plan that provides benefits for most non-union U.S. employees, including Mr. Molinaroli and Mr. McDonald, who were hired by Legacy Johnson Controls prior to January 1, 2006. Because both Mr. Stief and Mr. Jackson were hired by Legacy Johnson Controls after January 1, 2006, neither are participants in the Pension Plan. Subject to certain limitations that the Code imposes, the monthly retirement benefit payable under the Legacy Johnson Controls Pension Plan to participants, at normal retirement age in a single life annuity, is determined as follows:

- 1.15% of final average monthly compensation times years of benefit service, plus
- 0.55% of final average monthly compensation in excess of Social Security covered compensation times years of benefit service (up to 30 years)

Service after December 31, 2014 does not count as benefit service in this formula. For purposes of this formula, "final average monthly compensation" means a participant's gross compensation, excluding certain unusual or non-recurring items of compensation, such as severance or moving expenses, for the highest five consecutive years of the last ten consecutive years of employment

occurring prior to January 1, 2015. “Social Security covered compensation” means the average of the Social Security wage base for the 35 years preceding a participant’s normal retirement age. Normal retirement age for Johnson Controls participants is age 65.

Participants in the Legacy Johnson Controls Pension Plan generally become vested in their pension benefits upon completion of five years of service. The Pension Plan does not pay full pension benefits until after a participant terminates employment and reaches normal retirement age. However, a participant who terminates employment may elect to receive benefits at a reduced level at any time after age 55, as follows: If a participant terminates employment prior to age 55 then the reduction is 5% for each year that benefits begin before their Social Security retirement age; and if a participant terminates employment on or after age 55 and after completing ten years of service, then the reduction is 5% for each year that benefits begin before the three years preceding the participant’s Social Security retirement age. Mr. Molinaroli and Mr. McDonald are currently eligible for early retirement under the Pension Plan.

**Legacy Johnson Controls Restoration Plan.** The Legacy Johnson Controls Retirement Restoration Plan is an unfunded, nonqualified plan that provides benefits above the payments that an employee, other than a York employee, will receive from the Pension Plan in those cases in which the Code’s qualified plan limits restrict the employee’s benefits. The Retirement Restoration Plan provides a benefit equal to the difference between the actual pension benefit payable under the Pension Plan and what such pension benefit would have been without regard to any Code limitation on either the amount of benefits or the amount of compensation that the benefit formula can take into account. Messrs. Jackson and Stief are not eligible under the Retirement Restoration Plan for a benefit with respect to the Pension Plan because they are not participants in the Johnson Controls Pension Plan. A participant is vested in his or her Retirement Restoration Plan benefits only if vested in his or her benefits under the Pension Plan. Benefits under the Retirement Restoration Plan are generally payable as an annuity at the later of the participant’s termination of employment or attainment of age 55. However, under the terms of the Retirement Restoration Plan, all amounts deferred (determined based on the actuarial equivalent value) became vested (to the extent not previously vested) upon the Merger and were required to be paid out in a lump sum following the consummation of the Merger. Payments to Mr. Molinaroli will be delayed until they are deductible under Section 162(m) of the “Code”.

## Non-Qualified Deferred Compensation Table at Fiscal Year-End

The following table presents information on the non-qualified deferred compensation accounts of each named executive officer at September 30, 2016. For Messrs Molinaroli, Stief, McDonald and Jackson, the amounts shown in columns (b)-(e) in the table relate to the period after the Merger, but the balance shown in column (f) includes amounts deferred for periods prior to the Merger.

Name (a)	Executive Contributions in Last Fiscal Year (\$) (b) <sup>(1)</sup>	Registrant Contributions in Last Fiscal Year (\$) (c) <sup>(1)</sup>	Aggregate Earnings in Last Fiscal Year (\$) (d) <sup>(2)</sup>	Aggregate Withdrawals/ Distributions (\$) (e) <sup>(3)</sup>	Aggregate Balance at Last Fiscal Year End (\$) (f) <sup>(1)</sup>
Alex A. Molinaroli	\$13,060,882	\$-	\$668,899	\$(8,636,934)	\$18,091,607
George R. Oliver	\$49,667	\$17,417	\$92,207	\$(80,079)	\$949,899
Brian J. Stief	\$3,605	\$-	\$341,281	\$(7,537,357)	\$3,625
Robert Olson	\$178,333	\$-	\$14,092	\$-	\$192,425
R. Bruce McDonald	\$5,150	\$-	\$(133,213)	\$(26,645,580)	\$5,152
William C. Jackson	\$4,120	\$-	\$27,998	\$(2,960,122)	\$4,145
Judith A. Reinsdorf	\$18,667	\$9,667	\$217,689	\$-	\$2,231,980
<u>Former Officer</u>					
Arun Nayar	\$17,500	\$10,500	\$221,858	\$(2,367,263)	\$339,744

(1) Amounts in column (b) for Messrs. Molinaroli, Stief, McDonald and Jackson include employee contributions under the Legacy Johnson Controls Executive Deferred Compensation Plan and the Legacy Johnson Controls Retirement Restoration Plan. The Legacy Johnson Controls Executive Deferred Compensation Plan allows participants to defer up to 100% of their annual bonuses, long-term performance share units and restricted stock awards. The Retirement Restoration Plan allows executive officers to defer up to 6% of their compensation that is not eligible to be deferred into the Legacy Johnson Control 401(k) plan because of qualified plan limits that the Code imposes. The Retirement Restoration Plan also credits participants with an amount equal to the difference between the amount of retirement contributions made under the 401(k) plan and what such retirement contribution would have been without regard to the Code limits. For Mr. Molinaroli, the amount also includes the amount of his lump sum distribution described in footnote (3) that is being delayed until it is deductible under Section 162(m) of the Code. Amounts in columns (b) and (c) for Messrs. Oliver and Nayar and Ms. Reinsdorf include employee and Company contributions, respectively, under the Legacy Tyco SSRP, a non-qualified retirement savings plan. Under the terms of the SSRP, an eligible executive may choose to defer up to 50% of his or her base salary and up to 100% of his or her performance bonus. All of the amounts shown in columns (b) and (c) are also included in the Summary Compensation Table. The following Amounts shown in column (f) were reported in the Salary and Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table for Mr. Molinaroli—\$13,060,882

(2) The Aggregate Earnings reported in column (d) are not “above-market or preferential earnings” and therefore are not required to be reported in the Summary Compensation Table. For Messrs. Molinaroli, Stief, McDonald and Jackson, the amounts in column (d) reflect all investment earnings, net of fees, on amounts that have been deferred. Investment earnings include any

amounts relating to appreciation in the price of our ordinary shares, and negative amounts relating to depreciation in the price of ordinary shares because the deferred amounts include deferred stock units, the value of which is tied to the value of our ordinary shares. For Messrs. Oliver, Olson, and Nayar and Ms. Reinsdorf, the amounts in column (d) include earnings or (losses) on the named executive officer's notional account in the Legacy Tyco SSRP. Investment options under the Legacy Johnson Controls nonqualified deferred compensation plans include only funds that are available under Legacy Johnson Controls tax-qualified 401(k) retirement plans, and investment options under the SSRP include only funds that are available under Tyco's tax-qualified 401(k) retirement plans

(3) Amounts shown in column (e) for Messrs. Molinaroli, Stief, McDonald and Jackson reflect the value of the immediate lump sum distributions from the Legacy Johnson Controls Executive Deferred Compensation Plan and the account balance portion of the Retirement Restoration Plan that resulted from the Merger. The lump sum was generally paid out within 30 days or 90 days (depending on the plan) following the consummation of the Merger. A portion of Mr. Molinaroli's distribution is being delayed until it is deductible under Section 162(m) of the Code. Amounts shown in column (e) for Messrs. Oliver and Nayar reflect distributions under the Legacy Tyco SSRP. Under the SSRP, participants may elect to receive distributions in a single lump sum payment or in up to 15 annual installments. A participant who is still employed may begin receiving distributions under the SSRP after a minimum of five years have elapsed from the plan year for which contributions have been made. A participant who has left the Company must begin receiving distributions upon his or her termination of employment or retirement.

## Potential Payments upon Termination and Change in Control

The following table summarizes the severance and other enhanced benefits that would have been payable to the named executive officers upon termination of employment or upon the occurrence of a change in control subsequent to the Merger, assuming that the triggering event or events occurred on September 30, 2016. Equity award amounts are based on the closing share price of our ordinary shares of \$46.53 on the NYSE on September 30, 2016.

The Merger was deemed to constitute a change in control under the change in control employment agreements (other than Mr. McDonald's) and equity compensation plans maintained by Legacy Johnson Controls and under the Legacy Tyco Change in Control Severance Plan for Certain U.S. Officers and Executives (the "CIC Severance Plan") and equity compensation plans, triggering certain enhanced benefits for a period following the Merger, as described above under the heading "Impact of the Merger on Compensation" and in the footnotes below the following table. The hypothetical benefits shown below under the Change-in-Control columns reflect amounts that would have been payable in connection with a change in control subsequent to the Merger under the arrangements described below. The hypothetical benefits show below under the "Other

Terminations" columns reflect amounts that would have been payable under the various circumstances set forth taking into account the fact that the Merger is treated as a change-in-control under certain plans and agreements applicable to the NEOs (except for Mr. McDonald).

Name/Form of Compensation (a)	Change in Control (other than the Merger)			Other Terminations (including the impact of the Merger as a change in control trigger)			
	Without Qualified Termination (\$) (b)	With Qualified Termination (\$) (c)	With Cause (\$) (d)	Without Cause/Good Reason Resignation (\$) (e)	Voluntary Resignation/ Retirement (\$) (f)	Death or Disability (\$) (g)	
<b>Alex A. Molinaroli</b>							
Severance <sup>(1)</sup>	-	47,061,823	-	40,862,053	-	40,862,053	
Benefit Continuation <sup>(2)</sup>	-	1,024,073	-	901,174	-	8,588,377	
Accelerated Vesting of Equity Awards <sup>(3)(4)</sup>	-	35,366,980	-	35,366,980	9,690,954 <sup>(4)</sup>	54,811,169	
<b>George R. Oliver</b>							
Severance <sup>(1)</sup>	-	8,812,500	-	8,812,500	-	8,812,500	
Benefit Continuation <sup>(2)</sup>	-	16,347	-	16,347	-	-	
Accelerated Vesting of Equity Awards <sup>(3)(4)</sup>	-	16,165,177	-	16,165,177	5,264,165 <sup>(4)</sup>	16,165,177	
<b>Brian J. Stief</b>							
Severance <sup>(1)</sup>	-	9,248,996	-	9,790,350	-	9,790,350	
Benefit Continuation <sup>(2)</sup>	-	236,222	-	222,992	-	222,992	
Accelerated Vesting of Equity Awards <sup>(3)(4)</sup>	-	9,477,320	-	9,477,320	2,301,759 <sup>(4)</sup>	9,477,320	
<b>Robert Olson</b>							
Severance <sup>(1)</sup>	-	1,926,000	-	1,926,000	-	-	
Benefit Continuation <sup>(2)</sup>	-	22,297	-	22,297	-	-	
Accelerated Vesting of Equity Awards <sup>(3)</sup>	-	1,553,677	-	1,553,677	-	1,553,677	
Other		600,000		600,000	-	600,000	
<b>R. Bruce McDonald</b>							
Severance <sup>(1)</sup>	-	14,629,945	-	1,030,000	-	-	
Benefit Continuation <sup>(2)</sup>	-	423,260	-	-	-	4,881,517	
Accelerated Vesting of Equity Awards <sup>(3)(5)</sup>	-	20,895,455	-	98,225	6,285,908	20,895,455	

Name/Form of Compensation (a)	Change in Control (other than the Merger)			Other Terminations (including the impact of the Merger as a change in control trigger)		
	Without Qualified Termination (\$) (b)	With Qualified Termination (\$) (c)	With Cause (\$) (d)	Without Cause/Good Reason Resignation (\$) (e)	Voluntary Resignation/ Retirement (\$) (f)	Death or Disability (\$) (g)
<b>William C. Jackson</b>						
Severance <sup>(1)</sup>	-	13,845,953	-	14,126,684	-	14,126,684
Benefit & Perquisite Continuation <sup>(2)</sup>	-	219,965	-	187,226	-	187,226
Accelerated Vesting of Equity Awards <sup>(3)</sup>	-	6,834,140	-	6,834,140	-	9,610,658
<b>Judith A. Reinsdorf</b>						
Severance <sup>(1)</sup>	-	3,240,000	-	2,160,000	-	-
Benefit & Perquisite Continuation <sup>(2)</sup>	-	25,281	-	25,281	-	-
Accelerated Vesting of Equity Awards <sup>(3)</sup>	-	3,937,318	-	3,937,318	-	6,270,611

(1) For Messrs. Molinaroli, Stief and Jackson, amounts shown include severance amounts that would have been payable under the executive officers' respective change in control employment agreements upon a termination by us without cause or by the officer with good reason (a "Legacy Johnson Controls qualifying termination"), or a termination due to the executive officer's death or disability, in each case on September 30, 2016, which is within the protected 33-month (in the case of Mr. Molinaroli) or 36-month (in the case of Messrs. Stief and Jackson) period following the Merger (such protected period, the "employment period"). These amounts include: (a) a lump sum severance payment equal to three times the executive officer's annual cash compensation, which includes the executive officer's annual base salary and the greater of (i) the average of the executive officer's annualized annual cash bonuses and long-term performance awards for the three fiscal years preceding the change of control, and (ii) the sum of the annual cash bonuses and long-term performance awards for the most recently completed fiscal year (such greater amount, "average performance bonus"); (b) payment of a pro rata portion of the executive officer's average performance bonus for the year of the termination. For Mr. McDonald, under whose employment agreement the Merger was not treated as a change in control, amounts shown under "Change in Control—With Qualified Termination" include amounts described in the preceding sentence, and amounts shown under "Other Termination—Without Cause / Good Reason Resignation" include amounts that would have been payable under his employment agreement upon a termination without cause or for good reason on September 30, 2016 prior to a change in control other than the Merger. Upon such a termination without cause, Mr. McDonald would have been entitled to a cash severance benefit in an amount equal to the greater of one year of his base salary as of the termination date, or twice the amount payable under the Legacy Johnson Controls severance plan for U.S. salaried employees. For Mr. Oliver, amounts shown include amounts that would have payable under his employment agreement upon a termination by us without cause or by Mr. Oliver with good reason (a "Tyco qualifying termination of employment"), or a termination due to Mr. Oliver's death or disability, in each case on September 30, 2016, which was within the agreement's protected 33 month period following the Merger. These amounts include: (a) a lump sum severance payment equal to three times the sum of Mr. Oliver's annual base salary and a bonus amount calculated using the greater of his target bonus for the year of termination or his annual bonus for the most recently completed fiscal year; and (b) payment of a prorated portion of the bonus amount for the year of termination. For Mr. Olson and Ms. Reinsdorf,

amounts shown include amounts that would have been payable under the CIC Severance Plan upon a Tyco qualifying termination of employment on September 30, 2016. These amounts include a severance payment of two times base salary and two times target bonus, payable in a lump sum. In addition, the executive officer would be entitled to a prorated portion of the executive's annual bonus for the year in which employment was terminated. The amounts shown in this table are subject to reduction to the extent necessary to prevent the application of the excise tax under Code Section 4999.

- (2) For Messrs. Molinaroli, Oliver, Stief and Jackson, amounts shown include (i) the value of continued medical and welfare benefits for two years following termination of employment without cause or with good reason under the arrangements described in the preceding footnote and (ii) a cash payment equal to the lump sum value of the additional benefits the executive officer would have accrued for the remainder of the employment period under pension and/or retirement plans, assuming the executive officer is fully vested in such benefits at the time of termination. For Mr. Olson and Ms. Reinsdorf, amounts shown include the value of one year of continuing coverage under applicable medical and dental benefit plans, a lump sum cash payment equal to the projected value of the employer portion of premiums under applicable medical and dental plans for an additional one year, and one year of outplacement services under the CIC Severance Plan. For Messrs. Molinaroli and McDonald, the payments shown in the column titled "Death or Disability" reflect the benefits under the Legacy Johnson Controls Executive Survivor Benefits Plan, which entitles the beneficiary of the participant to a lump sum death benefit equal to, two times the executives' base salary, plus an additional "gross-up" amount. In addition, the beneficiaries would receive a continuation of the executives base salary for six months. During fiscal year 2009, the Legacy Johnson Controls Executive Survivor Benefit Plan was frozen to limit participation to current elected officers.
- (3) Amounts represent the intrinsic value of unvested equity awards that would have vested upon the indicated triggering event for the named executive officers.
- (4) For Messrs. Molinaroli, Oliver, Stief and McDonald, who were retirement eligible under applicable plans as of September 30, 2016, the value of certain equity awards that would vest on an accelerated basis upon retirement is presented in the table above in column (f). For Messrs. Molinaroli, Stief and McDonald, the value of certain equity awards that would continue to vest according to their original vesting schedule upon retirement is not included.
- (5) Mr. McDonald became chairman and chief executive officer of Adient plc following the completion of the spin-off on October 31, 2016, and received none of the benefits described in the table above. Mr. McDonald's employment agreement and change in control employment agreement were assigned to Adient at the time of the spin-off.
- (6) A voluntary resignation represents a resignation without good reason as defined under applicable agreements and plans. As a result of the Merger and the integration of Legacy Johnson Controls and Legacy Tyco, including changes in reporting relationships and responsibilities, certain executives of the Company have the ability to trigger good reason resignation during applicable periods as specified in such agreements and plans.

As noted above, Messrs. Molinaroli, Oliver, Stief and McDonald were retirement eligible under applicable plans as of September 30, 2016. For Messrs. Molinaroli, Stief and McDonald, upon the executives early retirement:

- i. the Company is not obligated to pay severance;
- ii. the executive will receive, at the end of the applicable performance period for each of his annual and long-term bonus awards outstanding under the Legacy Johnson Controls Omnibus Incentive Plan, a pro-rata portion of the award amount that he would have earned had he remained employed through the end of each such performance period, based on the Company's actual performance;
- iii. with respect to stock options, the vesting of any unvested stock options that were granted to the executive under the Legacy Johnson Controls Omnibus Incentive Plan that were outstanding for at least one full calendar year after the year of grant would accelerate so that all of the options would be exercisable in full (and the executive would forfeit all other options that have not been outstanding for at least one full calendar year after the date of grant);
- iv. with respect to restricted stock and RSU awards, (A) for certain awards, the executive would retain his shares of restricted stock and RSUs that had not vested at the time of retirement, and they would continue to vest on the normal vesting schedule, and (B) for certain awards granted in 2015 and 2016, the executive would either vest pro rata in the award based on the number of full months of service completed since the grant of the award or fully vest in the award (however, in each case, the award agreements provide that the executive would not earn the award if he engaged in conduct harmful to the best interests of the Company after his retirement);
- v. with respect to performance-based share units, the executive would earn the units that he held at retirement based on actual performance at the end of the performance period, but the amount would be pro-rated based on the number of days of employment during the performance period (in the case of known retirements, the pro-ration of shares occurs at grant based on the number of days of employment during the performance period);

In addition, each of Messrs. Molinaroli and McDonald would be eligible to receive pension benefits upon retirement. For an estimate of the value of these pension benefit, please see the Pension Benefits Table above.

For Mr. Oliver, the terms of the equity awards applicable to him generally provide that if he were to retire at least one year following the grant of such award, the applicable award would accelerate and vest pro rata based on the number of full months of service completed since the grant date of the award.

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# THE ANNUAL GENERAL MEETING – QUESTIONS AND ANSWERS

The following questions and answers are intended to address briefly some commonly asked questions regarding the Annual General Meeting. These questions and answers may not address all questions that may be important to you. For more information, please refer to the more detailed information contained elsewhere in this proxy statement, including the documents referred to or incorporated by reference herein. For instructions on obtaining the documents incorporated by reference, see “Where You Can Find More Information.”

## Why did I receive this Proxy statement?

We have sent this notice of annual general meeting and proxy statement, together with the enclosed proxy card or voting instruction card, because our Board of Directors is soliciting your proxy to vote at the Annual General Meeting on March 8, 2017. This proxy statement contains information about the items being voted on at the Annual General Meeting and important information about Johnson Controls. Our 2016 Annual Report on Form 10-K, which includes our consolidated financial statements for the fiscal year ended September 30, 2016 (the “Annual Report”), is enclosed with these materials.

## Who is entitled to vote?

Each holder of Johnson Controls ordinary shares in our register of shareholders (such owners are often referred to as “shareholders of record,” “record holders” or “registered shareholders”) as of the close of business on January 4, 2017, the record date for the Annual General Meeting, is entitled to attend and vote at the Annual General Meeting. On January 4, 2017, there were 938,710,115 ordinary shares outstanding and entitled to vote at the Annual General Meeting. Any Johnson Controls shareholder of record as of the record date who does not receive notice of the Annual General Meeting and proxy statement, together with the enclosed proxy card or voting instruction card and the Annual Report, may obtain a copy at the Annual General Meeting or by contacting Johnson Controls at +353-21-423-5000.

We have requested that banks, brokerage firms and other nominees who hold ordinary shares on behalf of the owners of the ordinary shares (such owners are often referred to as “beneficial shareholders” or “street name holders”) as of the close of business on January 4, 2017 forward these materials, together with a proxy card or voting instruction card, to such beneficial shareholders. Johnson Controls has agreed to pay the reasonable expenses of the banks, brokerage firms and other nominees for forwarding these materials.

Finally, Johnson Controls has provided for these materials to be sent to persons who have interests in its ordinary shares through participation in Johnson Controls’ retirement savings plans. These individuals are not eligible to vote directly at the Annual General Meeting. They may, however, instruct the trustees of these plans how to vote the ordinary shares represented by their interests. The enclosed proxy card will also serve as voting instructions for the trustees of the plans.

## How many votes do I have?

Every holder of an ordinary share on the record date will be entitled to one vote per share for each matter presented at the Annual General Meeting. Because each Director’s election is the subject of a

separate resolution, every holder of an ordinary share on the record date will be entitled to one vote per share for each separate Director election resolution.

## What is the difference between holding shares as a shareholder of record and as a beneficial owner?

Most of our shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

### SHAREHOLDER OF RECORD

If your shares are registered directly in your name, in our share register operated by our transfer agent, Wells Fargo N.A., you are considered, with respect to those shares, the shareholder of record and these proxy materials are being sent to you directly by us. As the shareholder of record, you have the right to grant your voting proxy to the persons named in the proxy card (see *“How Do I Appoint and Vote via a Proxy?”* below), or to grant a written proxy to any other person, which person does not need to be a shareholder, or to attend and vote in person at the Annual General Meeting. We have enclosed a proxy card for you to use in which you can elect to appoint the officers of the Company named therein as your proxy.

### BENEFICIAL OWNER

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in “street name,” and these proxy materials are being forwarded to you by your bank, broker or other nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your bank, broker or other nominee on how to vote your shares and are also invited to attend the Annual General Meeting. However, since you are not the shareholder of record, you may only vote these shares in person at the Annual General Meeting if you follow the instructions described below under *“Admission to the Annual General Meeting”* and *“How do I vote?”* Your bank, broker or other nominee has enclosed a voting instruction card for you to use in directing your bank, broker or other nominee as to how to vote your shares, which may contain instructions for voting by telephone or electronically.

## How do I vote?

A proxy card is being sent to each shareholder of record as of the record date. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares. Otherwise, you can vote in the following ways:

- **By Mail:** If you are a holder of record, you can vote by marking, dating and signing the appropriate proxy card and returning it by mail in the enclosed postage-paid envelope. If you beneficially own your ordinary shares, you can vote by following the instructions on your voting instruction card.
- **By Internet or Telephone:** You can vote over the Internet at [www.proxyvote.com](http://www.proxyvote.com) by following the instructions on the proxy card or the voting instruction card or in the Notice of Internet availability of proxy materials previously sent to you. If you are not a holder of record, you can vote using a touchtone telephone by calling 1-800-454-8683.
- **At the Annual General Meeting:** If you are planning to attend the Annual General Meeting and wish to vote your ordinary shares in person, we will give you a ballot at the meeting.

Shareholders who own their shares in “street name” are not able to vote at the Annual General Meeting unless they have a proxy, executed in their favor, from the holder of record of their shares.

Even if you plan to be present at the Annual General Meeting, we encourage you to complete and mail the enclosed card to vote your ordinary shares by proxy. Telephone and Internet voting facilities for shareholders will be available 24 hours a day and will close at 11:59 p.m., Eastern Standard Time, on March 7, 2017.

## How do I appoint and vote via a proxy?

If you properly fill in your proxy card appointing an officer of the Company as your proxy and send it to us in time to vote, your proxy, meaning one of the individuals named on your proxy card, will vote your shares as you have directed. You may also grant a written proxy to any other person by filling in the proxy card and identifying the person, which person does not need to be a shareholder, or attend and vote in person at the Annual General Meeting. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board of Directors “FOR” each Director, “FOR” the proposals set forth in agenda items one through five and seven through nine, and for the “ANNUAL” option set forth in proposal six.

If a new agenda item or a new motion or proposal for an existing agenda item is presented to the Annual General Meeting, the Company officer acting as your proxy will vote in accordance with the recommendation of our Board of Directors. At the time we began printing this proxy statement, we knew of no matters that needed to be acted on at the Annual General Meeting other than those discussed in this proxy statement.

Whether or not you plan to attend the Annual General Meeting, we urge you to submit your proxy. Returning the proxy card or submitting your vote electronically will not affect your right to attend the Annual General Meeting. You must return your proxy cards by the times and dates set forth below under “Returning Your Proxy Card” in order for your vote to be counted.

## What if I return my proxy or voting instruction card but do not mark it to show how I am voting?

Your shares will be voted according to the specific instructions you have indicated on your proxy or voting instruction card. If you sign and return your proxy or voting instruction card but do not indicate specific instructions for voting, you instruct the proxy to vote your shares, “FOR” each Director, “FOR” the proposals set forth in agenda items one through five and seven through nine, and for the “ANNUAL” option set forth in proposal six. For any other matter which may properly come before the Annual General Meeting, and any adjournment or postponement thereof, you instruct, by submitting proxies with blank voting instructions, the proxy to vote in accordance with the recommendation of the Board of Directors.

## May I change or revoke my vote after I return my proxy or voting instruction card?

You may change your vote before it is exercised by:

- If you voted by telephone or the Internet, submitting subsequent voting instructions through the telephone or Internet;
- Submitting another proxy card (or voting instruction card if you beneficially own your ordinary shares) with a later date; or

- If you are a holder of record, or a beneficial owner with a proxy from the holder of record, voting in person at the Annual General Meeting.

Your presence without voting at the meeting will not automatically revoke your proxy, and any revocation during the meeting will not affect votes previously taken. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee in revoking your previously granted proxy.

### What does it mean if I receive more than one proxy or voting instruction card?

It means you have multiple accounts at the transfer agent and/or with banks and stockbrokers. Please vote all of your shares. Beneficial owners sharing an address who are receiving multiple copies of the proxy materials and Annual Report will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future. In addition, if you are the beneficial owner, but not the record holder, of our shares, your broker, bank or other nominee may deliver only one copy of the proxy statement and Annual Report to multiple shareholders who share an address unless that nominee has received contrary instructions from one or more of the shareholders. We will deliver promptly, upon written or oral request, a separate copy of the proxy statement and Annual Report to a shareholder at a shared address to which a single copy of the documents was delivered. Shareholders who wish to receive a separate written copy of the proxy statement, now or in the future, should submit their request to us by telephone at +353-21-423-5000 or by submitting a written request to Johnson Controls Shareholder Services, Johnson Controls International plc, One Albert Quay, Cork, Ireland.

### What vote is required to approve each proposal at the Annual General Meeting?

Johnson Controls intends to present proposals numbered one through nine for shareholder consideration and voting at the Annual General Meeting. The vote required to approve each proposal is described below:

1. By separate resolutions, to elect the following individuals as Directors for a period of one year, expiring at the end of the Company's Annual General Meeting of Shareholders in 2018. The election of each director nominee requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors of the Company and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration, which in each case, requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.
3. To authorize the Company and/or any subsidiary of the Company to make market purchases of Company shares, which requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.
4. To determine the price range at which the Company can re-allot shares that it holds as treasury shares (Special Resolution), which requires the affirmative vote of at least 75% of the votes properly cast (in person or by proxy) at the Annual General Meeting.
5. To approve, in a non-binding advisory vote, the compensation of the named executive officers, which will be considered approved with the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting. The advisory vote on

executive compensation is non-binding, meaning that our Board of Directors will not be obligated to take any compensation actions or to adjust our executive compensation programs or policies as a result of the vote.

6. To provide, in a non-binding advisory vote, shareholder feedback regarding the frequency of the non-binding advisory vote on compensation of the named executive officers. This proposal is non-binding, meaning that our board will not be obligated to take any actions or to adjust the frequency of the advisory vote on executive compensation as a result of the vote. Although the vote is non-binding, our Board and the Compensation Committee will review the voting results and consider the feedback obtained through this process in making future decisions about the frequency of the advisory vote on executive compensation.
7. To approve the material terms of the performance goals under the Johnson Controls International plc 2012 Share and Incentive Plan, which requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.
8. To approve the authorization for the Board of Directors to issue shares up to 33% of its issued share capital, which requires the affirmative vote of a majority of the votes properly cast (in person or by proxy) at the Annual General Meeting.
9. To approve the authorization for the Board of Directors to issue shares for cash up to a maximum of approximately 5% of issued share capital, which requires the affirmative vote of at least 75% of the votes properly cast (in person or by proxy) at the Annual General Meeting.

## What is the quorum requirement for the Annual General Meeting?

In order to conduct any business at the Annual General Meeting, holders of a majority of Johnson Controls' ordinary shares which are outstanding and entitled to vote on the record date must be present in person or represented by valid proxies. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, against or abstained, or broker non-votes, if you:

- are present and vote in person at the meeting;
- have voted by telephone or the Internet; OR
- you have submitted a proxy card or voting instruction form by mail.

## What is the effect of broker non-votes and abstentions?

Abstentions and broker non-votes are considered present for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be considered votes properly cast at the Annual General Meeting. Because the approval of all of the proposals is based on the votes properly cast at the Annual General Meeting, abstentions and broker non-votes will not have any effect on the outcome of voting on these proposals.

A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular agenda item because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Although brokers have discretionary power to vote your shares with respect to "routine" matters, they do not have discretionary power to vote your shares on "non-routine" matters pursuant to the rules of The New York Stock Exchange (the "NYSE"). We believe the following proposals will be considered non-routine under NYSE rules and therefore your broker will not be able to vote your shares with respect to these proposals unless the

broker receives appropriate instructions from you: Proposal No. 1 (Election of Directors), Proposal No. 5 (Advisory Vote on Executive Compensation), and Proposal No. 6 (Advisory Vote on the Frequency of the Executive Compensation Vote). Therefore your broker will not be able to vote your shares with respect to these proposals unless the broker receives appropriate instructions from you.

## How will voting on any other business be conducted?

Other than matters incidental to the conduct of the Annual General Meeting and those set forth in this proxy statement, we do not know of any business or proposals to be considered at the Annual General Meeting. If any other business is proposed and properly presented at the Annual General Meeting, the proxy holders must vote in accordance with the instructions given by the shareholder. You may specifically instruct the proxy holder how to vote in such a situation. In the absence of specific instructions, by signing the proxy, you instruct the proxy holder to vote in accordance with the recommendations of the Board of Directors.

## Important notice regarding the availability of proxy materials for the Annual General Meeting:

Our proxy statement for the Annual General Meeting and the form of proxy card are available at [www.proxyvote.com](http://www.proxyvote.com).

As permitted by SEC rules, we are making this proxy statement available to our shareholders electronically via the Internet. On January 20, 2017, we first mailed to our shareholders a Notice containing instructions on how to access this proxy statement and vote online. If you received a Notice by mail, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the proxy statement. The Notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Notice.

## Returning Your Proxy Card

Shareholders who are voting by mail should complete and return the proxy card as soon as possible. In order to assure that your proxy is received in time to be voted at the meeting, the proxy card must be completed in accordance with the instructions and received at one of the addresses set forth below by the dates and times specified:

### ***Ireland:***

*By 5:00 p.m., local time, on March 7, 2017 by hand or mail at:*

Johnson Controls International plc  
One Albert Quay  
Cork, Ireland

### ***United States:***

*By 5:00 p.m., Eastern Standard Time, on March 7, 2017 by mail at:*

Broadridge Financial Solutions  
c/o Vote Processing  
51 Mercedes Way  
Edgewood, NY 11717

If your shares are held beneficially in "street name," you should return your proxy card or voting instruction card in accordance with the instructions on that card or as provided by the bank, brokerage firm or other nominee who holds Johnson Controls shares on your behalf.

## Admission to the Annual General Meeting

All shareholders are invited to attend the Annual General Meeting. For admission to the Annual General Meeting, shareholders of record should bring the admission ticket attached to the enclosed proxy card to the Registered Shareholders check-in area, where their ownership will be verified. Those who have beneficial ownership of shares held by a bank, brokerage firm or other nominee should come to the Beneficial Owners check-in area. Beneficial owners who wish to vote in person at the Annual General Meeting are requested to obtain a "legal proxy" executed in their favor, from their broker, bank, nominee or other custodian that authorizes you to vote the shares held by them on your behalf. In addition, you must bring to the Annual General Meeting an account statement or letter from the broker, bank or other nominee indicating that you are the owner of the shares. Registration will begin at 2:00 pm, local time, and the Annual General Meeting will begin at 3:00 pm, local time.

## Johnson Controls Annual Report

The Johnson Controls International plc 2016 Annual Report containing our audited consolidated financial statements with accompanying notes is available on the Company's Web site in the Investor Relations Section at [www.johnsoncontrols.com](http://www.johnsoncontrols.com). Copies of these documents may be obtained without charge by contacting Johnson Controls by phone at +353-21-423-5000. Copies may also be obtained without charge by contacting Investor Relations in writing, or may be physically inspected, at the offices of Johnson Controls International plc, One Albert Quay, Cork, Ireland.

## Presentation of Irish Statutory Accounts

The Company's Irish Statutory Accounts for the fiscal year ended September 30, 2016, including the reports of the Directors and auditors thereon, will be presented at the Annual General Meeting. The Company's Irish Statutory Accounts have been approved by the Board of Directors of the Company. There is no requirement under Irish law that such statements be approved by shareholders, and no such approval will be sought at the Annual General Meeting. The Company's Irish Statutory Accounts are available with the proxy statement, the Company's Annual Report on Form 10-K and other proxy materials at [www.proxyvote.com](http://www.proxyvote.com), and in the Investor Relations section of the Company's website at [www.johnsoncontrols.com](http://www.johnsoncontrols.com).

## Costs of Solicitation

We will pay the cost of solicitation of proxies. We have engaged Mackenzie Partners as the proxy solicitor for the Annual General Meeting for an approximate fee of \$10,000, plus expenses. In addition to the use of the mails, certain of our Directors, officers or employees may solicit proxies by telephone or personal contact. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares.

We are furnishing this proxy statement to our shareholders in connection with the solicitation of proxies by our Board of Directors for use at an Annual General Meeting of our shareholders. We are first mailing this proxy statement and the accompanying form of proxy to shareholders beginning on or about January 20, 2017.

## Shareholder Proposals for the 2018 Annual General Meeting

In accordance with the rules established by the SEC, as well as under the provisions of our Memorandum and Articles of Association, any shareholder proposal submitted pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 (the “Exchange Act”) intended for inclusion in the proxy statement for next year’s Annual General Meeting must be received by Johnson Controls no later than September 22, 2017. Such proposals should be sent to our Secretary at our registered address, which is: One Albert Quay, Cork, Ireland. To be included in the proxy statement, the proposal must comply with the requirements as to form and substance established by the SEC and our Articles of Association, and must be a proper subject for shareholder action under applicable law. Any shareholder proposal that is not submitted for inclusion in the proxy statement but is instead sought to be presented directly at the 2018 Annual General Meeting must be received by the Secretary at the address listed above no earlier than December 6, 2017. Securities and Exchange Commission rules permit management to vote proxies in its discretion in certain cases if the shareholder does not comply with this deadline and in certain other cases notwithstanding the shareholder’s compliance with this deadline.

New proposals or motions with regard to existing agenda items are not subject to such restrictions and can be made at the meeting by each shareholder attending or represented. Note that if specific voting instructions are not provided to the proxy, shareholders who submit a proxy card instruct the proxy to vote their shares in accordance with the recommendations of the Board of Directors with regard to the items appearing on the agenda.

## Where You Can Find More Information

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy these materials at the SEC reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on their public reference room. Our SEC filings are also available to the public at the SEC’s Web site ([www.sec.gov](http://www.sec.gov)).

The SEC’s Web site contains reports, proxy statements and other information regarding issuers, like us, that file electronically with the SEC. You may find our reports, proxy statements and other information at the SEC Web site. In addition, you can obtain reports and proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We maintain a Web site on the Internet at [www.johnsoncontrols.com](http://www.johnsoncontrols.com). We make available free of charge, on or through our Web site, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after such material is filed with the SEC. This reference to our Internet address is for informational purposes only and shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this proxy.

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the number of registered shares beneficially owned as of December 31, 2016 by each current director, each named executive officer and the directors and executive officers of Johnson Controls as a group.

Beneficial Owner	Title	Number of Ordinary Shares		
		Beneficially Owned <sup>(1)(2)</sup>	Pct of Class	Cash Settled Stock Units <sup>(3)</sup>
David P. Abney	Director	5,661	*	-
Natalie A. Black	Director	-	*	-
Michael E. Daniels	Director	58,802	*	-
Brian Duperreault	Director	32,179	*	-
William Jackson	Named Executive Officer	262,267	*	71,884
Jeffrey A. Joerres	Director	13,434	*	-
Alex A. Molinaroli	Chairman and CEO	927,581	*	213,739
George R. Oliver	Director and COO	2,296,915	*	-
Robert Olson	Named Executive Officer	17,616	*	-
Juan Pablo del Valle Perochena	Director	-	*	-
Judith A. Reinsdorf	Named Executive Officer	655,735	*	-
Brian Stief	Named Executive Officer	151,573	*	189,221
Jürgen Tinggren	Director	3,822	*	-
Mark Vergnano	Director	11,584	*	-
R. David Yost	Director	40,747	*	-
All current Directors and executive officers as a group (16 persons)	Director	4,477,916	*	

\* Less than 1.0%

(1) The number shown reflects the number of ordinary shares owned beneficially as of December 31, 2016, based on information furnished by the persons named, public filings and Johnson Control's records. A person is deemed to be a beneficial owner of ordinary shares if he or she, either alone or with others, has the power to vote or to dispose of those ordinary shares. Except as otherwise indicated below and subject to applicable community property laws, each owner has sole voting and sole investment authority with respect to the shares listed. To the extent indicated in the notes below, ordinary shares beneficially owned by a person include ordinary shares of which the person has the right to acquire beneficial ownership within 60 days after December 31, 2016. There were 938,685,172 Johnson Controls ordinary shares outstanding on such date.

(2) Includes the maximum number of shares for which these individuals can acquire beneficial ownership upon (i) the exercise of stock options that are currently vested or will vest within 60 days of December 31, 2016 as follows: Mr. Jackson, 218,660; Mr. Molinaroli, 787,961; Mr. Oliver, 17,616; Ms. Reinsdorf, 461,276; and Mr. Stief 131,799 and (ii) the maximum number of restricted shares and ordinary shares underlying restricted share units that will vest with 60 days of December 31, 2016 as follows: Mr. Molinaroli, 9,647.

(3) Reflects ordinary share equivalents under deferred and equity based compensation plans. Each stock unit is intended to be the economic equivalent of one ordinary share of Johnson Controls International plc ordinary share. Units are settled in the form of cash and are not settled in the form of

ordinary shares. These amounts are not included in the amounts in the “Number of Ordinary Shares Beneficially Owned” column.

The following table sets forth the information indicated for persons or groups known to the Company to be beneficial owners of more than 5% of the outstanding ordinary shares.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Ordinary Shares Beneficially Owned</u>	<u>Percentage of Ordinary Shares Outstanding</u>
T. Rowe Price 100 E. Pratt Street Baltimore, MD 21202	55,936,256 <sup>(1)</sup>	6.0%

<sup>(1)</sup> Based solely on the information reported by T. Rowe Price in a Notification of Holdings under Irish law provided to the Company on November 21, 2016 and reporting ownership as of November 15, 2016. On such date, T. Rowe Price, together with its affiliates, held an interest in 55,936,256 ordinary shares.

## Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and Directors and persons who beneficially own more than 10% of Johnson Controls' ordinary shares to file reports of ownership and changes in ownership of such ordinary shares with the SEC and NYSE. These persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. As a matter of practice, the Company's administrative staff assists officers and Directors in preparing initial reports of ownership and reports of changes in ownership and files those reports on their behalf. Based on the Company's review of the copies of such forms it has received, as well as information provided and representations made by the reporting persons, other than the exception noted below, Johnson Controls believes that all of its officers, Directors and beneficial owners of more than 10% of its ordinary shares complied with Section 16(a) during the Company's fiscal year ended September 30, 2016, except as follows: (i) the withholding of 5,539 ordinary shares from Mr. Johan Pfeiffer and to cover the tax liability for dividend equivalent units in respect of RSUs that vested on September 2, 2016 was reported in a late filing on Form 4 on October 24, 2016 and (ii) the acquisition by Mr. Bruce McDonald of 2,111 ordinary shares in respect of an RSU award granted on September 8, 2016 was reported in a late Form 4 on October 26, 2016.

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## ANNEX I

# NON-GAAP RECONCILIATIONS

This document contains financial information regarding adjusted earnings per share, which is a non-GAAP performance measure. The adjusting items include mark-to-market for pension and postretirement plans/settlement losses, transaction/integration/separation costs, restructuring and impairment costs, significant gains or losses on business divestitures, nonrecurring purchase accounting impacts related to the Tyco merger and discrete tax items. Financial information regarding adjusted sales, adjusted segment EBIT and adjusted segment EBIT margin are also presented, which are non-GAAP performance measures. Adjusted segment EBIT excludes special items such as transaction/integration/separation costs, nonrecurring purchase accounting impacts and significant gains or losses on business divestiture because these costs are not considered to be directly related to the operating performance of its business units. Management believes that, when considered together with unadjusted amounts, these non-GAAP measures are useful to investors in understanding period-over-period operating results and business trends of the Company. Management may also use these metrics as guides in forecasting, budgeting and long-term planning processes and for compensation purposes. These metrics should be considered in addition to, and not as replacements for, the most comparable GAAP measure.

The following is the year-to-date reconciliation of sales, segment EBIT and segment EBIT margin as reported to adjusted sales, adjusted segment EBIT and adjusted segment EBIT margin (unaudited):

	Consolidated JCI plc	
	2016	2015
Sales as reported	\$ 37,674	\$ 37,179
Adjusting items:		
Tyco contribution	(828)	-
Nonrecurring purchase accounting impacts	20	-
Adjusted sales	<u><u>\$ 36,866</u></u>	<u><u>\$ 37,179</u></u>
Segment EBIT as reported	\$ 3,023	\$ 3,258
Segment EBIT margin as reported	8.0%	8.8%
Adjusting items:		
Tyco contribution	(86)	-
Transaction/integration/ separation costs	680	91
Nonrecurring purchase accounting impacts	74	-
Gain on business divestiture	-	(145)
Other—net	18	-
Adjusted segment EBIT	<u><u>\$ 3,709</u></u>	<u><u>\$ 3,204</u></u>
Adjusted segment EBIT margin	10.1%	8.6

A reconciliation of diluted earnings per share as reported to diluted adjusted earnings per share for the year-to-date period is shown below.

	Net Income Attributable to JCI plc from Continuing Operations	
	Twelve Months Ended September 30,	
	2016	2015
	(unaudited)	
Earnings per share as reported for JCI plc	\$ (1.30)	\$ 2.18
Adjusting items:		
Mark-to-market for pension and postretirement plans/settlement losses	0.75	0.64
Related tax impact	(0.22)	(0.25)
Transaction/integration/separation costs	1.01	0.14
Related tax impact	(0.09)	(0.02)
Restructuring and impairment costs	0.91	0.60
Related tax impact	(0.14)	(0.13)
Nonrecurring purchase accounting impacts	0.11	-
Related tax impact	(0.03)	-
Gain on business divestitures	-	(0.22)
Related tax impact	-	0.16
Discrete tax items	2.93	0.33
Adjusted earnings per share for JCI plc*	<u><u>\$ 3.94</u></u>	<u><u>\$ 3.42</u></u>
Less: Adjusted September results for Tyco (1)	<u><u>(0.09)</u></u>	
Adjusted earnings per share for JCI plc excluding Tyco	\$ 3.85	
Adjusted JCI plc diluted shares outstanding (in millions)	672.6	
Adjusted net income attributable to JCI Inc. (in millions) (2)	<u><u>\$ 2,587</u></u>	
Adjusted JCI Inc. diluted shares (in millions)	<u><u>649.4</u></u>	
Adjusted earnings per share for JCI Inc. *	<u><u>\$ 3.98</u></u>	

\* May not sum due to rounding.

(1) Amount calculated based on adjusted Tyco segment EBIT of \$86 million less Tyco's net financing charges of \$14 million, income tax expense of \$9 million and noncontrolling interest impact of \$1 million for the month of September.

(2) The twelve months ended September 30, 2016 includes \$3,795 million for JCI plc adjusted segment EBIT less \$86 million of Tyco adjusted segment EBIT, \$288 million of net financing charges (\$314 million for JCI plc less \$14 million for Tyco and \$12 million related to separation and integration costs), \$582 million income tax expense (\$2,238 million for JCI plc less \$1,647 million related to tax impacts of adjusted segment EBIT and discrete tax items as well as \$9 million for the tax impact of Tyco's adjusted earnings) and \$252 million for the impact of noncontrolling interest (\$216 million of expense for JCI plc plus the noncontrolling interest impact of adjusted segment EBIT items of \$37 million less the Tyco noncontrolling interest impact of \$1 million).

The following table reconciles the denominators used to calculate basic and diluted earnings per share for JCI plc (in millions):

	Twelve Months Ended September 30,	
	2016	2015
	(unaudited)	
Weighted Average Shares Outstanding for JCI plc		
Basic weighted average shares outstanding	667.4	655.2
Effect of dilutive securities:		
Stock options, unvested restricted stock and unvested performance share awards	-	6.3
Diluted weighted average shares outstanding	<u>667.4</u>	<u>661.5</u>

For the twelve months ended September 30, 2016, the total number of potential dilutive shares due to stock options, unvested restricted stock and unvested performance share awards was 5.2 million. However, these items were not included in the computation of diluted loss per share for the twelve months ended September 30, 2016, since to do so would decrease the loss per share. On an adjusted diluted outstanding share basis, inclusion of the effect of dilutive securities results in diluted weighted average shares outstanding of 672.6 million for the twelve months ended September 30, 2016.

The following table reconciles the denominators used to calculate adjusted diluted earnings per share for JCI Inc. (i.e. JCI plc excluding the impact of the Tyco merger). The JCI Inc. shares represent the JCI plc shares adjusted to exclude the merger share conversion and September Tyco dilutive securities impact. Amounts below are shown in millions.

	Twelve Months Ended September 30,	
	2016	2015
	(unaudited)	
Adjusted diluted weighted average shares outstanding for JCI plc	672.6	661.5
Effect of merger share conversion	(22.7)	-
Tyco dilutive securities impact	(0.5)	-
Adjusted diluted weighted average shares outstanding for JCI Inc.	<u>649.4</u>	<u>661.5</u>

## ANNEX II

### JOHNSON CONTROLS INTERNATIONAL PLC 2012 SHARE AND INCENTIVE PLAN (AMENDED AND RESTATED AS OF MARCH 8, 2017)

#### ARTICLE I PURPOSE

**1.1 Purpose.** The purposes of this Johnson Controls International plc 2012 Share and Incentive Plan, as amended and restated (the “Plan”), are to promote the interests of Johnson Controls International plc (and any successor thereto) by (i) aiding in the recruitment and retention of Directors and Employees, (ii) providing incentives to such Directors and Employees by means of performance-related incentives to achieve short-term and long-term performance goals, (iii) providing Directors and Employees an opportunity to participate in the growth and financial success of the Company, and (iv) promoting the growth and success of the Company’s business by aligning the financial interests of Directors and Employees with that of the other shareholders of the Company.

**1.2 Background; Effective Date.** The original effective date of this Plan was October 1, 2012. The Plan was amended and restated as of November 17, 2014, was amended and restated again in connection with the merger (the “Merger”) that was consummated on September 2, 2016 (the “Amendment Effective Date”) pursuant to the Agreement and Plan of Merger, dated as of January 24, 2016, by and among the Company, Johnson Controls, Inc. and Jagara Merger Sub LLC (the “Merger Agreement”), to reflect the effect of the Merger and the Parent Share Consolidation (as defined in the Merger Agreement), and is being amended, effective as of the date of the Company’s annual meeting in 2017 (the “2017 Restatement Date”), to consolidate the permissible performance measures and individual award limits for all Participants. The amendment and restatement in connection with the Merger was intended to reflect the assumption into this Plan of the remaining share reserves under the Johnson Controls, Inc. 2012 Omnibus Incentive Plan and the Johnson Controls, Inc. 2003 Stock Plan for Outside Directors (the “Legacy Johnson Controls Plans”) as of the Amendment Effective Date. Following the Amendment Effective Date, no further awards may be made under the Legacy Johnson Controls Plans.

#### ARTICLE II DEFINITIONS

For purposes of the Plan, the following terms have the following meanings, unless another definition is clearly indicated by particular usage and context:

“*Acquired Company*” means any business, corporation or other entity acquired by the Company or any Subsidiary.

“*Acquired Grantee*” means the grantee of a share-based award of an Acquired Company and may include a current or former Director of an Acquired Company.

“*Award*” means any form of incentive or performance award granted under the Plan, whether singly or in combination, to a Participant by the Committee pursuant to any terms and conditions that

the Committee may establish and set forth in the applicable Award Certificate. Awards granted under the Plan may consist of:

- (a) “*Share Options*” awarded pursuant to Section 4.3;
- (b) “*Share Appreciation Rights*” awarded pursuant to Section 4.3;
- (c) “*Short-Term Performance Awards*” awarded pursuant to Section 4.4;
- (d) “*Long-Term Performance Awards*” awarded pursuant to Section 4.5;
- (e) “*Other Share-Based Awards*” awarded pursuant to Section 4.6;
- (f) “*Nonemployee Director Awards*” awarded pursuant to Section 4.7; and
- (g) “*Substitute Awards*” awarded pursuant to Section 4.8.

“*Award Certificate*” means the document issued, either in writing or an electronic medium, by the Committee to a Participant evidencing the grant of an Award.

“*Board*” means the Board of Directors of the Company.

“*Cause*” means (a) for Awards granted prior to the Amendment Effective Date, misconduct that is willfully or wantonly harmful to the Company or any of its Subsidiaries, monetarily or otherwise; and (b) for Awards granted on or after the Amendment Effective Date, (i) if the Participant is subject to an employment agreement with the Company or a Subsidiary that contains a definition of “cause”, such definition, or (ii) otherwise, except as otherwise determined by the Committee and set forth in an Award Certificate, any of the following as determined by the Committee: (A) violation of the provisions of any employment agreement, non-competition agreement, confidentiality agreement, or similar agreement with the Company or a Subsidiary, or the Company’s or a Subsidiary’s code of ethics, as then in effect, (B) conduct rising to the level of gross negligence or willful misconduct in the course of employment with the Company or a Subsidiary, (C) commission of an act of dishonesty or disloyalty involving the Company or a Subsidiary, (D) violation of any federal, state or local law in connection with the Participant’s employment or service, or (E) breach of any fiduciary duty to the Company or a Subsidiary.

“*Change in Control*” means the Merger and, subsequent to the Merger, the first to occur of any of the following events:

(a) any “person” (as defined in Section 13(d) and 14(d) of the Exchange Act), excluding for this purpose, (i) the Company or any Subsidiary or (ii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Company representing more than 30 percent of the combined voting power of the Company’s then outstanding securities; provided, however, that no Change in Control will be deemed to have occurred as a result of a change in ownership percentage resulting solely from an acquisition of securities by the Company; or

(b) persons who, as of immediately following the Merger constitute the Board (the “*Incumbent Directors*”) cease for any reason (including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction) to constitute at least a majority thereof, provided that any person becoming a director of the Company subsequent to the Merger shall be considered an *Incumbent Director* if such person’s election or nomination for election was approved by a vote of at least

50 percent of the Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened proxy contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a "person" (as defined in Section 13(d) and 14(d) of the Exchange Act) other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or

(c) consummation of a reorganization, merger or consolidation or sale or other disposition of at least 80 percent of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Company immediately prior to such Business Combination beneficially own directly or indirectly more than 50 percent of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of the Company; or

(d) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

"*Change in Control Termination*" shall mean a Participant's Involuntary Termination that occurs during the period beginning 60 days prior to the date of a Change in Control and ending two years after the date of such Change in Control.

"*Code*" means the United States Internal Revenue Code of 1986, as amended. Any reference to a specific provision of the Code includes any successor provision and the regulations promulgated under such provision.

"*Committee*" means the Compensation and Human Resources Committee of the Board or any successor thereof or any subcommittee of the Board to which the Board has delegated power to act under or pursuant to the provisions of the Plan.

"*Company*" means Johnson Controls International plc, or any successor thereto.

"*Consultant*" means an individual who provides bona fide services to the Company or any Subsidiary, other than an Employee or Director.

"*Deferred Share Unit*" means a Unit granted under Section 4.6 or 4.7 to acquire Shares upon Termination of Employment or Termination of Directorship, subject to any restrictions that the Committee, in its discretion, may determine.

"*Director*" means a member of the Board.

"*Disabled*" or "*Disability*" means (a) for Awards granted prior to the Amendment Effective Date, the inability of the Director or Employee to perform the material duties pertaining to such Director's directorship or such Employee's employment due to a physical or mental injury, infirmity or incapacity for 180 days (including weekends and holidays) in any 365-day period, the existence or nonexistence of a Disability being determined by an independent physician selected by the Company and reasonably acceptable to the Director or Employee; and (b) for Awards granted on or after the Amendment Effective Date, except as otherwise determined by the Committee and set forth in an Award

agreement: (i) with respect to an Incentive Share Option, the meaning given in Code Section 22(e)(3), and (ii) with respect to all other Awards, the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of at least twelve (12) months, as determined by the Committee, the determination of Disability being made by the Committee, which may request such evidence of disability as it reasonably determines.

*“Dividend Equivalent”* means an amount equal to the cash dividend or the Fair Market Value of the share dividend that would be paid on each Share underlying an Award if the Share were duly issued and outstanding on the date on which the dividend is payable.

*“Employee”* means any individual who performs services as an officer or employee of the Company or a Subsidiary (including any Director who is also an Employee).

*“Exchange Act”* means the United States Securities Exchange Act of 1934, as amended.

*“Exercise Price”* means the price of a Share, as fixed by the Committee, which may be purchased under a Share Option or with respect to which the amount of any payment pursuant to a Share Appreciation Right is determined.

*“Fair Market Value”* means, on a given date, (i) the closing sale price of the Shares on the New York Stock Exchange (NYSE) Composite Tape on such date (or the next preceding day if no sales were reported for such date), or (ii) if the Shares are not listed or admitted on the NYSE, but are traded on another national securities exchange or in an over-the-counter market, the last sales price on such date, or if no last sales price is reported, the average of the closing bid and ask price for the Shares on such date (or the next preceding day if no such information was reported for such date) or (iii) if the Shares are neither listed on a national securities exchange nor traded in an over-the-counter market, a price determined by the Committee by the reasonable application of a reasonable valuation method.

*“Fair Market Value Share Option”* means a Share Option with an Exercise Price that is fixed by the Committee at a price equal to the Fair Market Value of a Share on the date of grant.

*“GAAP”* means United States generally accepted accounting principles.

*“Incentive Share Option”* means a Share Option granted under Section 4.3 of the Plan that meets the requirements of Code Section 422 and any related regulations and is designated in the Award Certificate to be an Incentive Share Option.

*“Involuntary Termination”* means a Termination of Employment of the Participant initiated by the Company or a Subsidiary for any reason other than Cause, Disability or death.

*“Key Employee”* means an Employee who is a “covered employee” within the meaning of Code Section 162(m)(3).

*“Long-Term Performance Award”* means an Award granted under Section 4.5 of the Plan.

*“Non-Employee Director”* means any member of the Board, elected or appointed, who is not an Employee of the Company or a Subsidiary.

*“Nonqualified Share Option”* means any Share Option granted under Section 4.3 of the Plan that is not an Incentive Share Option.

*“Participant”* means an Employee, a Director, a prospective Employee or Director, and a Consultant who, in each case, is selected by the Committee to participate in the Plan. Participant shall also include any Acquired Grantee.

*“Performance Cycle”* means, with respect to any Award that is intended to be a Short-Term Performance Award or Long-Term Performance Award, a period of no less than six months over which the level of performance will be assessed.

*“Performance Measure”* means, with respect to any Short-Term Performance Award or Long-Term Performance Award, the business criteria selected by the Committee to measure the level of performance during the Performance Cycle. The Performance Measures, which must be objective, shall be based on one or more of the following criteria:

- a. Basic earnings per common share for the Company on a consolidated basis;
- b. Diluted earnings per common share for the Company on a consolidated basis;
- c. Earnings (including earnings before or after interest and the provision for income taxes (EBIT) and earnings before or after interest, the provision for income taxes, depreciation, and amortization (EBITDA));
- d. Total shareholder return;
- e. Share price or Fair Market Value of shares;
- f. Revenues, sales or net sales;
- g. Costs or cost of sales;
- h. Expense management, including selling, general and administrative expenses;
- i. Gross profit;
- j. Profitability of an identifiable business unit or product;
- k. Economic value added, or other measure of profitability that considers the cost of capital employed;
- l. Maintenance or improvement of profit margins;
- m. Operating income;
- n. Segment EBIT;
- o. Net income;
- p. Accounts receivable;
- q. Inventories;
- r. Credit rating;

- s. Working capital or trade working capital;
- t. Changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital);
- u. Improvements in capital structure;
- v. Return on invested capital and/or return on investment before or after cost of capital;
- w. Return on equity or return on shareholder equity;
- x. Return on assets;
- y. Return on sales;
- z. Cash flow or free cash flow;
- aa. Net cash provided by operating activities;
- bb. Net increase (decrease) in cash and cash equivalents;
- cc. Customer satisfaction, which may include customer backlog and/or relationships;
- dd. Market share;
- ee. Quality;
- ff. Safety;
- gg. Independent industry ratings or assessments;
- hh. Realization or creation of innovation projects or products;
- ii. Employee engagement;
- jj. Employee retention;
- kk. Improvement in employee, workforce and/or supplier diversity;
- ll. Sustainability measures, such as reduction in greenhouse gases;
- mm. Closing of corporation transactions and/or completion of integration of acquired businesses;
- nn. Strategic plan development and implementation and/or strategic activities; and
- oo. Development, completion and implementation of succession planning.

Any Performance Measure used may be measured, as applicable, (i) in absolute terms, (ii) in relative terms (including the passage of time and/or against other companies or financial metrics), (iii) on a per share basis, (iv) against the performance of the Company as a whole or against particular entities, segments, operating units or products of the Company, (v) on a pre-tax or after-tax basis, and

(vi) in tandem with any other Performance Measure. Awards issued to persons who are not Key Employees on the date of grant may take into account any other factors deemed appropriate by the Committee.

*“Performance Unit”* means a Long-Term Performance Award or Short-Term Performance Award denominated in dollars or Units (other than a performance based Share Option).

*“Plan”* means the Johnson Controls International plc 2012 Share and Incentive Plan, as it may be amended from time to time.

*“Premium-Priced Share Option”* means a Share Option, the Exercise Price of which is fixed by the Committee at a price that exceeds the Fair Market Value of a Share on the date of grant.

*“Reporting Person”* means a Director or an Employee who is subject to the reporting requirements of Section 16(a) of the Exchange Act.

*“Restricted Shares”* means Shares issued pursuant to Section 4.6 that are subject to any restrictions that the Committee, in its discretion, may impose.

*“Restricted Unit”* means a Unit granted under Section 4.6 to acquire Shares or an equivalent amount in cash, which Unit is subject to any restrictions that the Committee, in its discretion, may impose.

*“Retirement”* means, with respect to Awards granted on or after the Amendment Effective Date, and except as otherwise determined by the Committee and set forth in the Award Certificate, termination of employment from the Company and its Subsidiaries (for other than Cause) on or after attainment of age fifty-five (55) and completion of five (5) years of continuous service with the Company and its Subsidiaries (including, for Participants who were employed, immediately prior to the Merger, by Johnson Controls, Inc. or its direct or indirect subsidiaries, service with Johnson Controls, Inc. and its affiliates prior to the Merger).

*“Securities Act”* means the United States Securities Act of 1933, as amended.

*“Share”* means an ordinary share in the capital of the Company and such other securities or property as may become subject to Awards pursuant to an adjustment made under Sections 5.3 and 5.4 of the Plan. References in Award Certificates or ancillary documentation related to this Plan to “stock” shall be construed as references to “Shares” for the purposes of this Plan.

*“Short-Term Performance Award”* means an Award of cash or Shares granted under Section 4.4 of the Plan.

*“Share Appreciation Right”* means a right granted under Section 4.3 of the Plan in an amount in cash or Shares equal to any difference between the Fair Market Value of the Shares as of the date on which the right is exercised and the Exercise Price.

*“Share-Based Award”* means an Award granted under Section 4.6 of the Plan and denominated in Shares.

*“Share Option”* means a right to purchase from the Company a stated number of Shares at a specified price for a defined period of time. Share Options awarded under the Plan may be in the form of Incentive Share Options or Nonqualified Share Options.

“*Subsidiary*” means any corporation or other entity a majority of whose outstanding voting share or voting power is beneficially owned directly or indirectly by the Company.

“*Target Amount*” means, for any Short-Term Performance Award or Long-Term Performance Award, the targeted amount of compensation that would be achieved if the relevant Performance Measure is fully (100%) attained, as determined by the Committee.

“*Target Vesting Percentage*” means the percentage of any Short-Term Performance Award or Long-Term Performance Award that would vest assuming the Performance Measure(s) applicable to such Award are fully (100%) attained, as determined by the Committee.

“*Termination of Directorship*” means the date of cessation of a Director’s membership on the Board for any reason, with or without Cause, as determined by the Company.

“*Termination of Employment*” means the date of cessation of a Participant’s employment or consulting relationship (or directorship in the case of a Nonemployee Director) with the Company or a Subsidiary for any reason, with or without Cause, as determined by the Company.

“*Unit*” means, for purposes of Performance Units, the potential right to an Award equal to a specified amount denominated in such form as is deemed appropriate in the discretion of the Committee and, for purposes of Restricted Units or Deferred Share Units, the potential right to acquire one Share.

### **ARTICLE III ADMINISTRATION**

3.1 *Committee*. The Plan will be administered by the Committee.

3.2 *Authority of the Committee*. The Committee or, to the extent required by applicable law, the Board, will have the authority, in its sole and absolute discretion and subject to the terms of the Plan, to:

- (a) Interpret and administer the Plan and any instrument or agreement relating to the Plan;
- (b) Prescribe the rules and regulations that it deems necessary for the proper operation and administration of the Plan, and amend or rescind any existing rules or regulations relating to the Plan;
- (c) Select Participants to receive Awards under the Plan;
- (d) Determine the form of an Award, the number of Shares subject to each Award, all the terms and conditions of an Award, including, without limitation, the conditions on exercise or vesting, the designation of Share Options as Incentive Share Options or Nonqualified Share Options, and the circumstances in which an Award may be settled in cash or Shares or may be cancelled, forfeited or suspended, and the terms of the Award Certificate;
- (e) Determine whether Awards will be granted singly, in combination or in tandem;
- (f) Establish and interpret Performance Measures in connection with Short-Term Performance Awards and Long-Term Performance Awards, evaluate the level of performance over a

Performance Cycle and certify the level of performance attained with respect to Performance Measures;

(g) Subject to Section 6.1 and 4.3(g), waive or amend any terms, conditions, restriction or limitation in the Plan or in an Award Certificate, or correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Certificate;

(h) Make any adjustments to the Plan (including but not limited to adjustment of the number of Shares available under the Plan or any Award) and any Award granted under the Plan as may be appropriate pursuant to Sections 5.3 and 5.4;

(i) Determine and set forth in the applicable Award Certificate the circumstances under which Awards may be deferred and the extent to which a deferral will be credited with dividend equivalents and interest thereon;

(j) Subject to Section 7.1, determine whether an Award may be transferable;

(k) Establish any subplans and make any modifications to the Plan or to Awards made hereunder (including the establishment of terms and conditions not otherwise inconsistent with the terms of the Plan) that the Committee may determine to be necessary or advisable for grants made in countries outside the United States to comply with, or to achieve favorable tax treatment under, applicable foreign laws or regulations;

(l) Appoint such agents as it shall deem appropriate for proper administration of the Plan; and

(m) Take any and all other actions it deems necessary or advisable for the proper operation or administration of the Plan.

**3.3 Effect of Determinations.** All determinations of the Committee will be final, binding and conclusive on all persons having an interest in the Plan.

**3.4 Delegation of Authority.** The Board or the Committee, in its discretion and consistent with applicable law and regulations, may delegate to the Chief Executive Officer of the Company or any other officer or group of officers as it deems to be advisable, the authority to select Participants to receive an Award and to determine the number of Shares under any such Award, subject to any terms and conditions that the Board or the Committee may establish. When the Board or the Committee delegates authority pursuant to the foregoing sentence, it will limit, in its discretion, the number of Shares or aggregate value that may be subject to Awards that the delegate may grant. Only the Committee will have authority to grant and administer Awards to Directors, Key Employees and other Reporting Persons or to delegates of the Committee, and to establish and certify Performance Measures.

**3.5 Employment of Advisors.** The Committee may employ attorneys, consultants, accountants and other advisors, including Employees, and the Committee, the Company and the officers and directors of the Company may rely upon the advice, opinions or valuations of the advisors so employed.

**3.6 No Liability; Indemnification.** No member of the Committee or any person acting as a delegate of the Committee with respect to the Plan will be liable for any losses resulting from any action, interpretation or construction made in good faith with respect to the Plan or any Award granted under the Plan. To the maximum extent permitted by applicable laws, each member of the Committee shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonable incurred by him or her in connection with or

resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by any reason of any action taken or failure to act under the Plan or any Award, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's charter documents, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

## ARTICLE IV AWARDS

4.1 *Eligibility.* All Participants and Employees are eligible to be designated to receive Awards granted under the Plan, except as otherwise provided in this Article IV.

4.2 *Form of Awards.* Awards will be in the form determined by the Committee, in its discretion, and will be evidenced by an Award Certificate. Awards may be granted singly or in combination or in tandem with other Awards.

4.3 *Share Options and Share Appreciation Rights.* The Committee may grant Share Options and Share Appreciation Rights under the Plan to those Participants whom the Committee may from time to time select, in the amounts and pursuant to the other terms and conditions that the Committee, in its discretion, may determine and set forth in the Award Certificate, subject to the provisions below:

(a) *Form.* Share Options granted under the Plan will, at the discretion of the Committee and as set forth in the Award Certificate, be in the form of Incentive Share Options, Nonqualified Share Options or a combination of the two. If an Incentive Share Option and a Nonqualified Share Option are granted to the same Participant under the Plan at the same time, the form of each will be clearly identified, and they will be deemed to have been granted in separate grants. In no event will the exercise of one Award affect the right to exercise the other Award. Share Appreciation Rights may be granted either alone or in connection with concurrently or previously granted Nonqualified Share Options.

(b) *Exercise Price.* The Committee will set the Exercise Price of Fair Market Value Share Options or Share Appreciation Rights granted under the Plan at a price that is equal to the Fair Market Value of a Share on the date of grant, subject to adjustment as provided in Sections 5.3 and 5.4. The Committee will set the Exercise Price of Premium-Priced Share Options at a price that is higher than the Fair Market Value of a Share as of the date of grant. The Exercise Price of Incentive Share Options will be equal to or greater than 110 percent of the Fair Market Value of a Share as of the date of grant if the Participant receiving such Share Options owns shares possessing more than 10 percent of the total combined voting power of all classes of shares of the Company or any Subsidiary, as defined in Code Section 424. The Exercise Price of a Share Appreciation Right granted in tandem with a Share Option will equal the Exercise Price of the related Share Option. The Committee will set forth the Exercise Price of a Share Option or Share Appreciation Right in the Award Certificate. Share Options granted under the Plan will, at the discretion of the Committee and as set forth in the Award Certificate, be Fair Market Value Share Options, Premium-Priced Share Options or a combination of Fair Market Value Share Options and Premium-Priced Share Options.

(c) *Term and Timing of Exercise.* Each Share Option or Share Appreciation Right granted under the Plan will be exercisable in whole or in part, subject to the following conditions, unless determined otherwise by the Committee:

(i) The Committee will determine and set forth in the Award Certificate the date on which any Award of Share Options or Share Appreciation Rights to a Participant may first be exercised. For Awards granted prior to the Amendment Effective Date, unless the applicable Award Certificate provides otherwise, a Share Option or Share Appreciation Right will become exercisable in equal annual installments over a period of four years from the date of grant, and will lapse 10 years after the date of grant, except as otherwise provided herein.

(ii) Except as set forth in Sections 5.4 and 5.5, upon a Participant's Termination of Employment, any unvested Share Options or Share Appreciation Rights will be forfeited unless the Award Certificate provides otherwise. For Awards granted prior to the Amendment Effective Date, any Share Options or Share Appreciation Rights that are vested as of such Termination of Employment will lapse, and will not thereafter be exercisable, upon the earlier of (A) their original expiration date or (B) the date that is 90 (ninety) days after the date of such Termination of Employment, unless the Award Certificate provides otherwise.

(iii) Share Options and Share Appreciation Rights of a deceased Participant may be exercised only by the estate of the Participant or by the person given authority to exercise the Share Options or Share Appreciation Rights by the Participant's will or by operation of law. If a Share Option or Share Appreciation Right is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Share Option or Share Appreciation Right has been transferred by the Participant's will or the applicable laws of descent and distribution, the Company will be under no obligation to deliver Shares or cash until the Company is satisfied that the person exercising the Share Option or Share Appreciation Right is the duly appointed executor or administrator of the deceased Participant or the person to whom the Share Option or Share Appreciation Right has been transferred by the Participant's will or by applicable laws of descent and distribution.

(iv) Unless the applicable Award Certificate provides otherwise, a Share Appreciation Right granted in tandem with a Share Option is subject to the same terms and conditions as the related Share Option and will be exercisable only to the extent that the related Share Option is exercisable.

(d) *Payment of Exercise Price.* The Exercise Price of a Share Option must be paid in full when the Share Option is exercised. Payment of the Exercise Price may be made in cash or by certified check, bank draft, wire transfer, or postal or express money order, provided that the format is approved by the Company or a designated third-party administrator. The Committee, in its discretion may also allow payment to be made by any of the following methods, as set forth in the Award Certificate:

(i) Delivering a properly executed exercise notice to the Company or its agent, together with irrevocable instructions to a broker to deliver to the Company, within the typical settlement cycle for the sale of equity securities on the relevant trading market (or otherwise in accordance with the provisions of Regulation T issued by the Federal Reserve Board), the amount of sale proceeds with respect to the portion of the Shares to be acquired having a Fair Market Value on the date of exercise equal to the sum of the applicable portion of the Exercise Price being so paid;

(ii) Tendering (actually or by attestation) to the Company previously acquired Shares that have been held by the Participant for at least six months, subject to paragraph (iv), and that have a Fair Market Value on the date of exercise equal to the applicable portion of the Exercise Price being so paid; or

(iii) Provided such payment method has been expressly authorized by the Board or the Committee in advance and subject to any requirements of applicable law and regulations, instructing the Company to reduce the number of Shares that would otherwise be issued by such number of Shares as have in the aggregate a Fair Market Value on the date of exercise equal to the applicable portion of the Exercise Price being so paid.

(iv) The Committee, in consideration of applicable accounting standards, may waive any holding period on Shares required to tender pursuant to clause (ii).

(e) *Incentive Share Options.* Incentive Share Options granted under the Plan will be subject to the following additional conditions, limitations and restrictions:

(i) Eligibility. Incentive Share Options may be granted only to Employees of the Company or a Subsidiary that is a subsidiary of the Company within the meaning of Code Section 424.

(ii) Timing of Grant. No Incentive Share Option will be granted under the Plan after the 10-year anniversary of the date on which the Plan was adopted by the Board or, if earlier, the latest date on which the Plan was approved by the Company's shareholders.

(iii) Amount of Award. Subject to Sections 5.3 and 5.4 of the Plan, no more than 9,550,000 Shares may be available for grant in the form of Incentive Share Options.

(iv) Transfer Restrictions. In no event will the Committee permit an Incentive Share Option to be transferred by an Employee other than by will or the laws of descent and distribution, and any Incentive Share Option awarded under this Plan will be exercisable only by the Employee during the Employee's lifetime.

(v) Any Incentive Share Option awarded to a Participant who owns shares possessing more than 10 percent of the total combined voting power of all classes of shares of the Company or any Subsidiary, as defined in Code Section 424, shall terminate on a date not later than the day preceding the fifth anniversary of the date the Incentive Share Option was granted.

(f) *Exercise of Share Appreciation Rights.* Upon exercise of a Participant's Share Appreciation Rights, the Company will pay cash or Shares or a combination of cash and Shares, in the discretion of the Committee and as described in the Award Certificate. Cash payments will be equal to the excess of the Fair Market Value of a Share on the date of exercise over the Exercise Price, for each Share for which a Share Appreciation Right was exercised. If Shares are paid for the Share Appreciation Right, the Participant will receive a number of whole Shares equal to the quotient of the cash payment amount divided by the Fair Market Value of a Share on the date of exercise.

(g) *No Repricing.* Except in connection with a corporate transaction involving the Company (including, without limitation, any share dividend, share split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the Exercise Price of outstanding Share Options or Share Appreciation Rights or to cancel outstanding Share Options

or Share Appreciation rights in exchange for cash, other Awards or Share Options or Share Appreciation Rights with an exercise price that is less than the exercise price of the original Share Options or Share Appreciation Rights without shareholder approval.

**4.4 Short-Term Performance Awards.** The Committee may grant Short-Term Performance Awards to Participants in the form of cash or Shares (including Share Options) that are subject to Performance Measures and other terms and conditions that the Committee shall determine and set forth in the applicable Award Certificate; provided, that any Short-Term Performance Awards granted to Key Employees shall be subject to the provisions below:

(a) *Performance Cycles.* Short-Term Performance Awards shall be awarded in connection with a Performance Cycle of no longer than 12 months.

(b) *Eligible Participants.* Within 90 days after the commencement of a Performance Cycle, or such shorter period as complies with the applicable requirements of Code Section 162(m), the Committee will determine the Key Employees who are eligible to receive a Short-Term Performance Award.

(c) *Performance Measures; Targets; Award Criteria.*

(i) Within 90 days after the commencement of a Performance Cycle, or such shorter period as complies with the applicable requirements of Code Section 162(m), the Committee will fix and establish in writing (A) the Performance Measures that will apply to that Performance Cycle; (B) the Target Amount applicable to each Award; and (C) subject to subsection (d) below, the criteria for computing the amount that will be paid with respect to each level of attained performance. The Committee will also set forth the minimum level of performance, based on objective factors, that must be attained during the Performance Cycle before any Short-Term Performance Award will be paid and the percentage of the Target Amount that will become payable upon attainment of various levels of performance that equal or exceed the minimum required level. In applying Performance Measures, the Committee may, in its discretion, exclude unusual, infrequently occurring or other items that it deems appropriate (including any event listed in Sections 5.3 and 5.4 and the cumulative effect of changes in the law, regulations or accounting rules) in compliance with the applicable requirements of Code Section 162(m).

(ii) The Committee may reduce, but not increase, the amount payable to any Key Employee with respect to any given Performance Cycle.

(d) *Payment, Certification.* No Short-Term Performance Award will vest with respect to any Key Employee until the Committee certifies in writing the level of performance attained for the Performance Cycle in relation to the applicable Performance Measures.

(e) *Form of Payment.* Short-Term Performance Awards may be paid in cash or full Shares, in the discretion of the Committee, and as set forth in the Award Certificate. All such Awards shall be paid no later than the 15th day of the third month following the end of the calendar year (or, if later, following the end of the Company's fiscal year) in which such Awards are no longer subject to a substantial risk of forfeiture (as determined for purposes of Code Section 409A), except to the extent that a Participant has elected to defer payment under the terms of a duly authorized deferred compensation arrangement, in which case the terms of such arrangement shall govern.

(f) *Acceleration.* Unless the applicable Award Certificate or the terms of an Award provides otherwise, each Participant who has been granted a Short-Term Performance Award prior to the

Amendment Effective Date that is outstanding as of the date of a Change in Control will be deemed to have achieved a level of performance, as of the date of Change in Control, that would cause all (100%) of the Participant's Target Amount to become payable.

**4.5 Long-Term Performance Awards.** The Committee may grant Long-Term Performance Awards to Participants in the form of cash or Shares (including Share Options) that are subject to Performance Measures and other terms and conditions that the Committee shall determine and set forth in the applicable Award Certificate; provided, that any Long-Term Performance Awards granted to Key Employees shall be subject to the provisions below:

(a) *Performance Cycles.* Long-Term Performance Awards will be awarded in connection with a Performance Cycle that is no shorter than 12 months and no longer than 5 years.

(b) *Eligible Participants.* Within 90 days after the commencement of a Performance Cycle, the Committee will determine the Key Employees who will be eligible to receive a Long-Term Performance Award for the Performance Cycle.

(c) *Performance Measures; Targets; Award Criteria.*

(i) Within 90 days after the commencement of a Performance Cycle, the Committee will fix and establish in writing (A) the Performance Measures that will apply to that Performance Cycle; (B) the Target Amounts and/or Target Vesting Percentages applicable to each Award; and (C) subject to subsection (d) below, the criteria for computing the amount that will be paid or will vest with respect to each level of attained performance. The Committee will also set forth the minimum level of performance, based on objective factors, that must be attained during the Performance Cycle before any Long-Term Performance Award will be paid or will vest, and the percentage of the Awards that will become payable or will vest upon attainment of various levels of performance that equal or exceed the minimum required level. In applying Performance Measures, the Committee may, in its discretion, exclude unusual, infrequently occurring or other items that it deems appropriate (including any event listed in Sections 5.3 and 5.4 and the cumulative effect of changes in the law, regulations or accounting rules) in compliance with the applicable requirements of Code Section 162(m).

(ii) The Committee may reduce, but not increase, the amount of Long-Term Performance Awards payable to any Key Employee with respect to any given Performance Cycle.

(d) *Payment, Certification.* No Long-Term Performance Award will vest with respect to any Key Employee until the Committee certifies in writing the level of performance attained for the Performance Cycle in relation to the applicable Performance Measures.

(e) *Form of Payment.* Long-Term Performance Awards may be paid in cash or full Shares, in the discretion of the Committee, and as set forth in the Award Certificate. All such Long-Term Performance Awards shall be paid no later than the 15th day of the third month following the end of the applicable Performance Cycle, except as otherwise provided in the applicable Award Certificate or to the extent that a Participant has elected to defer payment under the terms of a duly authorized deferred compensation arrangement, in which case the terms of such arrangement shall govern.

**4.6 Other Share-Based Awards.** The Committee may, from time to time, grant Awards (other than Share Options, Share Appreciation Rights, Short-Term Performance Awards or Long-Term Performance Awards) to any Participant who the Committee may from time to time select, which Awards consist of, or are denominated in, payable in, valued in whole or in part by reference to, or

otherwise related to, Shares. These Awards may include, among other forms, Restricted Shares, Restricted Units, or Deferred Share Units. The Committee will determine, in its discretion, the terms and conditions that will apply to Awards granted pursuant to this Section 4.6, which terms and conditions will be set forth in the applicable Award Certificate.

(a) *Vesting.* The Award Certificate will set forth the vesting schedule or other conditions required for restrictions on Share-Based Awards to lapse; provided that, for Share-Based Awards granted under this Section 4.6 prior to the Amendment Effective Date, unless the Award Certificate provides otherwise, restrictions will lapse in equal annual installments over a period of four years beginning immediately after the date of grant. Except as set forth in Sections 5.4 and 5.5, if the restrictions on Share-Based Awards have not lapsed or been satisfied as of the Participant's Termination of Employment, such Awards will be forfeited by the Participant, and, as the case may be, the Participant shall be required to retransfer any Shares to the Company previously delivered to the Company in respect of such Awards.

(b) *Grant of Restricted Shares.* The Committee may grant Restricted Shares to any Participant. The Participant will have all rights of a shareholder with respect to the Shares, including the right to vote and to receive dividends or other distributions, except that the Shares may be subject to a vesting schedule and will be forfeited if the Participant attempts to sell, transfer, assign, pledge or otherwise encumber or dispose of the Shares before the restrictions are satisfied or lapse. Upon forfeiture, the Participant shall be required to retransfer the Shares to the Company.

(c) *Grant of Restricted Units.* The Committee may grant Restricted Units to any Participant, which Units will be paid in cash or whole Shares or a combination of cash and Shares, in the discretion of the Committee, when the restrictions on the Units lapse and any other conditions set forth in the Award Certificate have been satisfied. For each Restricted Unit that vests, one Share will be paid or an amount in cash equal to the Fair Market Value of a Share as of the date on which the Restricted Unit vests.

(d) *Grant of Deferred Share Units.* The Committee may grant Deferred Share Units to any Participant, which Units will be paid in whole Shares if the restrictions on the Units have lapsed. One Share will be paid for each Deferred Share Unit that becomes payable.

#### 4.7 Nonemployee Director Awards.

(a) *Annual Awards.* Annually, the Committee shall grant an Award to each Nonemployee Director in such an amount as the Board, in its discretion, may approve in advance; provided that the fair market value (as determined under GAAP) on the grant date of such Award does not exceed \$600,000. Unless the Committee determines otherwise, the form of such Awards shall be Restricted Share Units with a one year vesting period, and shall be granted on the business day following the annual general meeting of shareholders.

(b) *Additional Awards.* In addition to the annual Awards provided for above, the Committee may, in its discretion, grant additional Awards to Nonemployee Directors or prospective Nonemployee Directors, provided that in no event shall the fair market value (as determined under GAAP) on the grant date, when combined with any Awards granted under Section 4.7(a) in the same fiscal year, exceed \$600,000 in any fiscal year.

4.8 *Substitute Awards.* The Committee may make Awards under the Plan to Acquired Grantees through the assumption of, or in substitution for, outstanding share-based awards previously granted to such Acquired Grantees. Unless otherwise agreed in the relevant documentation related to the acquisition, such assumed or substituted Awards will be subject to the terms and conditions of the

original awards made by the Acquired Company, with such adjustments therein as the Committee considers appropriate to give effect to the relevant provisions of the acquisition agreement. Any grant of Incentive Share Options pursuant to this Section 4.8 will be made in accordance with Code Section 424 and any final regulations published thereunder.

**4.9 Limits on Individual Grants.** Subject to Sections 5.1, 5.3 and 5.4, on and after the 2017 Restatement Date, no Participant may: (a) be granted Share Options, Share Appreciation Rights, Other Share-Based Awards or Substitute Awards that, in each case, are not Short-Term Performance Awards or Long-Term Performance Awards, with respect to more than 5,730,000 Shares in any calendar year; (b) be paid more than \$6 million per calendar year (whether in cash or Shares) with respect to Short-Term Performance Awards; (c) be paid more than 5,730,000 Shares per calendar year (less the number of Shares related to any other Awards granted in the same calendar year) with respect to Long-Term Performance Awards payable in Shares; or (d) be paid more than \$6 million per calendar year with respect to Long-Term Performance Awards payable in cash; provided, that additional Awards in excess of the limitations in clauses (a), (b), (c) and (d) relating to up to 9,550,000 Shares may be granted to a Reporting Person who has been hired within the calendar year so long as such additional Awards are made in the form of Share Options, Share Appreciation Rights or Long-Term Performance Based Awards. Awards granted prior to the 2017 Restatement Date will be governed by the limits set forth in the Plan as in effect at the time such Awards were granted.

**4.10 Termination for Cause.** Notwithstanding anything to the contrary herein, if a Participant incurs a Termination of Directorship or Termination of Employment for Cause, then all of such Participant's Awards will immediately be cancelled. The exercise of any Share Option or Share Appreciation Right or the payment of any Award may be delayed, in the Committee's discretion, in the event that a potential termination for Cause is pending.

## **ARTICLE V** **SHARES SUBJECT TO THE PLAN; ADJUSTMENTS**

**5.1 Shares Available.** The Shares issuable under the Plan may consist of Shares issued from the Company's authorized share capital or conditional share capital or treasury shares of the Company (including, for the avoidance of doubt, Shares owned by any Subsidiary). The total number of Shares reserved for Awards under the Plan is the sum of (a) 47,750,000; (b) any Shares subject, as of October 1, 2012, to the outstanding awards under the Tyco International Ltd. 2004 Share and Incentive Plan that cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable Shares) as may be adjusted by Sections 5.3 and 5.4; and (c) a number of Shares equal to the number of shares of Johnson Controls, Inc. common stock remaining available under the Legacy Johnson Controls Plans as of the Merger (the "Legacy Johnson Controls Shares"). Notwithstanding anything in the Plan to the contrary, in accordance with the New York Stock Exchange Listed Company Manual and interpretive guidance thereunder, including Rule 303A.08, (i) Awards in respect of Legacy Johnson Controls Shares granted following the Merger may be granted only to persons other than any individuals who were employed, immediately before the Merger, by the Company or entities that were its subsidiaries immediately before the Merger and (ii) the time during which the Legacy Johnson Controls Shares are available for grant under the Plan will not be extended beyond the period when they would have been available for grant under the Legacy Johnson Controls Plans. Awards denominated in Shares that are granted as Share Options or Share Appreciation Rights shall at the time of grant, reduce, on a 1-for-1 basis, the number of Shares available under the Plan. Awards denominated in Shares that are granted as Restricted Shares, Restricted Units, Performance Units, Other Share-Based Awards, or in respect of Short-Term Performance Awards or Long-Term Performance Awards (other than performance based Share Options) shall at the time of grant, reduce

the number of Shares available under the Plan on (x) if the Award is denominated in Shares that are not Legacy Johnson Controls Shares (as determined by the Committee or its designee), a 1-for-3.32 basis, or (y) if the Award is denominated in Shares that are Legacy Johnson Controls Shares (as determined by the Committee or its designee), a 1-for-2.65 basis.

**5.2 Counting Rules.** The following Shares related to Awards under this Plan shall restore Shares available in the same amount in which the Award reduced the Shares available set forth in Section 5.1:

- (a) Shares related to Awards paid in cash;
- (b) Shares related to Awards that expire, are forfeited or cancelled, or terminate for any other reason without issuance of Shares;
- (c) Any Shares issuable in connection with Awards that are assumed, converted or substituted as a result of the acquisition of an Acquired Company by the Company or a combination of the Company with another company; and
- (d) Any Restricted Shares that are returned to the Company as Restricted Shares.

Any Shares that become issuable under the Plan as a result of an adjustment to an outstanding Award in connection with the Company's spin-offs of The ADT Corporation and Tyco Flow Control International Ltd. and related transactions (the "Separation") shall not be counted against the number of Shares available set forth in Section 5.1. For the avoidance of doubt, the full number of Share Appreciation Rights granted that are to be settled by the issuance of Shares shall be counted at the time of grant against the number of Shares available set forth in Section 5.1, regardless of the number of Shares actually issued upon settlement of such Share Appreciation Rights. Furthermore, any Shares withheld to satisfy tax withholding obligations on an Award issued under the Plan, Shares tendered to pay the exercise price of an Award under the Plan, and Shares repurchased on the open market with the proceeds of an Option exercise shall not restore Shares available for grant under this Plan.

**5.3 Adjustments.** In the event of a change in the outstanding Shares by reason of a share split, reverse share split, dividend or other distribution (whether in the form of cash, Shares, other securities or other property), extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of Shares or other securities or similar corporate transaction or event, the Committee shall make appropriate adjustments to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan (including adjustments to Shares available).

**5.4 Change in Control.**

(a) *For Awards Granted Prior to the Amendment Effective Date.* For Awards granted prior to the Amendment Effective Date, the following shall apply:

(i) *Acceleration.* Unless the applicable Award Certificate provides otherwise, for any Participant who incurs a Change in Control Termination, all unvested Share Options and Share Appreciation Rights will become exercisable as of the later of (i) the effective date of the Change in Control and (ii) the effective date of the Change in Control Termination, and all conditions to vesting will be waived with respect to all other unvested Awards that are denominated in Shares. In such a case, with respect to Short-Term Performance Awards and Long-Term Performance Awards, performance will be deemed to have been achieved at a level of performance, as determined in the sole discretion of the Committee, at the higher of 100% of the Participant's Target Amount and the level of actual performance as of the date of the Change in Control.

(ii) *Adjustment, Conversion and Payment.* In addition to the foregoing, no later than 90 days after the date of Change in Control, the Committee (as constituted prior to the date of Change in Control) shall provide for the following actions to apply to each Award that is outstanding as of the date of Change in Control: (i) an adjustment to such Award as the Committee deems appropriate to reflect such Change in Control, (ii) the acquisition of such Award, or substitution of a new right therefor, by the acquiring or surviving entity after such Change in Control, or (iii) the purchase of such Award for an amount of cash equal to the amount that could have been attained upon the exercise or redemption of such Award immediately prior to the Change in Control had such Award been exercisable or payable at such time. Any payment made pursuant to this Section 5.4(a)(ii) shall include the value of any dividend equivalents credited with respect to such Award and accrued interest on such dividend equivalents. The Committee may specify how an Award will be treated in the event of a Change in Control either when the Award is granted or at any time thereafter, except as otherwise provided herein.

(b) *For Awards Granted on or after the Amendment Effective Date.* For Awards granted on or after the Amendment Effective Date, if the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Subsidiary that discusses the effect of a Change in Control on the Participant's Awards, then such agreement shall control. In all other cases, unless provided otherwise in an Award Certificate or by the Committee prior to the date of the Change in Control, in the event of a Change in Control:

(i) If the purchaser, successor or surviving corporation (or parent thereof) (the "Survivor") so agrees, some or all outstanding Awards shall be assumed, or replaced with the same type of award with similar terms and conditions, by the Survivor in the Change in Control transaction. If applicable, each Award which is assumed by the Survivor shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Participant upon the consummation of such Change in Control had the Award been exercised, vested or earned immediately prior to such Change in Control, and other appropriate adjustments in the terms and conditions of the Award shall be made.

(ii) To the extent the Survivor in the Change in Control transaction does not agree to assume the Awards or issue replacement awards as provided in clause (i), immediately prior to the date of the Change in Control:

(A) Each Share Option or Share Appreciation Right that is then held by a Participant who is employed by or in the service of the Company or a Subsidiary shall become immediately and fully vested, and, unless otherwise determined by the Board or Committee, all Share Options and Share Appreciation Right shall be cancelled on the date of the Change in Control in exchange for a cash payment equal to the excess of the Change in Control price of the Shares covered by the Share Option or Share Appreciation Right that is so cancelled over the purchase or grant price of such Shares under the Award.

(B) All Restricted Shares, Restricted Units and Deferred Share Units (that are not Short-Term Performance Awards or Long-Term Performance Awards) that are not then vested shall vest.

(C) All Short-Term Performance Awards and Long-Term Performance Awards that are earned but not yet paid shall be paid and all Short-Term Performance Awards and Long-Term Performance Awards for which the performance period has not expired shall

be deemed to have been earned in an amount equal to (1) the target value payable to the Participant under such Award and (2) a fraction, the numerator of which is the number of days after the first day of the performance period on which the Change in Control occurs and the denominator of which is the number of days in the performance period, and shall be cancelled in exchange for a cash payment equal to such earned amount within thirty (30) days of the Change in Control.

(D) All dividend equivalent units that are not vested shall vest and be paid in cash, and all other Awards that are not vested shall vest and if an amount is payable under such vested Award, such amount shall be paid in cash based on the value of the Award.

(iii) In the event that (A) the Survivor terminates the Participant's employment or service without cause (as defined in the agreement relating to the Award or, if not defined therein, as defined by the Administrator) or (B) if the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Subsidiary that contemplates the termination of his or her employment or service for good reason, and the Participant terminates his or her employment or service for good reason (as defined in such agreement), in the case of either (A) or (B) within twenty-four (24) months following a Change in Control, then the following provisions shall apply to any assumed Awards or replacement awards described in clause (i) and any Awards not cancelled in connection with the Change in Control pursuant to clause (ii):

(A) Effective upon the date of the Participant's termination of employment or service, all outstanding Awards or replacement awards automatically shall vest in full or, if provided below, on a pro rata basis (assuming in either case for any Award the vesting of which is subject to Performance Measures, that such goals had been met at the target level).

(B) With respect to Share Options or Share Appreciation Rights, at the election of the Participant, such Awards or replacement awards shall be cancelled as of the date of such termination in exchange for a payment in cash and/or Shares (which may include shares or other securities of the Survivor) equal to the excess of the Fair Market Value of the Shares on the date of such termination covered by the portion of the Share Option or Share Appreciation Right that has not been exercised over the exercise or grant price of such Shares under the Award.

(C) With respect to Restricted Shares, Restricted Units and Deferred Share Units (that are not Short-Term Performance Awards or Long-Term Performance Awards), at the election of the Participant, such Awards or replacement awards shall be cancelled as of the date of such termination in exchange for a payment in cash and/or Shares (which may include shares or other securities of the Survivor) equal to the Fair Market Value of a Share on the date of such termination.

(D) With respect to Short-Term Performance Awards or Long-Term Performance Awards that are earned but not yet paid, such Awards or replacement awards shall be paid upon the termination of employment or service, and with respect to Short-Term Performance Awards or Long-Term Performance Awards for which the performance period has not expired, such Awards shall be cancelled in exchange for a cash payment to be made within thirty (30) days after the date of termination equal to the product of (1) the target value payable to the Participant under the Award and (2) a fraction, the numerator of which is the number of days after the first day of the performance period on which the termination occurs and the denominator of which is the number of days in the performance period.

(E) With respect to other Awards, such Awards or replacement awards shall be cancelled as of the date of such termination in exchange for a payment in cash in an amount equal to the value of the Award.

(iv) Notwithstanding anything to the contrary in the foregoing, the Participant has a deferral election in effect with respect to any amount payable under this Section 5.4(b), such amount shall be deferred pursuant to such election and shall not be paid in a lump sum as provided herein; provided that, with respect to amounts payable to a Participant (or the Participant's beneficiary or estate) who is entitled to a payment hereunder because the Participant's employment terminated as a result of death or Disability, or payable to a Participant who has met the requirements for Retirement (without regard to whether the Participant has terminated employment), no payment shall be made unless the Change in Control also constitutes a change in control event within the meaning of Code Section 409A.

(v) If the value of an Award is based on the Fair Market Value of a Share, Fair Market Value shall be deemed to mean the per share Change in Control price. The Committee shall determine the per share Change in Control price paid or deemed paid in the Change in Control transaction.

(vi) Except as otherwise expressly provided in any agreement between a Participant and the Company or a Subsidiary, if the receipt of any payment by a Participant under the circumstances described above would result in the payment by the Participant of any excise tax provided for in Section 280G and Section 4999 of the Code, then the amount of such payment shall be reduced to the extent required to prevent the imposition of such excise tax.

#### *5.5 Effect on Awards of Death, Disability or Certain Terminations of Employment.*

(a) For Awards granted prior to the Amendment Effective Date, unless the applicable Award Certificate provides otherwise:

(i) upon the death or Disability of a Participant, all unvested Awards held by such Participant shall vest, and with respect to all of such Participant's Share Options and Share Appreciation Rights, such Awards will be exercisable until the earlier of (A) their original expiration date and (B) the date that is three years after the date on which the Participant dies or incurs a Disability.

(ii) upon the Termination of Employment of a Participant for any reason other than the Participant's death or Disability or due to a Change in Control, if the Participant has attained age 55, and the sum of the Participant's age and years of service with the Company is 60 or higher, a pro rata portion of each Award held by such Participant shall vest based on the number of full months of service completed commencing on the grant date of such Award and ending on the date of Termination of Employment divided by the full number of months required to achieve complete vesting. With respect to all of such Participant's Share Options and Share Appreciation Rights, such Awards will be exercisable until the earlier of (A) their original expiration date and (B) the date that is three years after the date of Termination of Employment.

(b) For Awards granted on or after the Amendment Effective Date, the Committee will determine the effect of the death, Disability or Termination of Employment of a Participant on such Participant's Awards.

**5.6 Fractional Shares.** The Committee may, in its discretion, determine whether fractional shares may be settled in cash, shares or cancelled.

**5.7 Dividends and Dividend Equivalents.** At the discretion of the Committee and as set forth in the applicable Award Certificate, dividends issued on Shares may be credited with respect to any Award other than a Share Option or Share Appreciation Right in the form of dividend equivalents. Dividend equivalents will be subject to such vesting and other terms as are determined by the Committee and set forth in the applicable Award Certificate. For any Award that is entitled to dividend equivalents, (i) unless the Award Certificate provides otherwise, such dividend equivalent shall equal, on a per Share basis, the quotient produced by dividing the cash value of the dividend by the Fair Market Value of one Share as of the date the dividend is paid, (ii) such dividend equivalent shall vest at the same time, and only to the extent that, the underlying Award vests (taking into account any applicable performance conditions).

## **ARTICLE VI** **AMENDMENT AND TERMINATION**

**6.1 Amendment.** The Plan may be amended at any time and from time to time by the Board or the Committee without the approval of shareholders of the Company, except that no material revision to the terms of the Plan will be effective until the amendment is approved by the shareholders of the Company. A revision is “material” for this purpose if it materially increases the number of Shares that may be issued under the Plan (other than an increase pursuant to Sections 5.3 and 5.4 of the Plan), expands the types of Awards available under the Plan, materially expands the class of persons eligible to receive Awards under the Plan, materially extends the term of the Plan, materially decreases the Exercise Price at which Share Options or Share Appreciation Rights may be granted, reduces the Exercise Price of outstanding Share Options or Share Appreciation Rights, results in the replacement of outstanding Share Options and Share Appreciation Rights with new Awards that have an Exercise Price that is lower than the Exercise Price of the replaced Share Options and Share Appreciation Rights, or otherwise requires the consent of shareholders under applicable law, regulation or exchange listing standard; provided, that the Board may, in its discretion, amend Section 4.7 to increase the maximum amount of Awards permitted to be granted to Nonemployee Directors in any calendar year. With respect to Awards granted prior to the Amendment Effective Date, no amendment of the Plan or any outstanding Award made without the Participant’s written consent may adversely affect any right of a Participant with respect to an outstanding Award. With respect to Awards granted on or after the Amendment Effective Date, the Board or the Committee may amend such Awards; provided that no amendment of the Plan or any outstanding Award made without the Participant’s written consent may adversely affect any right of a Participant with respect to an outstanding Award, except that the Committee need not obtain Participant (or other interested party) consent for the modification, amendment or cancellation of an Award pursuant to the provisions of Section 5.3 or 5.4 of the Plan or as follows: (a) to the extent the Committee deems such action necessary to comply with any applicable law or the listing requirements of any principal securities exchange or market on which the Shares are then traded; (b) to the extent the Committee deems necessary to preserve favorable accounting or tax treatment of any Award for the Company; or (c) to the extent the Committee determines that such action does not materially and adversely affect the value of an Award or that such action is in the best interest of the affected Participant or any other person(s) as may then have an interest in the Award.

**6.2 Termination.** The Plan will terminate upon the earlier of the following dates or events to occur:

- (a) the adoption of a resolution of the Board terminating the Plan; or
- (b) the day before the 10th anniversary of the most recent effective date following shareholder approval of the Plan.

No Awards will be granted under this Plan after it has terminated. The termination of the Plan, however, will not alter or impair any of the rights or obligations of any person under any Award previously granted under the Plan without such person's consent. After the termination of the Plan, any previously granted Awards will remain in effect and will continue to be governed by the terms of the Plan and the applicable Award Certificate.

## ARTICLE VII GENERAL PROVISIONS

**7.1 Nontransferability of Awards.** No Award under the Plan will be subject in any manner to alienation, anticipation, sale, assignment, pledge, encumbrance or transfer, and no other persons will otherwise acquire any rights therein, except as provided below.

(a) Any Award may be transferred by will or by the laws of descent or distribution.

(b) The Committee may provide in the applicable Award Certificate that all or any part of an Award (other than an Incentive Share Option) may be transferred to a family member. For purposes of this subsection (b), "family member" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the Participant, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests.

Any transferred Award will be subject to all of the same terms and conditions as provided in the Plan and the applicable Award Certificate. The Participant or the Participant's estate will remain liable for any withholding tax that may be imposed by any federal, state or local tax authority. The Committee may, in its discretion, disallow all or a part of any transfer of an Award pursuant to this subsection (b) unless and until the Participant makes arrangements satisfactory to the Committee for the payment of any withholding tax.

(c) Except as otherwise provided in the applicable Award Certificate, any Nonqualified Share Option transferred by a Participant pursuant to this subsection (c) may be exercised by the transferee only to the extent that the Award would have been exercisable by the Participant had no transfer occurred. The transfer of Shares upon exercise of the Award will be conditioned on the payment of any withholding tax.

(d) Restricted Shares may be freely transferred after the restrictions lapse or are satisfied and the Shares are delivered, and, if applicable, in compliance with Rule 144 under the Securities Act, or pursuant to an effective registration for resale under the Securities Act.

(e) In no event may a Participant transfer an Incentive Share Option other than by will or the laws of descent and distribution.

**7.2 Withholding of Taxes.** The Committee, in its discretion, may satisfy the Company's or a Participant's tax withholding obligations by any of the following methods or any method as it

determines to be in accordance with the laws of the jurisdiction in which the Participant resides, has domicile or performs services.

(a) *Share Options and Share Appreciation Rights.* As a condition to the delivery of Shares pursuant to the exercise of a Share Option or Share Appreciation Right, the Committee may require that the Participant, at the time of exercise, pay to the Company by cash, certified check, bank draft, wire transfer or postal or express money order an amount sufficient to satisfy any applicable tax withholding obligations. The Committee may also, in its discretion, accept payment of tax withholding obligations through any of the Exercise Price payment methods described in Section 4.3(d); provided that, to the extent Shares are withheld to satisfy taxes, the amount to be withheld may not exceed the total minimum statutory tax withholding obligations associated with the transaction to the extent needed for the Company and its Subsidiaries to avoid an accounting charge until Accounting Standards Update 2016-09 applies to the Company, after which time the amount to be withheld may not exceed the total maximum statutory tax rates associated with the transaction.

(b) *Other Awards Payable in Shares.* The Participant shall satisfy the applicable tax withholding obligations arising in connection with Restricted Units, Restricted Shares and other Share-Based Awards by payment to the Company in cash or by certified check, bank draft, wire transfer or postal or express money order, provided that the format is approved by the Company or a designated third-party administrator. However, subject to any requirements of applicable law, the Participant may also satisfy the tax withholding obligations by other methods, including selling or withholding Shares that would otherwise be available for delivery, provided that the Board or the Committee has specifically approved such payment method in advance; provided that, to the extent Shares are withheld to satisfy taxes, the amount to be withheld may not exceed the total minimum statutory tax withholding obligations associated with the transaction to the extent needed for the Company and its Subsidiaries to avoid an accounting charge until Accounting Standards Update 2016-09 applies to the Company, after which time the amount to be withheld may not exceed the total maximum statutory tax rates associated with the transaction.

(c) *Awards Paid in Cash.* The Company may satisfy a Participant's tax withholding obligation arising in connection with the payment of any Award in cash by withholding cash from such payment.

7.3 *Code Section 162(m).* The Committee or, to the extent required by applicable law, the Board, may, in its discretion grant Awards that are intended to be "performance-based compensation" under Section 162(m). The Committee or, to the extent required by applicable law, the Board, will have the authority, in its sole and absolute discretion, to interpret and administer the Plan consistent with Code Section 162(m) with respect to Key Employees. For the purposes of the Plan, it shall be presumed, unless the Committee indicates to the contrary, that all Awards to Key Employees are intended to qualify as "performance-based compensation" under Code Section 162(m). If the Committee does not intend an Award to a Participant to qualify as performance-based compensation under Code Section 162(m), the Committee shall reflect its intent in its records in such manner as the Committee determines to be appropriate

7.4 *No Implied Rights.* A Participant's rights, if any, in respect of or in connection with any Award are derived solely from the discretionary decision of the Company to permit the individual to participate in the Plan and to benefit from a discretionary Award. By accepting an Award under the Plan, a Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards. Any Award granted hereunder is not intended to be compensation of a continuing or recurring nature, or part of a Participant's normal or expected compensation, and in no way represents any portion of a Participant's salary, compensation, or other

remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

Neither the Plan, nor any Award granted under the Plan, shall be deemed to give any individual a right to remain an Employee or Director of the Company or any Subsidiary. The Company and its Subsidiaries reserve the right to terminate the service of any person at any time, and for any reason, subject to applicable laws, the Company's charter documents and any other applicable written agreement (if any), and such terminated person shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

*7.5 No Obligation to Exercise Awards.* The grant of a Share Option or Share Appreciation Right will impose no obligation upon the Participant to exercise the Award.

*7.6 No Rights as Shareholders.* Except as otherwise specifically provided herein or in the applicable Award Certificate, a Participant who is granted an Award under the Plan will have no rights as a shareholder of the Company with respect to the Award unless and until the Shares underlying the Award are issued in the Participant as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company. The right of any Participant to receive an Award by virtue of participation in the Plan will be no greater than the right of any unsecured general creditor of the Company.

*7.7 No Required Segregation of Assets.* Neither the Company nor any Subsidiary will be required to segregate any assets that may at any time be represented by Awards granted pursuant to the Plan.

*7.8 Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services for the Company or a Subsidiary. Any gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and will not be taken into account as compensation for purposes of any other employee benefit plan of the Company or a Subsidiary, except as the Committee otherwise provides. The adoption of the Plan will have no effect on awards made or to be made under any other benefit plan covering an employee of the Company or a Subsidiary or any predecessor or successor of the Company or a Subsidiary.

*7.9 Securities Law Compliance.* Awards under the Plan are intended to satisfy the requirements of Rule 16b-3 under the Exchange Act. If any provision of this Plan or any grant of an Award would otherwise frustrate or conflict with this intent, that provision will be interpreted and deemed amended so as to avoid conflict. No Participant will be entitled to a grant, exercise, transfer or payment of any Award if the grant, exercise, transfer or payment would violate the provisions of the Sarbanes-Oxley Act of 2002 or any other applicable law.

*7.10 Section 409A of the Code.* Notwithstanding other provisions of the Plan, or any applicable Award Certificate, no Award shall be granted, deferred, accelerated, extended, paid out or modified under this Plan in a manner that would result in the imposition of an additional tax upon a Participant under Code Section 409A. In the event that it is reasonably determined by the Committee that, as a result of Code Section 409A, payments in respect of any Award under the Plan may not be made at a time contemplated by the terms of the Plan or the applicable Award Certificate, as the case may be, without causing the Participant holding such Award to be subject to taxation under Code Section 409A, the Company shall make such payment on the first day that would not result in the Participant incurring any tax liability under Code Section 409A. References under the Plan or the terms of the applicable Award Certificate to the Participant's termination of employment shall be deemed to refer to the date upon which the Participant has experienced a "separation from service" within the meaning of Code

Section 409A. Notwithstanding anything herein to the contrary, (a) if at the time of the Participant's separation from service with any service recipient, the Participant is a "specified employee" as defined in Code Section 409A, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such separation from service is necessary in order to prevent the imposition of any accelerated or additional tax under Code Section 409A, then the Company will defer the commencement of the payment of any such payments or benefits hereunder to the minimum extent necessary to satisfy Code Section 409A until the date that is six months and one day following the Participant's separation from service with all service recipients (or the earliest date that is permitted under Code Section 409A), if such payment or benefit is payable upon a termination of employment, and (b) if any other payments of money or other benefits due to the Participant hereunder would cause the application of an accelerated or additional tax under Code Section 409A, such payments or other benefits shall be deferred, if deferral will make such payment or other benefits compliant under Code Section 409A, or otherwise such payment or other benefits shall be restructured, to the minimum extent necessary, in a manner, reasonably determined by the Committee, that does not cause such an accelerated or additional tax or result in an additional cost to the Company.

*7.11 Governing Law, Severability.* The Plan and all determinations made and actions taken under the Plan will be governed by the law of the Company's place of incorporation and construed accordingly. If any provision of the Plan is held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity or unenforceability will not affect any other parts of the Plan, which parts will remain in full force and effect.

*7.12 Forfeiture; Clawback.* The Committee may, in its discretion, provide in an Award Certificate provisions it deems appropriate related to non-competition, non-solicitation, confidentiality, anti-disparagement and similar matters. The Committee may, in its discretion, specify in an Award or a policy that will be incorporated into an Award agreement by reference, that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Employment for cause, termination of the Participant's provision of services to the Company or any of its Subsidiaries, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or restatement of the Company's financial statements to reflect adverse results from those previously released financial statements, as a consequence of errors, omissions, fraud, or misconduct. In addition, for Awards granted on or after the Amendment Effective Date, (a) any such Awards, and any Shares issued or cash paid pursuant to such Awards, shall be subject to (i) any recoupment, clawback, equity holding, share ownership or similar policies adopted by the Company from time to time and (ii) any recoupment, clawback, equity holding, share ownership or similar requirements made applicable by law, regulation or listing standards to the Company from time to time, (b) unless the Award Certificate specifies otherwise, the Committee may cancel any Award at any time if the Participant is not in compliance with all applicable provisions of the Award Certificate and the Plan and (c) the Company shall have the right to offset, from any amount payable or shares deliverable hereunder, any amount that the Participant owes to the Company or any Subsidiary without the consent of the Participant or any individual with a right to the Participant's Award.

*7.13 Employment and Service.* Except to the extent determined otherwise by the Committee or required for compliance with Code Section 409A, for purposes of the Plan and all Awards granted on or after the Amendment Effective Date, (a) a Participant who transfers employment between the Company and its Subsidiaries, or between Subsidiaries, will not be considered to have terminated employment; and (b) a Participant employed by a Subsidiary will be considered to have terminated employment when such entity ceases to be a Subsidiary.

7.14 *No Guarantee of Tax Treatment.* Notwithstanding any provisions of the Plan, the Company does not guarantee to any Participant or any other person with an interest in an Award granted on or after the Amendment Effective Date that (a) any such Award intended to be exempt from Code Section 409A shall be so exempt, (b) any such Award intended to comply with Code Section 409A or Code Section 422 shall so comply, or (c) any such Award shall otherwise receive a specific tax treatment under any other applicable tax law, nor in any such case will the Company or any Subsidiary be required to indemnify, defend or hold harmless any individual with respect to the tax consequences of any Award.

7.15 *Participant Responsibilities.* With respect to Awards granted on or after the Amendment Effective Date, if a Participant shall dispose of Shares acquired through exercise of an Incentive Share Option within either (i) two (2) years after the date the Incentive Share Option is granted or (ii) one (1) year after the date the Incentive Share Option is exercised (i.e., in a disqualifying disposition), such Participant shall notify the Company within seven (7) days of the date of such disqualifying disposition. In addition, if a Participant elects, under Code Section 83, to be taxed at the time an Award of Restricted Shares (or other property subject to such Code section) is made, rather than at the time the Award vests, such Participant shall notify the Company within seven (7) days of the date the Participant makes such an election.

7.16 *Dispute Resolution.* Notwithstanding anything to the contrary herein, with respect to Awards granted on or after the Amendment Effective Date, if any individual (other than the Company) brings a claim involving the Company or a Subsidiary, regardless of the basis of the claim (including but not limited to claims relating to wrongful discharge, Title VII discrimination, the Participant's employment or service with the Company or its Subsidiaries or the termination thereof, benefits under this Plan or other matters), such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association ("AAA") and the following provisions, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(a) *Initiation of Action.* Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitation provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel  
Johnson Controls International plc  
5757 North Green Bay Avenue  
P.O. Box 591  
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

(b) *Compliance with Personnel Policies.* Before proceeding to arbitration on a complaint, the claimant must initiate and participate in any complaint resolution procedure identified in the personnel policies of the Company or a Subsidiary, as applicable. If the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing

shall be held on a complaint until any complaint resolution procedure of the Company or a Subsidiary, as applicable, has been completed.

(c) *Rules of Arbitration.* All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under the award or policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.

(d) *Representation and Costs.* Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company or Subsidiary shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

(e) *Discovery; Location; Rules of Evidence.* Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.

(f) *Confidentiality.* The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

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

**FORM 10-K**

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

**For the Fiscal Year Ended September 30, 2016  
OR**

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

**For The Transition Period From \_\_\_\_\_ To  
Commission File Number 001-13836**

**JOHNSON CONTROLS INTERNATIONAL PLC**

(Exact name of registrant as specified in its charter)

**Ireland**

(Jurisdiction of Incorporation)

**98-0390500**

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

**One Albert Quay  
Cork, Ireland**

(Address of principal executive offices)

**353-21-423-5000**

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

**Title of Each Class**

Ordinary Shares, Par Value \$0.01

**Name of Each Exchange on Which Registered**

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Exchange Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of March 25, 2016, the aggregate market value of Tyco International plc (predecessor registrant to Johnson Controls International plc) Common Stock held by non-affiliates of the registrant was approximately \$15.1 billion based on the closing sales price as reported on the New York Stock Exchange. As of October 31, 2016, 936,718,105 ordinary shares, par value \$0.01 per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the annual general meeting of shareholders to be held on March 9, 2017 are incorporated by reference into Part III.

**JOHNSON CONTROLS INTERNATIONAL PLC**

**Index to Annual Report on Form 10-K**

**Year Ended September 30, 2016**

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## **CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION**

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Annual Report on Form 10-K refer to Johnson Controls International plc and its consolidated subsidiaries.

The Company has made statements in this document that are forward-looking and therefore are subject to risks and uncertainties. All statements in this document other than statements of historical fact are, or could be, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In this document, statements regarding future financial position, sales, costs, earnings, cash flows, other measures of results of operations, synergies and integration opportunities, capital expenditures and debt levels are forward-looking statements. Words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "forecast," "project" or "plan" and terms of similar meaning are also generally intended to identify forward-looking statements. However, the absence of these words does not mean that a statement is not forward-looking. Johnson Controls cautions that these statements are subject to numerous important risks, uncertainties, assumptions and other factors, some of which are beyond Johnson Controls' control, that could cause Johnson Controls' actual results to differ materially from those expressed or implied by such forward-looking statements, including, among others, risks related to: any delay or inability of Johnson Controls to realize the expected benefits and synergies of recent portfolio transactions such as the merger with Tyco and the spin-off of Adient, changes in tax laws, regulations, rates, policies or interpretations, the loss of key senior management, the tax treatment of recent portfolio transactions, significant transaction costs and/or unknown liabilities associated with such transactions, the outcome of actual or potential litigation relating to such transactions, the risk that disruptions from recent transactions will harm Johnson Controls' business, the strength of the U.S. or other economies, automotive vehicle production levels, mix and schedules, energy and commodity prices, the availability of raw materials and component products, currency exchange rates, and cancellation of or changes to commercial arrangements. A detailed discussion of risks related to Johnson Controls' business is included in the section entitled "Risk Factors" (refer to Part I, Item 1A, of this Annual Report on Form 10-K). The forward-looking statements included in this document are made only as of the date of this document, unless otherwise specified, and, except as required by law, Johnson Controls assumes no obligation, and disclaims any obligation, to update such statements to reflect events or circumstances occurring after the date of this document.

## **PART I**

### **ITEM 1 BUSINESS**

#### **General**

Johnson Controls International plc, headquartered in Cork, Ireland, is a global diversified technology and multi industrial leader serving a wide range of customers in more than 150 countries. The Company creates intelligent buildings, efficient energy solutions, integrated infrastructure and next generation transportation systems that work seamlessly together to deliver on the promise of smart cities and communities. The Company is committed to helping our customers win and creating greater value for all of its stakeholders through strategic focus on our buildings and energy growth platforms.

Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company to manufacture, install and service automatic temperature regulation systems for buildings. The Company was renamed to Johnson Controls, Inc. in 1974. In 1978, the Company acquired Globe-Union, Inc., a Wisconsin-based manufacturer of automotive batteries for both the replacement and original equipment markets. The Company entered the automotive seating industry in 1985 with the acquisition of Michigan-based Hoover Universal, Inc. In 2005, the Company acquired York International, a global supplier of heating, ventilating, air-conditioning and refrigeration equipment and services. In 2014, the Company acquired Air Distribution Technologies, Inc. (ADTi), one of the largest independent providers of air distribution and ventilation products in North America.

The Company is going through a multi-year portfolio transformation. Included in this transformation are several strategic transactions including the divestiture of its Global Workplace Solutions (GWS) business and the contribution of its Automotive Experience Interiors business to the newly created joint venture with Yanfeng Automotive Trim Systems, both of which occurred during fiscal 2015. On October 1, 2015, the Company formed a joint venture with Hitachi to expand its Buildings product offerings.

On September 2, 2016, Johnson Controls, Inc. ("JCI Inc.") and Tyco International plc ("Tyco") completed their combination pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of January 24, 2016, as amended by Amendment No. 1, dated as of July 1, 2016, by and among JCI Inc., Tyco and certain other parties named therein, including Jagara Merger Sub LLC, an indirect wholly owned subsidiary of Tyco ("Merger Sub"). Pursuant to the terms of the Merger Agreement, on September 2, 2016, Merger Sub merged with and into JCI Inc., with JCI Inc. being the surviving corporation in the merger and a wholly owned, indirect subsidiary of Tyco (the "Merger"). Following the Merger, Tyco changed its name to "Johnson Controls International plc." The merger was accounted for as a reverse acquisition using the acquisition method of accounting in accordance with Accounting

Standards Codification ("ASC") 805, "Business Combinations." JCI Inc. was the accounting acquirer for financial reporting purposes. Accordingly, the historical consolidated financial statements of JCI Inc. for periods prior to this transaction are considered to be the historic financial statements of the Company. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for additional information.

The acquisition of Tyco brings together best-in-class product, technology and service capabilities across controls, fire, security, HVAC, power solutions and energy storage, to serve various end-markets including large institutions, commercial buildings, retail, industrial, small business and residential. The combination of the Tyco and Johnson Controls buildings platforms is expected to create immediate opportunities for near-term growth through cross-selling, complementary branch and channel networks, and expanded global reach for established businesses. The new Company is also expected to benefit by combining innovation capabilities and pipelines involving new products, advanced solutions for smart buildings and cities, value-added services driven by advanced data and analytics and connectivity between buildings and energy storage through infrastructure integration.

On October 31, 2016, the Company completed the spin-off of its Automotive Experience business by way of the transfer of the Automotive Experience Business from Johnson Controls to Adient plc and the issuance of ordinary shares of Adient directly to holders of Johnson Controls ordinary shares on a pro rata basis. Prior to the open of business on October 31, 2016, each of the Company's shareholders received one ordinary share of Adient plc for every 10 ordinary shares of Johnson Controls held as of the close of business on October 19, 2016, the record date for the distribution. Company shareholders received cash in lieu of fractional shares of Adient, if any. Following the separation and distribution, Adient plc is now an independent public company trading on the New York Stock Exchange (NYSE) under the symbol "ADNT." The Company did not retain any equity interest in Adient plc.

The Building Efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the Buildings business provides technical services and energy management consulting. The Company also provides residential air conditioning and heating systems and industrial refrigeration products.

The Tyco business is a global market leader in providing security products and services, fire detection and suppression products and services, and life and safety products. Tyco designs, sells, installs, services and monitors electronic security systems and fire detection and suppression systems. In addition, Tyco manufactures and sells fire protection, security and life safety products, including intrusion security, anti-theft devices, breathing apparatus and access control and video management systems. The products and services are for commercial, industrial, retail, residential, small business, institutional and governmental customers worldwide.

The Automotive Experience business is one of the world's largest automotive suppliers, providing innovative seating and interior systems through our design and engineering expertise. The Company's technologies extend into virtually every area of the interior including seating, door systems, floor consoles and instrument panels. Customers include most of the world's major automakers.

The Power Solutions business is a leading global supplier of lead-acid automotive batteries for virtually every type of passenger car, light truck and utility vehicle. The Company serves both automotive original equipment manufacturers (OEMs) and the general vehicle battery aftermarket. The Company also supplies advanced battery technologies to power start-stop, hybrid and electric vehicles.

## **Financial Information About Business Segments**

Accounting Standards Codification (ASC) 280, "Segment Reporting," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in ASC 280, the Company has determined that it has eight reportable segments for financial reporting purposes. The Company's eight reportable segments are presented in the context of its three primary businesses - Buildings, Automotive Experience and Power Solutions. Refer to Note 19, "Segment Information," of the notes to consolidated financial statements for financial information about business segments. For the purpose of the following discussion of the Company's businesses, the five Buildings reportable segments and the two Automotive Experience reportable segments are presented together due to their similar customers and the similar nature of their products, production processes and distribution channels.

## **Products/Systems and Services**

### ***Buildings***

#### ***Building Efficiency***

Building Efficiency is a global leader in delivering integrated control systems, mechanical equipment, products and services designed to improve the comfort, safety and energy efficiency of non-residential buildings and residential properties with operations in 53 countries. Revenues come from technical services, and the replacement and upgrade of HVAC controls and mechanical equipment in the existing buildings market, where the Company's large base of current customers leads to repeat business, as well as with installing controls and equipment during the construction of new buildings. Customer relationships often span entire building lifecycles.

Building Efficiency sells its control systems, mechanical equipment and services primarily through the Company's extensive global network of sales and service offices. Some building controls, products and mechanical systems are sold to distributors of air-conditioning, refrigeration and commercial heating systems throughout the world. In fiscal 2016, approximately 72% of Building Efficiency's sales were derived from HVAC products and installed control systems for construction and retrofit markets, including 11% of total sales related to new commercial construction. Approximately 28% of its sales in fiscal 2016 originated from its service offerings. In fiscal 2016, Building Efficiency accounted for 35% of the Company's consolidated net sales.

The Company's systems include York® chillers, industrial refrigeration products, air handlers and other HVAC mechanical equipment that provide heating and cooling in non-residential buildings. The Metasys® control system monitors and integrates HVAC equipment with other critical building systems to maximize comfort while reducing energy and operating costs. The Company also produces air conditioning and heating equipment and products, including Titus® and Ruskin® brands, for the residential market. As the largest global supplier of HVAC technical services, Building Efficiency staffs, optimizes and repairs building systems made by the Company and its competitors. The Company offers a wide range of solutions such as performance contracting under which guaranteed energy savings are used by the customer to fund project costs over a number of years.

### ***Tyco***

Tyco is a leading global provider of security products and services, fire detection and suppression products and services and life safety products. The business offers a broad portfolio of products and services, sold under well-known brands such as Tyco, SimplexGrinnell, Sensormatic, Wormald, Ansul, Simplex, Scott and ADT (other than in the U.S., Canada and Korea), and serves security, fire detection and suppression and life safety needs across commercial, industrial, retail, small business, institutional and governmental markets, as well as non-U.S. residential markets. Tyco holds market-leading positions in large, fragmented industries and believes it is well positioned to leverage its global footprint, deep industry experience, strong customer relationships and innovative technologies to expand its business in both developed and emerging markets. Tyco shares the ADT® trademark with The ADT Corporation and operates under a brand governance agreement between the two companies.

As the merger with Tyco was completed on September 2, 2016, the business accounted for only 2% of the Company's consolidated net sales in fiscal 2016.

### ***Automotive Experience***

Automotive Experience designs and manufactures interior products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. The business produces automotive interior systems for OEMs and operates approximately 243 wholly- and majority-owned manufacturing or assembly plants, with operations in 33 countries worldwide. Beginning in the fourth quarter of fiscal 2015, the Automotive Experience Interiors business is predominantly in an unconsolidated partially-owned affiliate. Additionally, the business has other partially-owned affiliates in Asia, Europe, North America and South America.

Automotive Experience products and systems include complete seating systems and interior components, including instrument panels, floor consoles, and door systems. In fiscal 2016, Automotive Experience accounted for 45% of the Company's consolidated net sales.

The business operates assembly plants that supply automotive OEMs with complete seats on a "just-in-time/in-sequence" basis. Seats are assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line. Certain of the business's other automotive interior systems are also supplied on a "just-in-time/in-sequence" basis. Foam, metal and plastic

seating components, seat covers, seat mechanisms and other components are shipped to these plants from the business's production facilities or outside suppliers.

### ***Power Solutions***

Power Solutions services both automotive OEMs and the battery aftermarket by providing energy storage technology, coupled with systems engineering, marketing and service expertise. The Company is the largest producer of lead-acid automotive batteries in the world, producing and distributing approximately 152 million lead-acid batteries annually in approximately 69 wholly- and majority-owned manufacturing or assembly plants, distribution centers and sales offices in 19 countries worldwide. Investments in new product and process technology have expanded product offerings to absorbent glass mat (AGM) and enhanced flooded battery (EFB) technologies that power start-stop vehicles, as well as lithium-ion battery technology for certain hybrid and electric vehicles. The business has also invested to develop sustainable lead and poly recycling operations in the North American and European markets. Approximately 75% of unit sales worldwide in fiscal 2016 were to the automotive replacement market, with the remaining sales to the OEM market.

Power Solutions accounted for 18% of the Company's fiscal 2016 consolidated net sales. Batteries and key components are manufactured at wholly- and majority-owned plants in North America, South America, Asia and Europe.

### **Competition**

#### ***Buildings***

##### ***Building Efficiency***

The Building Efficiency business conducts its operations through thousands of individual contracts that are either negotiated or awarded on a competitive basis. Key factors in the award of contracts include system and service performance, quality, price, design, reputation, technology, application engineering capability and construction or project management expertise. Competitors for HVAC equipment and controls in the residential and non-residential marketplace include many regional, national and international providers; larger competitors include Honeywell International, Inc.; Siemens Building Technologies, an operating group of Siemens AG; Schneider Electric SA; Carrier Corporation, a subsidiary of United Technologies Corporation; Trane Incorporated, a subsidiary of Ingersoll-Rand Company Limited; Daikin Industries, Ltd.; Lennox International, Inc.; GC Midea Holding Co, Ltd.; Gree Electric Appliances, Inc. and Greenheck Fan Corporation. In addition to HVAC equipment, Building Efficiency competes in a highly fragmented HVAC services market, which is dominated by local providers. The loss of any individual contract would not have a material adverse effect on the Company.

#### ***Tyco***

The Tyco business operates in markets that are generally highly competitive and fragmented with a small number of large, global firms and thousands of smaller regional and local companies; larger competitors include: Siemens Building Technologies, an operating group of Siemens AG; Honeywell International, Inc., Stanley Black & Decker, Inc., 3M Company and United Technologies Corporation. Competition is based on price, quality, specialized product capacity, breadth of product line, training, support and delivery, with the relative importance of these factors varying depending on the project complexity, product line, the local market and other factors. Tyco's systems integration capabilities, which allows it to offer global solutions to customers that fully integrate the business's security and/or fire offerings into existing information technology networks, business operations and management tools, and process automation and control systems, sets it apart from all but a small number of other large, global competitors.

#### ***Automotive Experience***

The Automotive Experience business faces competition from other automotive suppliers and, with respect to certain products, from the automobile OEMs who produce or have the capability to produce certain products the business supplies. The automotive supply industry competes on the basis of technology, quality, reliability of supply and price. Design, engineering and product planning are increasingly important factors. Independent suppliers that represent the principal Automotive Experience Seating competitors include Lear Corporation, Faurecia SA and Magna International Inc. The Automotive Experience Interiors business primarily competes with Faurecia SA, Grupo Antolin - Irausa SA and International Automotive Components Group SA.

## **Power Solutions**

Power Solutions is the principal supplier of batteries to many of the largest merchants in the battery aftermarket, including Advance Auto Parts, AutoZone, Robert Bosch GmbH, DAISA S.A., Costco, NAPA, O'Reilly/CSK, Interstate Battery System of America, Sears, Roebuck & Co. and Wal-Mart stores. Automotive batteries are sold throughout the world under private labels and under the Company's brand names (Optima®, Varta®, LTH® and Heliar®) to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The Power Solutions business competes with a number of major U.S. and non-U.S. manufacturers and distributors of lead-acid batteries, as well as a large number of smaller, regional competitors. The Power Solutions business primarily competes in the battery market with Exide Technologies, GS Yuasa Corporation, Camel Group Company Limited, East Penn Manufacturing Company and Banner Batteries GB Limited. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty.

## **Backlog**

The Company's backlog relating to the Buildings business is applicable to its sales of systems and services. At September 30, 2016, the backlog was \$9.5 billion, the majority of which relates to fiscal 2017. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the upcoming fiscal year.

## **Raw Materials**

Raw materials used by the businesses in connection with their operations, including lead, steel, tin, aluminum, urethane chemicals, brass, copper, sulfuric acid, polypropylene and certain flurochemicals used in our fire suppression agents, were readily available during fiscal 2016, and the Company expects such availability to continue. In fiscal 2017, commodity prices could fluctuate throughout the year and could significantly affect the results of operations.

## **Intellectual Property**

Generally, the Company seeks statutory protection for strategic or financially important intellectual property developed in connection with its business. Certain intellectual property, where appropriate, is protected by contracts, licenses, confidentiality or other agreements.

The Company owns numerous U.S. and non-U.S. patents (and their respective counterparts), the more important of which cover those technologies and inventions embodied in current products or which are used in the manufacture of those products. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, no single patent, or group of patents, is critical to the success of the business. The Company, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Company's trademarks, certain of which are material to its business, are registered or otherwise legally protected in the U.S. and many non-U.S. countries where products and services of the Company are sold. The Company, from time to time, becomes involved in trademark licensing transactions.

Most works of authorship produced for the Company, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Company's claim to copyright protection under U.S. law and appropriate international treaties.

## **Environmental, Health and Safety Matters**

Laws addressing the protection of the environment (environmental laws) and workers' safety and health (worker safety laws) govern the Company's ongoing global operations. They generally provide for civil and criminal penalties, as well as injunctive and remedial relief, for noncompliance or require remediation of sites where Company-related materials have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with environmental laws and worker safety laws and maintains procedures designed to foster and ensure compliance. Certain of the Company's businesses are, or have been, engaged in the handling or use of substances that may impact workplace health and safety or the environment. The Company is committed to protecting its workers and the environment against the risks associated with these substances.

The Company's operations and facilities have been, and in the future may become, the subject of formal or informal enforcement actions or proceedings for noncompliance with environmental laws and worker safety laws or for the remediation of Company-

related substances released into the environment. Such matters typically are resolved with regulatory authorities through commitments to compliance, abatement or remediation programs and, in some cases, payment of penalties. See Item 3, "Legal Proceedings," of this report for a discussion of the Company's potential environmental liabilities.

## **Environmental Capital Expenditures**

The Company's ongoing environmental compliance program often results in capital expenditures. Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in fiscal 2016 related solely to environmental compliance were not material. It is management's opinion that the amount of any future capital expenditures related solely to environmental compliance will not have a material adverse effect on the Company's financial results or competitive position in any one year.

## **Government Regulation and Supervision**

The Company's operations are subject to numerous federal, state and local laws and regulations, both within and outside the United States, in areas such as: consumer protection, government contracts, international trade, environmental protection, labor and employment, tax, licensing and others. For example, most U.S. states and non-U.S. jurisdictions in which the Company operates have licensing laws directed specifically toward the alarm and fire suppression industries. The Company's security businesses currently rely extensively upon the use of wireline and wireless telephone service to communicate signals. Wireline and wireless telephone companies in the United States are regulated by the federal and state governments. In addition, government regulation of fire safety codes can impact the Company's fire businesses. These and other laws and regulations impact the manner in which the Company conducts its business, and changes in legislation or government policies can affect the Company's worldwide operations, both favorably and unfavorably. For a more detailed description of the various laws and regulations that affect the Company's business, see Item 1A. Risk Factors.

## **Employees**

As of September 30, 2016, the Company employed approximately 209,000 people worldwide, of which approximately 63,000 were employed in the United States and approximately 146,000 were outside the United States. Approximately 28,000 employees are covered by collective bargaining agreements or works councils and we believe that our relations with the labor unions are generally good.

## **Seasonal Factors**

Certain of Building Efficiency's sales are seasonal as the demand for residential air conditioning equipment generally increases in the summer months. This seasonality is mitigated by the other products and services provided by the Buildings business that have no material seasonal effect.

## **Financial Information About Geographic Areas**

Refer to Note 19, "Segment Information," of the notes to consolidated financial statements for financial information about geographic areas.

## **Research and Development Expenditures**

Refer to Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements for research and development expenditures.

## **Available Information**

The Company's filings with the U.S. Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, are made available free of charge through the Investor Relations section of the Company's Internet website at <http://www.johnsoncontrols.com> as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at <http://www.sec.gov>, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC's Office of Investor Education and Advocacy at 1-800-732-0330. The Company also makes available, free of charge, its Ethics Policy, Corporate Governance Guidelines, Board of Directors committee charters and other information related to the Company on the Company's Internet website.

or in printed form upon request. The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

## **ITEM 1A**      **RISK FACTORS**

### **Risks Relating to Business Operations**

#### **General economic, credit and capital market conditions could adversely affect our financial performance, our ability to grow or sustain our businesses and our ability to access the capital markets.**

We compete around the world in various geographic regions and product markets. Global economic conditions affect each of our primary businesses. As we discuss in greater detail in the specific risk factors for each of our businesses that appear below, any future financial distress in the industries and/or markets where we compete could negatively affect our revenues and financial performance in future periods, result in future restructuring charges, and adversely impact our ability to grow or sustain our businesses.

The capital and credit markets provide us with liquidity to operate and grow our businesses beyond the liquidity that operating cash flows provide. A worldwide economic downturn and/or disruption of the credit markets could reduce our access to capital necessary for our operations and executing our strategic plan. If our access to capital were to become significantly constrained, or if costs of capital increased significantly due to lowered credit ratings, prevailing industry conditions, the volatility of the capital markets or other factors; then our financial condition, results of operations and cash flows could be adversely affected.

#### **Some of the industries in which we operate are cyclical and, accordingly, demand for our products and services could be adversely affected by downturns in these industries.**

Much of the demand for installation of HVAC, security products, and fire detection and suppression solutions is driven by commercial and residential construction and industrial facility expansion and maintenance projects. Commercial and residential construction projects are heavily dependent on general economic conditions, localized demand for commercial and residential real estate and availability of credit. Commercial and residential real estate markets are prone to significant fluctuations in supply and demand. In addition, most commercial and residential real estate developers rely heavily on project financing in order to initiate and complete projects. Declines in real estate values could lead to significant reductions in the availability of project financing, even in markets where demand may otherwise be sufficient to support new construction. These factors could in turn hamper demand for new HVAC, fire detection and suppression and security installations.

Levels of industrial capital expenditures for facility expansions and maintenance turn on general economic conditions, economic conditions within specific industries we serve, expectations of future market behavior and available financing. Additionally, volatility in commodity prices can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders.

The businesses of many of our industrial customers, particularly oil and gas companies, chemical and petrochemical companies, mining and general industrial companies, are to varying degrees cyclical and have experienced periodic downturns. During such economic downturns, customers in these industries historically have tended to delay major capital projects, including greenfield construction, maintenance projects and upgrades. Additionally, demand for our products and services may be affected by volatility in energy and commodity prices and fluctuating demand forecasts, as our customers may be more conservative in their capital planning, which may reduce demand for our products and services. Although our industrial customers tend to be less dependent on project financing than real estate developers, disruptions in financial markets and banking systems could make credit and capital markets difficult for our customers to access, and could raise the cost of new debt for our customers to prohibitive levels. Any difficulty in accessing these markets and the increased associated costs can have a negative effect on investment in large capital projects, including necessary maintenance and upgrades, even during periods of favorable end-market conditions.

Many of our customers outside of the industrial and commercial sectors, including governmental and institutional customers, have experienced budgetary constraints as sources of revenue have been negatively impacted by adverse economic conditions. These budgetary constraints have in the past and may in the future reduce demand for our products and services among governmental and institutional customers.

Reduced demand for our products and services could result in the delay or cancellation of existing orders or lead to excess capacity, which unfavorably impacts our absorption of fixed costs. This reduced demand may also erode average selling prices in the industries we serve. Any of these results could materially and adversely affect our business, financial condition, results of operations and cash flows.

**Decreased demand from our customers in the automotive industry may adversely affect our results of operations.**

Our financial performance in the Power Solutions business depends, in part, on conditions in the automotive industry. Sales to OEMs accounted for approximately 25% of the total sales of the Power Solutions business in fiscal 2016. Declines in the North American, European and Asian automotive production levels could reduce our sales and adversely affect our results of operations. In addition, if any OEMs reach a point where they cannot fund their operations, we may incur write-offs of accounts receivable, incur impairment charges or require additional restructuring actions beyond our current restructuring plans, which, if significant, would have a material adverse effect on our business and results of operations.

**An inability to successfully respond to competition and pricing pressure from other companies in the Power Solutions business may adversely impact our business.**

Our Power Solutions business competes with a number of major U.S. and non-U.S. manufacturers and distributors of lead-acid batteries, as well as a large number of smaller, regional competitors. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty. If we are unable to remain competitive and maintain market share in the regions and markets we serve, our business, financial condition and results of operations may be adversely affected.

**Volatility in commodity prices may adversely affect our results of operations.**

Increases in commodity costs can negatively impact the profitability of orders in backlog as prices on such orders are typically fixed; therefore, in the short-term we cannot adjust for changes in certain commodity prices. In these cases, if we are not able to recover commodity cost increases through price increases to our customers on new orders, then such increases will have an adverse effect on our results of operations. Additionally, unfavorability in our hedging programs during a period of declining commodity prices could result in lower margins as we reduce prices to match the market on a fixed commodity cost level.

In our Power Solutions business, lead is a major component of lead-acid batteries, and the price of lead may be highly volatile. We attempt to manage the impact of changing lead prices through the recycling of used batteries returned to us by our aftermarket customers, commercial terms and commodity hedging programs. Our ability to mitigate the impact of lead price changes can be impacted by many factors, including customer negotiations, inventory level fluctuations and sales volume/mix changes, any of which could have an adverse effect on our results of operations.

Additionally, the prices of other commodities, primarily fuel, acid, resin and tin, may be volatile. If other commodity prices rise, and if we are not able to recover these cost increases through price increases to our customers, such increases will have an adverse effect on our results of operations. Moreover, the implementation of any price increases to our customers could negatively impact the demand for our products.

**We rely on our global direct installation channel for a significant portion of our revenue. Failure to maintain and grow the installed base resulting from direct channel sales could adversely affect our business.**

Unlike many of our competitors, the Company relies on a direct sales channel for a substantial portion of our revenue. The direct channel provides for the installation of fire and security solutions, and HVAC equipment manufactured by the Company. This represents a significant distribution channel for our products, creates a large installed base of our fire and security solutions, and HVAC equipment, and creates opportunities for longer term service and monitoring revenue. If we are unable to maintain or grow this installation business, whether due to changes in economic conditions, a failure to anticipate changing customer needs, a failure to introduce innovative or technologically advanced solutions, or for any other reason, our installation revenue could decline, which could in turn adversely impact our product pull through and our ability to grow service and monitoring revenue.

**Our future growth is dependent upon our ability to develop or acquire new technologies that achieve market acceptance with acceptable margins.**

Our future success depends on our ability to develop or acquire, manufacture and bring competitive, and increasingly complex, products and services to market quickly and cost-effectively. Our ability to develop or acquire new products and services requires the investment of significant resources. These acquisitions and development efforts divert resources from other potential investments in our businesses, and they may not lead to the development of new technologies, products or services on a timely basis. Moreover, as we introduce new products, we may be unable to detect and correct defects in the design of a product or in its application to a specified use, which could result in loss of sales or delays in market acceptance. Even after introduction, new or enhanced products may not satisfy customer preferences and product failures may cause customers to reject our products. As a result, these products may not achieve market acceptance and our brand image could suffer. In addition, the markets for our products

and services may not develop or grow as we anticipate. As a result, the failure of our technology, products or services to gain market acceptance, the potential for product defects, product quality issues, or the obsolescence of our products and services could significantly reduce our revenues, increase our operating costs or otherwise materially and adversely affect our business, financial condition, results of operations and cash flows.

**Risks associated with our non-U.S. operations could adversely affect our business, financial condition and results of operations.**

We have significant operations in a number of countries outside the U.S., some of which are located in emerging markets. Long-term economic uncertainty in some of the regions of the world in which we operate, such as Asia, South America, the Middle East, Europe and emerging markets, could result in the disruption of markets and negatively affect cash flows from our operations to cover our capital needs and debt service requirements.

In addition, as a result of our global presence, a significant portion of our revenues and expenses is denominated in currencies other than the U.S. dollar. We are therefore subject to non-U.S. currency risks and non-U.S. exchange exposure. While we employ financial instruments to hedge some of our transactional foreign exchange exposure, these activities do not insulate us completely from those exposures. For example, the announcement of the United Kingdom's decision to exit the European Union caused significant volatility in currency exchange rates, especially between the U.S. dollar and British pound sterling. Exchange rates can be volatile and a substantial weakening of foreign currencies against the U.S. dollar could reduce our profit margin in various locations outside of the U.S. and adversely impact the comparability of results from period to period.

There are other risks that are inherent in our non-U.S. operations, including the potential for changes in socio-economic conditions, laws and regulations, including import, export, labor and environmental laws, and monetary and fiscal policies; protectionist measures that may prohibit acquisitions or joint ventures, or impact trade volumes; unsettled political conditions; government-imposed plant or other operational shutdowns; backlash from foreign labor organizations related to our restructuring actions; corruption; natural and man-made disasters, hazards and losses; violence, civil and labor unrest, and possible terrorist attacks.

These and other factors may have a material adverse effect on our non-U.S. operations and therefore on our business and results of operations.

**Our businesses operate in regulated industries and are subject to a variety of complex and continually changing laws and regulations.**

Our operations and employees are subject to various U.S. federal, state and local licensing laws, codes and standards and other laws and regulations. Changes in laws or regulations could require us to change the way we operate or to utilize resources to maintain compliance, which could increase costs or otherwise disrupt operations. In addition, failure to comply with any applicable laws or regulations could result in substantial fines or revocation of our operating permits and licenses. If laws and regulations were to change or if we or our products failed to comply, our business, financial condition and results of operations could be adversely affected.

Due to the international scope of our operations, the system of laws and regulations to which we are subject is complex and includes regulations issued by the U.S. Customs and Border Protection, the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Treasury Department's Office of Foreign Assets Control and various non U.S. governmental agencies, including applicable export controls, customs, currency exchange control and transfer pricing regulations, and laws regulating the foreign ownership of assets. No assurances can be made that we will continue to be found to be operating in compliance with, or be able to detect violations of, any such laws or regulations. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

**We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws around the world.**

The U.S. Foreign Corrupt Practices Act (the "FCPA"), the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both U.S. and non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that are recognized as having governmental and commercial corruption and local customs and practices that can be inconsistent with anti-bribery laws. We cannot assure you that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or third party

intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, results of operations or financial condition.

As previously reported, we and the Securities and Exchange Commission (SEC) resolved alleged FCPA violations related to the Building Efficiency marine business in China dating back to 2007, which the Company had self-reported to the SEC and the Department of Justice (DOJ) in June 2013, and we are subject to a Cease and Desist Order (“Order”) issued by the SEC related to this matter that requires us to make certain reports to the SEC over a one year period. Notwithstanding the resolution of this matter with the SEC, we may be subject to allegations of FCPA or similar bribery violations in the future and we may be subject to commercial impacts such as lost revenue from customers who decline to do business with us as a result of these compliance matters. If so, or if we are unable to comply with the provisions of the Order and other agreements, we may be subject to additional investigation or enforcement by the SEC, DOJ or other governmental agencies. In such a case, we could be subject to material fines, injunctions on future conduct, the imposition of a compliance monitor, or suffer other criminal or civil penalties or adverse impacts, including being subject to lawsuits brought by private litigants, each of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**We are subject to risks arising from regulations applicable to companies doing business with the U.S. government.**

Our customers include many U.S. Federal, state and local government authorities. Doing business with the U.S. government and state and local authorities subjects us to unusual risks, including dependence on the level of government spending and compliance with and changes in governmental procurement and security regulations. Agreements relating to the sale of products to government entities may be subject to termination, reduction or modification, either at the convenience of the government or for failure to perform under the applicable contract. We are subject to potential government investigations of business practices and compliance with government procurement and security regulations, which can be expensive and burdensome. If we were charged with wrongdoing as a result of an investigation, we could be suspended from bidding on or receiving awards of new government contracts, which could have a material adverse effect on the Company's results of operations. In addition, various U.S. federal and state legislative proposals have been made that would deny governmental contracts to U.S. companies that have moved their corporate location abroad. We are unable to predict the likelihood that, or final form in which, any such proposed legislation might become law, the nature of regulations that may be promulgated under any future legislative enactments, or the effect such enactments and increased regulatory scrutiny may have on our business.

**Infringement or expiration of our intellectual property rights, or allegations that we have infringed the intellectual property rights of third parties, could negatively affect us.**

We rely on a combination of trademarks, trade secrets, patents, copyrights, know-how, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We cannot guarantee, however, that the steps we have taken to protect our intellectual property will be adequate to prevent infringement of our rights or misappropriation of our technology, trade secrets or know-how. For example, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some of the countries in which we operate. In addition, while we generally enter into confidentiality agreements with our employees and third parties to protect our trade secrets, know-how, business strategy and other proprietary information, such confidentiality agreements could be breached or otherwise may not provide meaningful protection for our trade secrets and know-how related to the design, manufacture or operation of our products. If it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail. Further, adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. Finally, for those products in our portfolio that rely on patent protection, once a patent has expired, the product is generally open to competition. Products under patent protection usually generate significantly higher revenues than those not protected by patents. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows.

In addition, we are, from time to time, subject to claims of intellectual property infringement by third parties, including practicing entities and non-practicing entities. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming, and the litigation process is subject to inherent uncertainties, and we may not prevail in litigation matters regardless of the merits of our position. Intellectual property lawsuits or claims may become extremely disruptive if the plaintiffs succeed in blocking the trade of our products and services and they may have a material adverse effect on our business, financial condition, results of operations and cash flows.

**Global climate change could negatively affect our business.**

Increased public awareness and concern regarding global climate change may result in more regional and/or federal requirements to reduce or mitigate the effects of greenhouse gas emissions. There continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty. Such regulatory uncertainty extends to incentives, that if discontinued, could adversely impact the demand for energy efficient buildings and batteries for energy efficient vehicles, and could increase costs of compliance. These factors may impact the demand for our products, obsolescence of our products and our results of operations.

There is a growing consensus that greenhouse gas emissions are linked to global climate changes. Climate changes, such as extreme weather conditions, create financial risk to our business. For example, the demand for our products and services, such as residential air conditioning equipment and automotive replacement batteries, may be affected by unseasonable weather conditions. Climate changes could also disrupt our operations by impacting the availability and cost of materials needed for manufacturing and could increase insurance and other operating costs. These factors may impact our decisions to construct new facilities or maintain existing facilities in areas most prone to physical climate risks. The Company could also face indirect financial risks passed through the supply chain, and process disruptions due to physical climate changes could result in price modifications for our products and the resources needed to produce them.

**Potential liability for environmental contamination could result in substantial costs**

We have projects underway at multiple current and former manufacturing facilities to investigate and remediate environmental contamination resulting from past operations by us or by other businesses that previously owned or used the properties. These projects relate to a variety of activities, including solvent, oil, metal, lead and other hazardous substance contamination cleanup; and structure decontamination and demolition, including asbestos abatement. Because of uncertainties associated with environmental regulation and environmental remediation activities at sites where we may be liable, future expenses that we may incur to remediate identified sites could be considerably higher than the current accrued liability on our consolidated statements of financial position, which could have a material adverse effect on our business and results of operations.

**We are subject to requirements relating to environmental and safety regulations and environmental remediation matters, including those related to the manufacturing and recycling of lead-acid batteries, which could adversely affect our business, results of operation and reputation.**

We are subject to numerous federal, state and local environmental laws and regulations governing, among other things, solid and hazardous waste storage, treatment and disposal, and remediation of releases of hazardous materials, including as it pertains to lead, the primary material used in the manufacture of lead-acid batteries. There are significant capital, operating and other costs associated with compliance with these environmental laws and regulations. Environmental laws and regulations may become more stringent in the future, which could increase costs of compliance or require us to manufacture with alternative technologies and materials.

Federal, state and local authorities also regulate a variety of matters, including, but not limited to, health, safety and permitting in addition to the environmental matters discussed above. New legislation and regulations may require the Company to make material changes to its operations, resulting in significant increases to the cost of production.

**We are party to asbestos-related product litigation that could adversely affect our financial condition, results of operations and cash flows.**

We and certain of our subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components. We cannot predict with certainty the extent to which we will be successful in litigating or otherwise resolving lawsuits in the future and we continue to evaluate different strategies related to asbestos claims filed against us including entity restructuring and judicial relief. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on our business and financial condition, results of operations and cash flows.

The amounts we have recorded for asbestos-related liabilities and insurance-related assets in the consolidated statements of financial position are based on our current strategy for resolving asbestos claims, currently available information, and a number of variables, estimates and assumptions. Key variables and assumptions include the number and type of new claims that are filed each year, the average cost of resolution of claims, the identity of defendants and the resolution of coverage issues with insurance carriers, amount of insurance, and the solvency risk with respect to the Company's insurance carriers. Many of these factors are closely linked, such that a change in one variable or assumption will impact one or more of the others, and no single variable or assumption

predominately influences the determination of the Company's asbestos-related liabilities and insurance-related assets. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the later portion of the projection period. Other factors that may affect the Company's liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in our calculations vary significantly from actual results. If actual liabilities are significantly higher than those recorded, the cost of resolving such liabilities could have a material adverse effect on our financial position, results of operations or cash flows.

**Risks related to our defined benefit retirement plans may adversely impact our results of operations and cash flow.**

Significant changes in actual investment return on defined benefit plan assets, discount rates, mortality assumptions and other factors could adversely affect our results of operations and the amounts of contributions we must make to our defined benefit plans in future periods. Because we mark-to-market our defined benefit plan assets and liabilities on an annual basis, large non-cash gains or losses could be recorded in the fourth quarter of each fiscal year. Generally accepted accounting principles in the U.S. require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. Funding requirements for our defined benefit plans are dependent upon, among other factors, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to defined benefit funding obligations. For a discussion regarding the significant assumptions used to determine net periodic benefit cost, refer to "Critical Accounting Estimates and Policies" included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**We may be unable to realize the expected benefits of our restructuring actions, which could adversely affect our profitability and operations.**

To align our resources with our growth strategies, operate more efficiently and control costs, we periodically announce restructuring plans, which may include workforce reductions, global plant closures and consolidations, asset impairments and other cost reduction initiatives. We may undertake additional restructuring actions and workforce reductions in the future. As these plans and actions are complex, unforeseen factors could result in expected savings and benefits to be delayed or not realized to the full extent planned, and our operations and business may be disrupted.

**Negative or unexpected tax consequences could adversely affect our results of operations.**

Adverse changes in the underlying profitability and financial outlook of our operations in several jurisdictions could lead to additional changes in our valuation allowances against deferred tax assets and other tax reserves on our statement of financial position, and the future sale of certain businesses could potentially result in the repatriation of accumulated foreign earnings that could materially and adversely affect our results of operations. Additionally, changes in tax laws in the U.S., Ireland or in other countries where we have significant operations could materially affect deferred tax assets and liabilities on our consolidated statements of financial position and our income tax provision in our consolidated statements of income.

We are also subject to tax audits by governmental authorities. Negative unexpected results from one or more such tax audits could adversely affect our results of operations.

**Legal proceedings in which we are, or may be, a party may adversely affect us.**

We are currently and may in the future become subject to legal proceedings and commercial or contractual disputes. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes with our suppliers, intellectual property matters, third party liability, including product liability claims and employment claims. There is a possibility that such claims may have an adverse impact on our results of operations that is greater than we anticipate and/or negatively affect our reputation.

**A downgrade in the ratings of our debt could restrict our ability to access the debt capital markets and increase our interest costs.**

Unfavorable changes in the ratings that rating agencies assign to our debt may ultimately negatively impact our access to the debt capital markets and increase the costs we incur to borrow funds. If ratings for our debt fall below investment grade, our access to the debt capital markets would become restricted. Future tightening in the credit markets and a reduced level of liquidity in many financial markets due to turmoil in the financial and banking industries could affect our access to the debt capital markets or the price we pay to issue debt. Historically, we have relied on our ability to issue commercial paper rather than to draw on our credit

facility to support our daily operations, which means that a downgrade in our ratings or volatility in the financial markets causing limitations to the debt capital markets could have an adverse effect on our business or our ability to meet our liquidity needs.

Additionally, several of our credit agreements generally include an increase in interest rates if the ratings for our debt are downgraded. Further, an increase in the level of our indebtedness may increase our vulnerability to adverse general economic and industry conditions and may affect our ability to obtain additional financing.

**The potential insolvency or financial distress of third parties could adversely impact our business and results of operations.**

We are exposed to the risk that third parties to various arrangements who owe us money or goods and services, or who purchase goods and services from us, will not be able to perform their obligations or continue to place orders due to insolvency or financial distress. If third parties fail to perform their obligations under arrangements with us, we may be forced to replace the underlying commitment at current or above market prices or on other terms that are less favorable to us. In such events, we may incur losses, or our results of operations, financial condition or liquidity could otherwise be adversely affected.

**We may be unable to complete or integrate acquisitions or joint ventures effectively, which may adversely affect our growth, profitability and results of operations.**

We expect acquisitions of businesses and assets, as well as joint ventures (or other strategic arrangements), to play a role in our future growth. We cannot be certain that we will be able to identify attractive acquisition or joint venture targets, obtain financing for acquisitions on satisfactory terms, successfully acquire identified targets or form joint ventures, or manage the timing of acquisitions with capital obligations across our businesses. Additionally, we may not be successful in integrating acquired businesses or joint ventures into our existing operations and achieving projected synergies which could result in impairment of assets, including goodwill and acquired intangible assets. Given the significance of the Company's recent acquisitions, the goodwill and intangible assets recorded were significant and impairment of such assets could result in a material adverse impact on our financial condition and results of operation. Competition for acquisition opportunities in the various industries in which we operate may rise, thereby increasing our costs of making acquisitions or causing us to refrain from making further acquisitions. If we were to use equity securities to finance a future acquisition, our then-current shareholders would experience dilution. We are also subject to applicable antitrust laws and must avoid anticompetitive behavior. These and other factors related to acquisitions and joint ventures may negatively and adversely impact our growth, profitability and results of operations.

**Risks associated with joint venture investments may adversely affect our business and financial results.**

We have entered into several joint ventures and we may enter into additional joint ventures in the future. Our joint venture partners may at any time have economic, business or legal interests or goals that are inconsistent with our goals or with the goals of the joint venture. In addition, we may compete against our joint venture partners in certain of our other markets. Disagreements with our business partners may impede our ability to maximize the benefits of our partnerships. Our joint venture arrangements may require us, among other matters, to pay certain costs or to make certain capital investments or to seek our joint venture partner's consent to take certain actions. In addition, our joint venture partners may be unable or unwilling to meet their economic or other obligations under the operative documents, and we may be required to either fulfill those obligations alone to ensure the ongoing success of a joint venture or to dissolve and liquidate a joint venture. These risks could result in a material adverse effect on our business and financial results.

**We are subject to business continuity risks associated with centralization of certain administrative functions.**

We have been regionally centralizing certain administrative functions, primarily in North America, Europe and Asia, to improve efficiency and reduce costs. To the extent that these central locations are disrupted or disabled, key business processes, such as invoicing, payments and general management operations, could be interrupted, which could have an adverse impact on our business.

**A failure of our information technology (IT) and data security infrastructure could adversely impact our business and operations.**

We rely upon the capacity, reliability and security of our IT and data security infrastructure and our ability to expand and continually update this infrastructure in response to the changing needs of our business. As we implement new systems, they may not perform as expected. We also face the challenge of supporting our older systems and implementing necessary upgrades. If we experience a problem with the functioning of an important IT system or a security breach of our IT systems, including during system upgrades and/or new system implementations, the resulting disruptions could have an adverse effect on our business.

We and certain of our third-party vendors receive and store personal information in connection with our human resources operations and other aspects of our business. Despite our implementation of security measures, our IT systems, like those of other companies, are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber attack and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. A material network breach in the security of our IT systems could include the theft of our intellectual property, trade secrets, customer information, human resources information or other confidential matter. To the extent that any disruptions or security breach results in a loss or damage to our data, or an inappropriate disclosure of confidential, proprietary or customer information, it could cause significant damage to our reputation, affect our relationships with our customers, lead to claims against the Company and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

**A material disruption of our operations, particularly at our monitoring and/or manufacturing facilities, could adversely affect our business.**

If our operations, particularly at our monitoring facilities and/or manufacturing facilities, were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, sabotage, adverse weather conditions, public health crises, labor disputes or other reasons, we may be unable to effectively respond to alarm signals, fill customer orders and otherwise meet obligations to or demand from our customers, which could adversely affect our financial performance.

Interruptions in production could increase our costs and reduce our sales. Any interruption in production capability could require us to make substantial capital expenditures or purchase alternative material at higher costs to fill customer orders, which could negatively affect our profitability and financial condition. We maintain property damage insurance that we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our business, financial condition, results of operations and cash flow.

**Our business success depends on attracting and retaining qualified personnel.**

Our ability to sustain and grow our business requires us to hire, retain and develop a highly skilled and diverse management team and workforce. Failure to ensure that we have the leadership capacity with the necessary skill set and experience could impede our ability to deliver our growth objectives and execute our strategic plan. Organizational and reporting changes resulting from the Merger and the spin-off of the Automotive Experience business ("Separation"), or as a result of any future leadership transition or corporate initiatives could result in increased turnover. Additionally, any unplanned turnover or inability to attract and retain key employees could have a negative effect on our results of operations.

**Our business may be adversely affected by work stoppages, union negotiations, labor disputes and other matters associated with our labor force.**

We employ approximately 209,000 people worldwide. Approximately 13% of these employees are covered by collective bargaining agreements or works council. Although we believe that our relations with the labor unions and works councils that represent our employees are generally good and we have experienced no material strikes or work stoppages recently, no assurances can be made that we will not experience in the future these and other types of conflicts with labor unions, works council, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor. Additionally, a work stoppage at one of our suppliers could materially and adversely affect our operations if an alternative source of supply were not readily available. Stoppages by employees of our customers could also result in reduced demand for our products.

**Regulations related to conflict minerals could adversely impact our business.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo and adjoining countries. As a result, in August 2012, the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals in their products. There are costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Our continued compliance with these disclosure rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering "conflict free" conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices, or that we will be able to satisfy customers who require our

products to be conflict free. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

**We are exposed to greater risks of liability for employee acts or omissions, or system failure, in our fire, security and life safety businesses than may be inherent in other businesses.**

If a customer or third party believes that he or she has suffered harm to person or property due to an actual or alleged act or omission of one of our employees or a security or fire system failure, he or she may pursue legal action against us, and the cost of defending the legal action and of any judgment could be substantial. In particular, because many of our products and services are intended to protect lives and real and personal property, we may have greater exposure to litigation risks than businesses that provide other products and services. We could face liability for failure to respond adequately to alarm activations or failure of our fire protection or life safety systems to operate as expected. The nature of the services we provide exposes us to the risks that we may be held liable for employee acts or omissions or system failures. In an attempt to reduce this risk, our installation, service and monitoring agreements and other contracts contain provisions limiting our liability in such circumstances, and we typically maintain product liability insurance to mitigate the risk that our products and services fail to operate as expected. However, in the event of litigation, it is possible that contract limitations may be deemed not applicable or unenforceable, that our insurance coverage is not adequate, or that insurance carriers deny coverage of our claims. As a result, such employee acts or omissions or system failures could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**We do not own the right to use the ADT® brand name in the U.S. and Canada.**

Tyco owns the ADT® brand name in jurisdictions outside of the U.S. and Canada, and The ADT Corporation ("ADT") owns the brand name in the U.S. and Canada. Although Tyco has entered agreements with ADT designed to protect the value of the ADT® brand, we cannot assure you that actions taken by ADT will not negatively impact the value of the brand outside of the U.S. and Canada. These factors expose us to the risk that the ADT® brand name could suffer reputational damage or devaluation for reasons outside of our control, including ADT's business conduct in the U.S. and Canada. Any of these factors may adversely affect our business, financial condition, results of operations and cash flows.

**Police departments could refuse to respond to calls from monitored security service companies.**

Police departments in a limited number of jurisdictions do not respond to calls from monitored security service companies, either as a matter of policy or by local ordinance. We have offered affected customers the option of receiving responses from private guard companies, in most cases through contracts with us, which increases the overall cost to customers. If more police departments, whether inside or outside the U.S., were to refuse to respond or be prohibited from responding to calls from monitored security service companies, our ability to attract and retain customers could be negatively impacted and our results of operations and cash flow could be adversely affected.

**A variety of other factors could adversely affect the results of operations of our Power Solutions business.**

Any of the following could materially and adversely impact the results of operations of our Power Solutions business: loss of, or changes in, automobile battery supply contracts with our large original equipment and aftermarket customers; the increasing quality and useful life of batteries or use of alternative battery technologies, both of which may adversely impact the lead-acid battery market, including replacement cycle; delays or cancellations of new vehicle programs; market and financial consequences of any recalls that may be required on our products; delays or difficulties in new product development, including lithium-ion technology; impact of potential increases in lithium-ion battery volumes on established lead-acid battery volumes as lithium-ion battery technology grows and costs become more competitive; financial instability or market declines of our customers or suppliers; slower than projected market development in emerging markets; interruption of supply of certain single-source components; changing nature of our joint ventures and relationships with our strategic business partners; unseasonable weather conditions in various parts of the world; our ability to secure sufficient tolling capacity to recycle batteries; price and availability of battery cores used in recycling; and the lack of the development of a market for hybrid and electric vehicles.

**A variety of other factors could adversely affect the results of operations of our Building business.**

Any of the following could materially and adversely impact the results of operations of our Building business: loss of, changes in, or failure to perform under guaranteed performance contracts with our major customers; cancellation of, or significant delays in, projects in our backlog; delays or difficulties in new product development; the potential introduction of similar or superior technologies; financial instability or market declines of our major component suppliers; the unavailability of raw materials (primarily steel, copper and electronic components) necessary for production of our products; price increases of limited-source

components, products and services that we are unable to pass on to the market; unseasonable weather conditions in various parts of the world; changes in energy costs or governmental regulations that would decrease the incentive for customers to update or improve their building control systems; revisions to energy efficiency or refrigerant legislation; and natural or man-made disasters or losses that impact our ability to deliver products and services to our customers.

### **Risks Relating to Recent Strategic Transactions**

#### **We may fail to realize the anticipated benefits of the business combination between Johnson Controls, Inc. and Tyco International plc.**

The success of the Merger will depend on, among other things, our ability to combine the legacy businesses of Johnson Controls and Tyco in a manner that realizes anticipated synergies and facilitates growth opportunities, and achieves the projected stand-alone cost savings and revenue growth trends identified by us. We expect to benefit from operational and general and administrative cost synergies resulting from the consolidation of capabilities and branch optimization, as well as greater tax efficiencies from global management and global cash movement. We may also enjoy revenue synergies, including product and service cross-selling, a more diversified and expanded product offering and balance across geographic regions. However, we must successfully combine the legacy businesses of Johnson Controls and Tyco in a manner that permits these cost savings and synergies to be realized. In addition, we must achieve the anticipated savings and synergies without adversely affecting current revenues and investments in future growth. If we are not able to successfully achieve these objectives, we may not realize fully, or at all, the anticipated benefits of the Merger, or it may take longer to realize the benefits than expected.

Other factors may prevent us from realizing the anticipated benefits of the Merger or impact our future performance. These include, among other items, the possibility that the contingent liabilities of either party (including contingent tax liabilities) are larger than expected, the existence of unknown liabilities, adverse consequences and unforeseen increased expenses associated with the Merger and possible adverse tax consequences pursuant to changes in applicable tax laws, regulations or other administrative guidance (including potential adverse tax consequences that could result from recently issued Treasury regulations concerning the treatment of related-party debt or if any recently introduced anti-inversion legislative proposals were to be enacted in their current form and retroactively applied to the Merger). In addition, we may be subject to additional restrictions resulting from Tyco's incurrence of debt in connection with the merger and as a result of the Company's Irish domicile.

#### **We may encounter significant difficulties in combining the legacy Johnson Controls and Tyco businesses.**

The combination of two independent businesses is a complex, costly and time-consuming process. As a result, we will be required to devote significant management attention and resources to combining the business practices and operations of the legacy Johnson Controls and Tyco businesses. This process may disrupt the businesses. The failure to meet the challenges involved in combining the two businesses and to realize the anticipated benefits of the transactions could cause an interruption of, or a loss of momentum in, the activities of the combined company and could adversely affect our results of operations. The overall combination of legacy Johnson Controls and Tyco businesses may also result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer and other business relationships and diversion of management attention. The difficulties of combining the operations of the companies include, among others:

- the diversion of management attention to integration matters;
- difficulties in integrating operations and systems;
- challenges in conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the two companies;
- difficulties in assimilating employees and in attracting and retaining key personnel;
- challenges in keeping existing customers and obtaining new customers;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the combination;
- difficulties in managing the expanded operations of a significantly larger and more complex company;
- contingent liabilities (including contingent tax liabilities) that are larger than expected; and
- potential unknown liabilities, adverse consequences and unforeseen increased expenses associated with the Merger, including possible adverse tax consequences to the combined company pursuant to changes in applicable tax laws or regulations.

Many of these factors are outside of our control, and any one of them could result in increased costs, decreased expected revenues and diversion of management time and energy, which could materially impact the business, financial condition and results of operations of the combined company.

**The Internal Revenue Service may not agree that we should be treated as a non-U.S. corporation for U.S. federal tax purposes and may not agree that our U.S. affiliates should not be subject to certain adverse U.S. federal income tax rules.**

Under current U.S. federal tax law, a corporation is generally considered for U.S. federal tax purposes to be a tax resident in the jurisdiction of its organization or incorporation. Because Johnson Controls International plc is an Irish incorporated entity, it would generally be classified as a non-U.S. corporation (and, therefore, a non-U.S. tax resident) under these rules. However, Section 7874 of the Code ("Section 7874") provides an exception to this general rule under which a non-U.S. incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal tax purposes.

Under Section 7874, if (1) former Johnson Controls, Inc. shareholders owned (within the meaning of Section 7874) 80% or more (by vote or value) of our ordinary shares after the Merger by reason of holding Johnson Controls, Inc. common stock (the "80% ownership test," and such ownership percentage the "Section 7874 ownership percentage"), and (2) our "expanded affiliated group" did not have "substantial business activities" in Ireland (the "substantial business activities test"), we will be treated as a U.S. corporation for U.S. federal tax purposes. If the Section 7874 ownership percentage of the former Johnson Controls, Inc. shareholders after the Merger was less than 80% but at least 60% (the "60% ownership test"), and the substantial business activities test was not met, we and our U.S. affiliates (including the U.S. affiliates historically owned by Tyco) may, in some circumstances, be subject to certain adverse U.S. federal income tax rules (which, among other things, could limit their ability to utilize certain U.S. tax attributes to offset U.S. taxable income or gain resulting from certain transactions).

Based on the terms of the Merger, the rules for determining share ownership under Section 7874 and certain factual assumptions, we believe that former Johnson Controls, Inc. shareholders owned (within the meaning of Section 7874) less than 60% (by both vote and value) of our ordinary shares after the Merger by reason of holding shares of Johnson Controls, Inc. common stock. Therefore, under current law, we believe that we should not be treated as a U.S. corporation for U.S. federal tax purposes and that Section 7874 should otherwise not apply to us or our affiliates as a result of the Merger.

However, the rules under Section 7874 are relatively new and complex and there is limited guidance regarding their application. In particular, ownership for purposes of Section 7874 is subject to various adjustments under the Code and the Treasury regulations promulgated thereunder, and there is limited guidance regarding Section 7874, including with respect to the application of the ownership tests described therein. As a result, the determination of the Section 7874 ownership percentage is complex and is subject to factual and legal uncertainties. Thus, there can be no assurance that the IRS will agree with the position that we should not be treated as a U.S. corporation for U.S. federal tax purposes or that Section 7874 does not otherwise apply as a result of the Merger.

In addition, on April 4, 2016, the U.S. Treasury and the IRS issued temporary Treasury regulations under Section 7874 (the "Temporary Section 7874 Regulations"), which, among other things, require certain adjustments that generally increase, for purposes of the Section 7874 ownership tests, the percentage of the stock of a foreign acquiring corporation deemed owned (within the meaning of Section 7874) by the former shareholders of an acquired U.S. corporation by reason of holding stock in such U.S. corporation. For example, these temporary regulations disregard, for purposes of determining this ownership percentage, (1) any "non-ordinary course distributions" (within the meaning of the temporary regulations) made by the acquired U.S. corporation (such as Johnson Controls, Inc.) during the 36 months preceding the acquisition, including certain dividends and share repurchases, (2) potentially any cash consideration received by the shareholders of such U.S. corporation in the acquisition to the extent such cash is, directly or indirectly, provided by the U.S. corporation, as well as (3) certain stock of the foreign acquiring corporation that was issued as consideration in a prior acquisition of another U.S. corporation (or U.S. partnership) during the 36 months preceding the signing date of a binding contract for the acquisition being tested. Taking into account the effect of these temporary regulations, we believe that the Section 7874 ownership percentage of former Johnson Controls, Inc. shareholders in us was less than 60%. However, these temporary regulations are new and complex and there is limited guidance regarding their application. Accordingly, there can be no assurance that the IRS will not successfully assert that either the 80% ownership test or the 60% ownership test was met after the Merger.

If the 80% ownership test was met after the Merger and we were accordingly treated as a U.S. corporation for U.S. federal tax purposes under Section 7874, we would be subject to substantial additional U.S. tax liability. Additionally, in such case, our non-U.S. shareholders would be subject to U.S. withholding tax on the gross amount of any dividends we pay to such shareholders (subject to an exemption or reduced rate available under an applicable tax treaty). Regardless of any application of Section 7874, we are treated as an Irish tax resident for Irish tax purposes. Consequently, if we were to be treated as a U.S. corporation for U.S. federal tax purposes under Section 7874, we could be liable for both U.S. and Irish taxes, which could have a material adverse effect on our financial condition and results of operations.

If the 60% ownership test were met, several adverse U.S. federal income tax rules could apply to our U.S. affiliates. In particular, in such case, Section 7874 could limit the ability of such U.S. affiliates to utilize certain U.S. tax attributes (including net operating losses and certain tax credits) to offset any taxable income or gain resulting from certain transactions, including any transfers or licenses of property to a foreign related person during the 10-year period following the Merger. The Temporary Section 7874 Regulations generally expand the scope of these rules. If the 60% ownership test were met after the Merger, such current and future limitations would apply to our U.S. affiliates (including the U.S. affiliates historically owned by Tyco), and their application could limit their ability to utilize such U.S. tax attributes against any income or gain recognized in connection with the Adient spin-off. In such case, the application of such rules could result in significant additional U.S. tax liability. In addition, the Temporary Section 7874 Regulations (and certain related temporary regulations issued under other provisions of the Code) include new rules that would apply if the 60% ownership test were met, which, in such situation, may limit our ability to restructure or access cash earned by certain of our non-U.S. subsidiaries, in each case, without incurring substantial U.S. tax liabilities.

**Future potential changes to the tax laws could result in our being treated as a U.S. corporation for U.S. federal tax purposes or in us and our U.S. affiliates (including the U.S. affiliates historically owned by Tyco) being subject to certain adverse U.S. federal income tax rules.**

As discussed above, under current law, we believe that we should be treated as a non-U.S. corporation for U.S. federal tax purposes and that Section 7874 does not otherwise apply as a result of the Merger. However, changes to Section 7874, or the U.S. Treasury regulations promulgated thereunder, could affect our status as a non-U.S. corporation for U.S. federal tax purposes or could result in the application of certain adverse U.S. federal income tax rules to us and our U.S. affiliates (including the U.S. affiliates historically owned by Tyco). Any such changes could have prospective or retroactive application, and may apply even though the Merger has been consummated. If we were to be treated as a U.S. corporation for federal tax purposes or if we or our U.S. affiliates (including the U.S. affiliates historically owned by Tyco) were to become subject to such adverse U.S. federal income tax rules, we and our U.S. affiliates could be subject to substantially greater U.S. tax liability than currently contemplated.

Recent legislative and other proposals have aimed to expand the scope of U.S. corporate tax residence, including in such a way as would cause us to be treated as a U.S. corporation if our place of management and control or the place of management and control of our non-U.S. affiliates were determined to be located primarily in the United States. In addition, recent legislative and other proposals have aimed to expand the scope of Section 7874, or otherwise address certain perceived issues arising in connection with so-called inversion transactions. For example, multiple proposals introduced by certain Democratic members of both houses of Congress, which, if enacted in their present form, would be effective retroactively to certain transactions (including the Merger), would, among other things, treat a foreign acquiring corporation as a U.S. corporation for U.S. federal tax purposes under Section 7874 if the former shareholders of a U.S. corporation acquired by such foreign acquiring corporation own more than 50% of the shares of the foreign acquiring corporation after the acquisition. These proposals, if enacted in their present form and made retroactive to a date before the date of the closing of the Merger, would cause us to be treated as a U.S. corporation for U.S. federal tax purposes. In such case, we would be subject to substantially greater U.S. tax liability than currently contemplated.

Other recent legislative and other proposals, if enacted, as well as the recently issued Treasury Regulations relating to treatment of related-party debt under Section 385 of the Code, could cause us and our affiliates to be subject to certain intercompany financing limitations, including with respect to their ability to deduct certain interest expense, and could cause us and our affiliates to recognize additional taxable income. Any such proposals, regulations and any other relevant provisions that could change on a prospective or retroactive basis, could have a significant adverse effect on us and our affiliates.

It is presently uncertain whether any such proposals or other legislative action relating to the scope of U.S. tax residence, Section 7874 or so-called inversion transactions and inverted groups will be enacted into law, and whether the recently issued Treasury Regulations relating to treatment of related-party debt could have a material impact on our future financial results.

**We may be unable to achieve some or all of the benefits that we expect to achieve from the spin-off of Adient plc**

On October 31, 2016, we completed the separation of our Automotive Experience through the spin-off of Adient plc to shareholders. Following the spin-off, we are a smaller and less diversified company with a narrower business focus and, as a result, we may be more vulnerable to changing market conditions.

Although we believe that the spin-off of Adient plc will provide financial, operational, managerial and other benefits to us and shareholders, the spin-off may not provide such results on the scope or scale we anticipate, and we may not realize any or all of the intended benefits. In addition, we have and will continue to incur one-time costs and ongoing costs in connection with, or as a result of, the spin-off, including costs of operating as independent, publicly-traded companies that the two businesses are no longer able to share. Those costs may exceed our estimates or could negate some of the benefits we expect to realize. If we do not

realize the intended benefits of the spin-off or if our costs exceed our estimates, we could suffer a material adverse effect on our business, financial condition, results of operations and cash flows.

**Adient may fail to perform under various transaction agreements that we have executed as part of the Separation.**

In connection with the Separation, we and Adient have entered into a separation and distribution agreement and various other agreements, including a transition services agreement, a tax matters agreement, an employee matters agreement and a transitional trademark license agreement. Certain of these agreements provide for the performance of services by each company for the benefit of the other for a period of time after the Separation. We will rely on Adient to satisfy its performance and payment obligations under these agreements. If Adient is unable to satisfy its obligations under these agreements, including its indemnification obligations, we could incur operational difficulties or losses.

**Risks Relating to Our Jurisdiction of Incorporation**

**Legislative action in the U.S. could materially and adversely affect us.**

Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could limit the availability of tax benefits or deductions that we currently claim, override tax treaties upon which we rely, affect our status as a non-U.S. corporation for U.S. federal income tax purposes, or otherwise affect the taxes that the U.S. imposes on our worldwide operations. Such changes could have retroactive effect and could have a material adverse effect on our effective tax rate and/or require us to take further action, at potentially significant expense, to seek to preserve our effective tax rate. In addition, if proposals were enacted that had the effect of disregarding or limiting our ability, as an Irish company, to take advantage of tax treaties with the U.S., we could incur additional tax expense and/or otherwise incur business detriment.

**Legislation relating to governmental contracts could materially and adversely affect us.**

Various U.S. federal and state legislative proposals that would deny governmental contracts to U.S. companies that have moved their corporate location abroad may affect us. We are unable to predict the likelihood that, or final form in which, any such proposed legislation might become law, the nature of regulations that may be promulgated under any future legislative enactments, or the effect such enactments and increased regulatory scrutiny may have on our business.

**Irish law differs from the laws in effect in the U.S. and may afford less protection to holders of our securities.**

It may not be possible to enforce court judgments obtained in the U.S. against us in Ireland based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the U.S. currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Ireland.

A judgment obtained against the combined company will be enforced by the courts of Ireland if the following general requirements are met:

- U.S. courts must have had jurisdiction in relation to the particular defendant according to Irish conflict of law rules (the submission to jurisdiction by the defendant would satisfy this rule); and
- the judgment must be final and conclusive and the decree must be final and unalterable in the court which pronounces it.

A judgment can be final and conclusive even if it is subject to appeal or even if an appeal is pending. But where the effect of lodging an appeal under the applicable law is to stay execution of the judgment, it is possible that in the meantime the judgment may not be actionable in Ireland. It remains to be determined whether final judgment given in default of appearance is final and conclusive. Irish courts may also refuse to enforce a judgment of the U.S. courts which meets the above requirements for one of the following reasons:

- the judgment is not for a definite sum of money;
- the judgment was obtained by fraud;
- the enforcement of the judgment in Ireland would be contrary to natural or constitutional justice;
- the judgment is contrary to Irish public policy or involves certain U.S. laws which will not be enforced in Ireland; or

- jurisdiction cannot be obtained by the Irish courts over the judgment debtors in the enforcement proceedings by personal service Ireland or outside Ireland under Order 11 of the Irish Superior Courts Rules.

As an Irish company, Johnson Controls is governed by the Irish Companies Acts, which differ in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of Johnson Controls International plc securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

#### **Our effective tax rate may increase.**

There is uncertainty regarding the tax policies of the jurisdictions where we operate, including the potential legislative actions described in these risk factors, which if enacted could result in an increase in our effective tax rate. Additionally, the tax laws of Ireland and other jurisdictions could change in the future, and such changes could cause a material increase in our effective tax rate.

#### **Changes to the U.S. model income tax treaty could adversely affect us.**

On February 17, 2016, the U.S. Treasury released a newly revised U.S. model income tax convention (the "model"), which is the baseline text used by the U.S. Treasury to negotiate tax treaties. The new model treaty provisions were preceded by draft versions released by the U.S. Treasury on May 20, 2015 (the "May 2015 draft") for public comment. The revisions made to the model address certain aspects of the model by modifying existing provisions and introducing entirely new provisions. Specifically, the new provisions target (i) permanent establishments subject to little or no foreign tax, (ii) special tax regimes, (iii) expatriated entities subject to Section 7874, (iv) the anti-treaty shopping measures of the limitation on benefits article and (v) subsequent changes in treaty partners' tax laws.

With respect to new model provisions pertaining to expatriated entities, because we do not believe that the Merger resulted in the creation of an expatriated entity as defined in Section 7874, payments of interest, dividends, royalties and certain other items of income by or to us and/or our U.S. affiliates to or from non-U.S. persons would not be expected to become subject to full withholding tax, even if applicable treaties were subsequently amended to adopt the new model provisions. In response to comments the U.S. Treasury received regarding the May 2015 draft, the new model treaty provisions pertaining to expatriated entities fix the definition of "expatriated entity" to the meaning ascribed to such term under Section 7874(a)(2)(A) as of the date the relevant bilateral treaty is signed. However, as discussed above, the rules under Section 7874 are relatively new, complex and are the subject of current and future legislative and regulatory changes. Accordingly, there can be no assurance that the IRS will agree with the position that the Merger did not result in the creation of an expatriated entity (within the meaning of Section 7874) under the law as in effect at the time the applicable treaty were to be amended or that such a challenge would not be sustained by a court, or that such position would not be affected by future or regulatory action which may apply retroactively to the Merger.

#### **Transfers of Johnson Controls ordinary shares may be subject to Irish stamp duty.**

For the majority of transfers of Johnson Controls ordinary shares, there is no Irish stamp duty. However, Irish stamp duty is payable in respect of certain share transfers. A transfer of Johnson Controls ordinary shares from a seller who holds shares beneficially (i.e. through the Depository Trust Company ("DTC")) to a buyer who holds the acquired shares beneficially is not subject to Irish stamp duty (unless the transfer involves a change in the nominee that is the record holder of the transferred shares). A transfer of Johnson Controls ordinary shares by a seller who holds shares directly (i.e. not through DTC) to any buyer, or by a seller who holds the shares beneficially to a buyer who holds the acquired shares directly, may be subject to Irish stamp duty (currently at the rate of 1% of the price paid or the market value of the shares acquired, if higher) payable by the buyer. A shareholder who directly holds shares may transfer those shares into his or her own broker account to be held through DTC without giving rise to Irish stamp duty provided that the shareholder has confirmed to Johnson Controls transfer agent that there is no change in the ultimate beneficial ownership of the shares as a result of the transfer and, at the time of the transfer, there is no agreement in place for a sale of the shares.

We currently intend to pay, or cause one of our affiliates to pay, stamp duty in connection with share transfers made in the ordinary course of trading by a seller who holds shares directly to a buyer who holds the acquired shares beneficially. In other cases Johnson Controls may, in its absolute discretion, pay or cause one of its affiliates to pay any stamp duty. Johnson Controls Memorandum and Articles of Association provide that, in the event of any such payment, Johnson Controls (i) may seek reimbursement from the buyer, (ii) may have a lien against the Johnson Controls ordinary shares acquired by such buyer and any dividends paid on

such shares and (iii) may set-off the amount of the stamp duty against future dividends on such shares. Parties to a share transfer may assume that any stamp duty arising in respect of a transaction in Johnson Controls ordinary shares has been paid unless one or both of such parties is otherwise notified by Johnson Controls.

**Dividends you receive may be subject to Irish dividend withholding tax.**

In certain circumstances, as an Irish tax resident company, we may be required to deduct Johnson Controls dividend withholding tax (currently at the rate of 20%) from dividends paid to our shareholders. Whether Johnson Controls is required to deduct Irish dividend withholding tax from dividends paid to a shareholder depends largely on whether that shareholder is resident for tax purposes in a “relevant territory.” A list of the “relevant territories” is included as Annex C to the proxy statement/prospectus related to the re-domicile to Ireland.

**Dividends received by you could be subject to Irish income tax.**

Dividends paid in respect of Johnson Controls ordinary shares generally are not subject to Irish income tax where the beneficial owner of these dividends is exempt from dividend withholding tax, unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Johnson Controls.

Johnson Controls shareholders who receive their dividends subject to Irish dividend withholding tax generally will have no further liability to Irish income tax on the dividend unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Johnson Controls.

**ITEM 1B        UNRESOLVED STAFF COMMENTS**

The Company has no unresolved written comments regarding its periodic or current reports from the staff of the SEC.

**ITEM 2        PROPERTIES**

The Company conducts its operations in approximately 63 countries throughout the world, with its world headquarters located in Cork, Ireland and its North American operational headquarters located in Milwaukee, Wisconsin USA. The Company's wholly- and majority-owned facilities primarily consist of manufacturing, sales and service offices, research and development facilities, monitoring centers, and assembly and/or warehouse centers. At September 30, 2016, these properties totaled approximately 123 million square feet of floor space of which 76 million square feet are owned and 47 million square feet are leased. The Company considers its facilities to be suitable for their current uses and adequate for current needs. The majority of the facilities are operating at normal levels based on capacity. The Company does not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Building Efficiency Systems and Service North America operates through a network of sales and service offices located in North America. The business occupies approximately 3 million square feet, of which 2 million square feet are leased and 1 million square feet are owned.

Building Efficiency Products North America operates through a network of manufacturing facilities, and assembly and/or warehouse centers located in North America. The business occupies approximately 12 million square feet, of which 6 million square feet are leased and 6 million square feet are owned.

Building Efficiency Asia operates through a network of manufacturing facilities, sales and service offices and assembly and/or warehouse centers located in the Asia-Pacific region. The business occupies approximately 12 million square feet, of which 7 million square feet are owned and 5 million square feet are leased.

Building Efficiency Rest of World operates through a network of manufacturing facilities, sales and service offices and assembly and/or warehouse centers located in South America, Europe, the Middle East and Africa. The business occupies approximately 11 million square feet, of which 7 million square feet are leased and 4 million square feet are owned.

Tyco operates through a network of manufacturing facilities, monitoring centers, sales and service offices, and assembly and/or warehouse centers located in North America, South America, Europe, Africa and the Asia-Pacific region. The business occupies approximated 13 million square feet, of which 10 million square feet are leased and 3 million square feet are owned.

Automotive Experience Seating operates through a network of manufacturing facilities, and assembly and/or warehouse centers located in North America, South America, Europe, Africa and the Asia-Pacific region. The business occupies approximately 27 million square feet, of which 16 million square feet are owned and 11 million square feet are leased.

Automotive Experience Interiors operates through a network of manufacturing facilities, and assembly and/or warehouse centers located in North America, South America, Europe and the Asia-Pacific region. The business occupies approximately 4 million square feet, of which 2 million square feet are owned and 2 million square feet are leased.

Power Solutions operates through a network of manufacturing facilities, and assembly and/or warehouse centers located in North America, South America, Europe and the Asia-Pacific region. The business occupies approximately 39 million square feet, of which 37 million square feet are owned and 2 million square feet are leased.

Corporate offices operate in North America, Europe and the Asia-Pacific region, which occupy approximately 2 million square feet, of which the majority is leased.

### **ITEM 3**      **LEGAL PROCEEDINGS**

#### *Environmental Matters*

As noted in Item 1, liabilities potentially arise globally under various environmental laws and worker safety laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 51 sites in the United States. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental liabilities when it is probable a liability has been incurred and the amount of the liability is reasonably estimable. As of September 30, 2016, reserves for environmental liabilities totaled \$55 million, of which \$15 million was recorded within other current liabilities and \$40 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company does not currently believe that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the Power Solutions and Building Efficiency businesses. At September 30, 2016, the Company recorded conditional asset retirement obligations of \$74 million.

In the first quarter of fiscal 2016, our Power Solutions business entered into a Consent Order with the South Carolina Department of Health and Environmental Control related to alleged violations of U.S. Environmental Protection Agency and South Carolina air regulations and permit conditions and failure to comply with standard operating procedures at the Company's Florence, South Carolina Battery Recycling Center. The Consent Order obligates the Company to implement a number of corrective actions and required the payment of a civil penalty of \$250,000, which the Company has paid.

#### *Asbestos Matters*

The Company and certain of its subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases have typically involved product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components.

As of September 30, 2016, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position is \$148 million. The net liability within the consolidated statements of financial position is comprised of a liability for pending and future claims and related defense costs of \$548 million, of which \$35 million is recorded in other current liabilities and \$513 million is recorded in other noncurrent liabilities. The Company also maintains separate cash, investments and receivables related to insurance recoveries within the consolidated statements of financial position of \$400 million, of which \$41 million is recorded in other current assets, and \$359 million is recorded in other noncurrent assets. Assets include \$16 million of cash and \$264 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at September 30, 2016 is \$120 million. The Company believes that the asbestos related liabilities and insurance related receivables recorded as of September 30, 2016 are appropriate.

The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2069 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Company affiliates). Asbestos related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be made through 2069. Annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

The amounts recorded by the Company for asbestos-related liabilities and insurance-related assets are based on the Company's strategies for resolving its asbestos claims, currently available information, and a number of estimates and assumptions. Key variables and assumptions include the number and type of new claims that are filed each year, the average cost of resolution of claims, the identity of defendants, the resolution of coverage issues with insurance carriers, amount of insurance, and the solvency risk with respect to the Company's insurance carriers. Many of these factors are closely linked, such that a change in one variable or assumption will impact one or more of the others, and no single variable or assumption predominately influences the determination of the Company's asbestos-related liabilities and insurance-related assets. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the later portion of the projection period. Other factors that may affect the Company's liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Company's calculations vary significantly from actual results.

#### *Insurable Liabilities*

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. At September 30, 2016, the insurable liabilities totaled \$473 million, of which \$70 million was recorded within other current liabilities, \$36 million was recorded within accrued compensation and benefits, and \$367 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. The Company records receivables from third party insurers when recovery has been determined to be probable. The Company maintains captive insurance companies to manage certain of its insurable liabilities.

#### *Other Matters*

On July 11, 2016, the Company and the Securities and Exchange Commission (SEC) resolved alleged Foreign Corrupt Practices Act (FCPA) violations related to the Company's Building Efficiency marine business in China dating back to 2007, which the Company had self-reported to the SEC and the Department of Justice (DOJ) in June 2013. These allegations were isolated to the Company's marine business in China, which had annual sales ranging from \$20 million to \$50 million during this period. The Company, under Audit Committee and Board of Directors oversight, proactively initiated an investigation of the matter. Pursuant to the SEC's Order resolving this matter, the Company agreed to pay \$14 million to the SEC in July 2016 (characterized as disgorgement of profits, civil penalties and interest) and also agreed to make certain reports to the SEC over a one-year period with regard to its FCPA compliance program. The Company neither admitted nor denied the findings in the SEC's Order. On July

11, 2016, the DOJ made public a letter stating that the DOJ had closed its investigation of the matter. The Company does not anticipate any material adverse effect on its business or financial condition as a result of this matter, including the SEC's Order.

An investigation by the European Commission (EC) related to European lead recyclers' procurement practices is currently underway, with the Company one of several named companies subject to review. On June 24, 2015, the EC initiated proceedings and adopted a statement of objections alleging infringements of competition rules in Europe against the Company and certain other companies. The Company will continue to cooperate with the EC in their proceedings and does not anticipate any material adverse effect on its business or financial condition as a result of this matter. The Company's policy is to comply with antitrust and competition laws and, if a violation of any such laws is found, to take appropriate remedial action and to cooperate fully with any related governmental inquiry. Competition and antitrust law investigations may continue for several years and can result in substantial fines depending on the gravity and duration of the violations.

On March 1, 2016, a putative class action lawsuit, *Wandel v. Tyco International plc, et al.*, Docket No. C-000010-16, was filed in the Superior Court of New Jersey naming the Company (previously Tyco International plc), the individual members of its board of directors, Johnson Controls, Inc. and a merger subsidiary of the Company as defendants. The complaint alleged that, prior to the merger, the Company's directors breached their fiduciary duties and exercised their powers as directors in a manner oppressive to the public shareholders of Tyco in violation of Irish law by, among other things, failing to take steps to maximize shareholder value and failing to protect against purported conflicts of interest. The complaint further alleged that the Company, Johnson Controls, Inc. and the Company's merger subsidiary aided and abetted Tyco's directors in the breach of their fiduciary duties. The complaint sought, among other things, to enjoin the merger between Johnson Controls, Inc. and Tyco's subsidiary. On September 9, 2016, plaintiff voluntarily dismissed the complaint as to all defendants.

On May 20, 2016, a putative class action lawsuit, *Laufer v. Johnson Controls, Inc., et al.*, Docket No. 2016CV003859, was filed in the Circuit Court of Wisconsin, Milwaukee County, naming Johnson Controls, Inc., the individual members of its board of directors, the Company and the Company's merger subsidiary as defendants. The complaint alleged that Johnson Controls Inc.'s directors breached their fiduciary duties in connection with the merger between Johnson Controls Inc. and the Company's merger subsidiary by, among other things, failing to take steps to maximize shareholder value, seeking to benefit themselves improperly and failing to disclose material information in the joint proxy statement/prospectus relating to the merger. The complaint further alleged that the Company aided and abetted Johnson Controls Inc.'s directors in the breach of their fiduciary duties. The complaint sought, among other things, to enjoin the merger. On August 8, 2016, the plaintiffs agreed to settle the action and release all claims that were or could have been brought by plaintiffs or any member of the putative class of Johnson Controls Inc.'s shareholders. The settlement is conditioned upon, among other things, the execution of an appropriate stipulation of settlement. If the parties enter into a stipulation of settlement, a hearing will be scheduled at which the court will consider the fairness of the proposed settlement. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the court will approve the settlement. In either event, or certain other circumstances, the settlement could be terminated.

On August 16, 2016, a putative class action lawsuit, *Gumm v. Molinaroli, et al.*, Case No. 16-cv-1093, was filed in the United States District Court for the Eastern District of Wisconsin, naming Johnson Controls, Inc., the individual members of its board of directors at the time of the merger with the Company's merger subsidiary and certain of its officers, the Company and the Company's merger subsidiary as defendants. The complaint asserted various causes of action under the federal securities laws, state law and the Taxpayer Bill of Rights II, including that the individual defendants allegedly breached their fiduciary duties and unjustly enriched themselves by structuring the merger among the Company, Tyco and the merger subsidiary in a manner that would result in a United States federal income tax realization event for the putative class of certain Johnson Controls, Inc. shareholders and allegedly result in certain benefits to the defendants, as well as related claims regarding alleged misstatements in the proxy statement/prospectus distributed to the Johnson Controls, Inc. shareholders, conversion and breach of contract. The complaint also asserted that Johnson Controls, Inc., the Company and the Company's merger subsidiary aided and abetted the individual defendants in their breach of fiduciary duties and unjust enrichment. The complaint seeks, among other things, disgorgement of profits, damages and to enjoin the closing of the merger. On September 30, 2016, approximately one month after the closing of the merger, plaintiffs filed a preliminary injunction motion seeking, among other items, to compel Johnson Controls, Inc. to make certain intercompany payments that plaintiffs contend will impact the United States federal income tax consequences of the merger to the putative class of certain Johnson Controls, Inc. shareholders and to enjoin Johnson Controls, Inc. from reporting to the Internal Revenue Service the capital gains taxes payable by this putative class as a result of the closing of the merger. A hearing on the preliminary injunction motion is currently scheduled for January 2017.

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses, including those pertaining to product liability, environmental, safety and health, intellectual property, employment, commercial and contractual matters, and various other casualty matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management's opinion that none of these will have a material

adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

#### **ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

#### **EXECUTIVE OFFICERS OF THE REGISTRANT**

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of November 23, 2016 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company's Proxy Statement relating to the annual general meeting of shareholders to be held on March 9, 2017.

*Simon Davis*, 52, was elected Vice President and Chief Human Resources Officer following the completion of the Merger in September 2016. Prior to the Merger he was elected a Vice President of Johnson Controls, Inc. in May 2014 and named Chief Human Resources Officer in September 2015. He previously served Johnson Controls, Inc. as Assistant Chief Human Resources Officer from 2014 to September 2015, as Vice President, Talent Strategy & Organizational Excellence from 2011 to 2014 and as Vice President - Human Resources, Power Solutions from 2007 to 2011. Mr. Davis joined Johnson Controls, Inc. in 1997.

*William C. Jackson*, 56, was elected Vice President and President, Global Products, Building Technologies and Solutions following the completion of the Merger in September 2016. Prior to the Merger he was elected a Vice President and named President, Building Efficiency of Johnson Controls, Inc. in September 2014. He previously served Johnson Controls, Inc. as Executive Vice President, Corporate Development from 2013 to 2014, as President - Automotive Electronics & Interiors from 2012 to 2014, and as Executive Vice President, Operations and Innovation, from 2011 to 2013. Prior to joining Johnson Controls, Inc., Mr. Jackson was Vice President and President of Automotive at Sears Holdings Corporation, (an integrated retailer) from 2009 to 2010. Mr. Jackson is a Director of Metaldyne Performance Group, Inc. (metal-forming technology manufacturing company), where he serves on the Compensation Committee.

*Alex A. Molinaroli*, 57, was elected Chief Executive Officer following the completion of the Merger in September 2016. He also serves as the Company's Principal Executive Officer. Prior to the Merger he was the Chief Executive Officer and President of Johnson Controls, Inc. from October 2013. He was also elected Chairman of the Board of Directors of Johnson Controls, Inc. in January 2014 and was elected Chairman of the Board of the Company in September 2016. He served as a Director of Johnson Controls, Inc. since October 2013. He previously served Johnson Controls, Inc. as Vice Chairman from January 2013 to October 2013, as a Corporate Vice President from 2004 to 2013 and as President of the Power Solutions business from 2007 to 2013. Mr. Molinaroli joined Johnson Controls, Inc. in 1983.

*Trent Nevill*, 45, was elected Vice President and President, Building Solutions, Asia Pacific following the completion of the Merger in September 2016. Prior to the Merger, he was a Vice President and named President, Asia Pacific of Johnson Controls, Inc. in March 2016. He served Johnson Controls, Inc. as Vice President & General Manager - North America Systems, Services and Solutions from 2014 to 2016, Vice President - North America Business Operations from 2013 to 2014, Vice President & General Manager - North American HVAC and Regions from 2010 to 2013. Mr. Nevill joined Johnson Controls, Inc. in 1995.

*George R. Oliver*, 57, was elected President and Chief Operating Officer following the completion of the Merger in September 2016. Prior to the Merger, he was Chief Executive Officer of Tyco from October 2012. He joined Tyco in July 2006, serving as president of Tyco Safety Products, and assumed additional responsibility as president of Tyco Electrical & Metal Products from 2007 through 2010. He was appointed president of Tyco Fire Protection in 2011.

*Johan Pfeiffer*, 51, was elected Vice President and President, Building Solutions, Europe, Middle East, Africa and Latin America following the completion of the Merger in September 2016. He joined Tyco in July 2015. Previously, he had a 22-year career with FMC Corporation and FMC Technologies, where he most recently served as Vice President, leading the global Surface Technologies and Energy Infrastructure businesses.

*Judith A. Reinsdorf*, 53 was elected Executive Vice President and General Counsel in March 2007. From October 2004 to February 2007, Ms. Reinsdorf served as Vice President, General Counsel and Secretary of C.R. Bard, Inc., a medical device company. Previously, she had served as Vice President and Corporate Secretary of Tyco from 2003 to 2004 and as Vice President and Associate General Counsel of Pharmacia Corporation from 2000 to 2003. Ms. Reinsdorf has been a director of The Dun & Bradstreet Corporation, a commercial information and business insight provider, since 2013.

*Brian J. Stief*, 60, was elected Executive Vice President and Chief Financial Officer following the completion of the Merger in September 2016. He also serves as the Company's Principal Financial Officer. Prior to the Merger, he was elected Executive Vice President and Chief Financial Officer of Johnson Controls, Inc. in September 2014. He previously served Johnson Controls, Inc. as Vice President and Corporate Controller from 2010 to 2014. Prior to joining Johnson Controls, Inc. in 2010, Mr. Stief was a partner with PricewaterhouseCoopers LLP (an audit and assurance, tax and consulting services provider), which he joined in 1979 and in which he became partner in 1989.

*Suzanne M. Vincent*, 46, was elected Vice President and Corporate Controller following the completion of the Merger in September 2016. She also serves as the Company's Principal Accounting Officer. Prior to the Merger she was elected Vice President and Corporate Controller of Johnson Controls, Inc. in September 2014. She previously served as Vice President, Internal Audit since joining Johnson Controls, Inc. in 2012. Prior to that, Ms. Vincent was a partner with KPMG LLP (an audit and assurance, tax and consulting services provider), which she joined in 2001 and in which she became an audit partner in 2008.

*Joseph A. Walicki*, 51, was elected Vice President and President, Power Solutions following the completion of the Merger in September 2016. Prior to the Merger he was elected a Vice President and named President, Power Solutions of Johnson Controls, Inc. in January 2015. He previously served Johnson Controls, Inc. as the Chief Operating Officer, Power Solutions in 2014, as Vice President and General Manager - North America, Systems, Service & Solutions from 2013 to 2014, and as Vice President and General Manager Systems & Channels North America from 2010 to 2013. Mr. Walicki joined Johnson Controls, Inc. in 1988.

There are no family relationships, as defined by the instructions to this item, among the Company's executive officers.

**PART II****ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The shares of the Company's ordinary shares are traded on the New York Stock Exchange under the symbol "JCI."

<u>Title of Class</u>	<u>Number of Record Holders as of September 30, 2016</u>
Ordinary Shares, \$0.01 par value	41,299

	Ordinary Shares Price Range		Dividends	
	2016	2015	2016	2015
First Quarter	\$ 32.29 - 39.38	\$ 39.95 - 46.95	\$ 0.205	\$ 0.18
Second Quarter	30.30 - 38.67	41.77 - 46.31	0.205	0.18
Third Quarter	36.29 - 46.05	40.03 - 45.75	0.205	0.205
Fourth Quarter	42.22 - 48.97	34.62 - 40.84	0.435	0.205
Year	<u>\$ 30.30 - 48.97</u>	<u>\$ 34.62 - 46.95</u>	<u>\$ 1.05</u>	<u>\$ 0.77</u>

Dividends and share prices are different than the amounts disclosed in the Company's consolidated financial statements in Item 8 due to the distinction between legal and accounting acquirer as a result of the reverse merger acquisition with Tyco. The information prior to the merger date of September 2, 2016 is historical Tyco International plc amounts as it was the legal acquirer.

Following the Tyco merger, subject to the ongoing existence of sufficient distributable reserves, the existing Tyco International plc \$1 billion share repurchase program and authorization remains in effect. The share repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice. There were no shares repurchased post merger. Prior to the merger, \$501 million was spent on repurchases under JCI Inc.'s \$3.65 billion share repurchase program in fiscal year 2016.

The Company entered into an Equity Swap Agreement, dated March 13, 2009, with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans. These equity compensation liabilities increase as the Company's stock price increases and decrease as the Company's stock price decreases. In contrast, the value of the equity swap moves in the opposite direction of these liabilities, allowing the Company to fix a portion of the liabilities at a stated amount.

In connection with the Equity Swap Agreement, Citibank may purchase unlimited shares of the Company's stock in the market or in privately negotiated transactions. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. The Equity Swap Agreement has no stated expiration date. During August 2016 the Company unwound the existing equity swap due to the Merger. As such, the Company had no outstanding equity swaps as of September 30, 2016 and the net effect of the change in fair value of the equity swaps while outstanding and the change in equity compensation liabilities was not material to the Company's earnings for the three months ended September 30, 2016.

The following table presents information regarding the repurchase of the Company's common stock by the Company as part of the publicly announced program and purchases of the Company's common stock by Citibank in connection with the Equity Swap Agreement during the three months ended September 30, 2016.

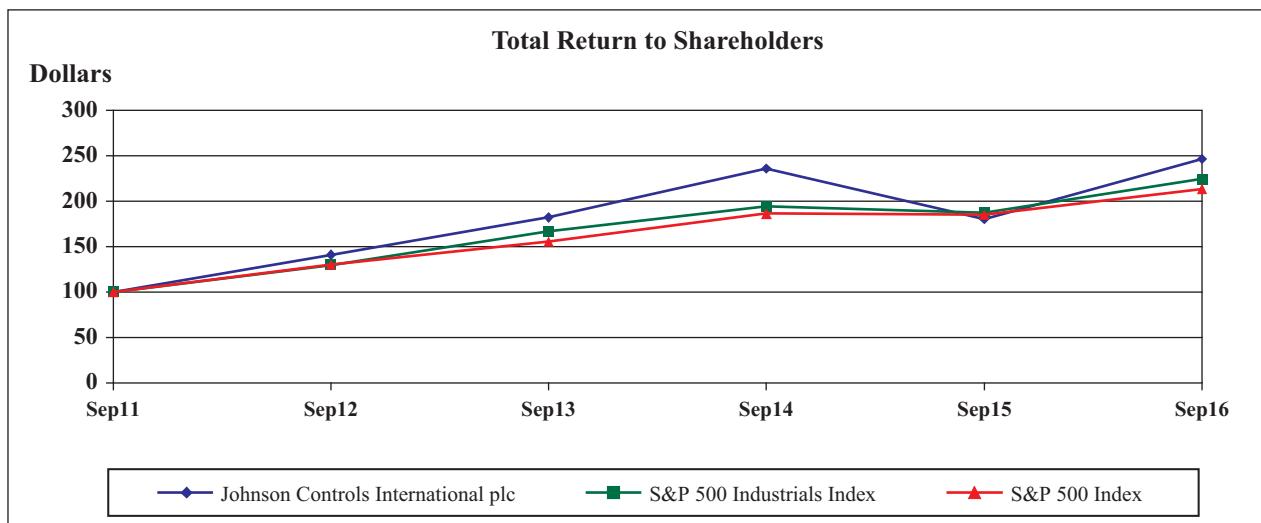
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
7/1/16 - 7/31/16				
Purchases by Company	613,796	\$42.02	613,796	\$538,072,815
8/1/16 - 8/31/16				
Purchases by Company	—	—	—	NA
9/1/16 - 9/30/16				
Purchases by Company	—	—	—	NA
7/1/16 - 7/31/16				
Purchases by Citibank	—	—	—	NA
8/1/16 - 8/31/16				
Purchases by Citibank (1)	—	—	—	NA
9/1/16 - 9/30/16				
Purchases by Citibank	—	—	—	NA

(1) In August 2016, Citibank reduced its holding of the Company's stock by 3.8 million shares in connection with unwinding of the existing equity swap.

The following information in Item 5 is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (Exchange Act) or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The line graph below compares the cumulative total shareholder return on our ordinary shares with the cumulative total return of companies on the Standard & Poor's (S&P's) 500 Stock Index and the companies on the S&P 500 Industrials Index. This graph assumes the investment of \$100 on September 30, 2011 and the reinvestment of all dividends since that date.

COMPANY/INDEX	Sep11	Sep12	Sep13	Sep14	Sep15	Sep16
Johnson Controls International plc	100	140.85	181.85	235.57	180.25	246.15
S&P 500 Industrials Index	100	129.58	166.46	194.36	187.23	224.12
S&P 500 Index	100	130.20	155.39	186.05	184.91	213.44



The Company's transfer agent's contact information is as follows:

Wells Fargo Bank, N.A.  
 Shareowner Services Department  
 P.O. Box 64874  
 St. Paul, MN 55164-0874  
 (877) 602-7397

**ITEM 6** **SELECTED FINANCIAL DATA**

The following selected financial data reflects the results of operations, financial position data and ordinary share information for the fiscal years ended September 30, 2012 through September 30, 2016 (dollars in millions, except per share data). Certain amounts have been revised to reflect the retrospective application of the Company's accounting policy change for accruing for defense costs for asbestos claims. The financial data for the fiscal year ended September 30, 2016 includes Tyco's results of operations from the acquisition date of September 2, 2016 through September 30, 2016 and financial position and employee information as of September 30, 2016.

	<b>Year ended September 30,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>OPERATING RESULTS</b>					
Net sales	\$ 37,674	\$ 37,179	\$ 38,749	\$ 37,145	\$ 36,310
Segment EBIT (1)	3,023	3,258	2,721	2,511	2,227
Income (loss) from continuing operations attributable to Johnson Controls (6)	(868)	1,439	1,404	992	1,003
Net income (loss) attributable to Johnson Controls	(868)	1,563	1,215	1,178	1,184
Earnings (loss) per share from continuing operations (6)					
Basic	\$ (1.30)	\$ 2.20	\$ 2.11	\$ 1.45	\$ 1.47
Diluted	(1.30)	2.18	2.08	1.44	1.46
Return on average shareholders' equity attributable to Johnson Controls (2) (6)	(5)%	13%	12%	8%	9%
Capital expenditures	\$ 1,249	\$ 1,135	\$ 1,199	\$ 1,377	\$ 1,831
Depreciation and amortization	953	860	955	952	824
Number of employees	209,000	139,000	168,000	170,000	170,000
<b>FINANCIAL POSITION</b>					
Working capital (3)	\$ (301)	\$ 278	\$ 464	\$ 499	\$ 1,816
Total assets	63,253	29,622	32,812	31,670	31,041
Long-term debt	14,606	5,745	6,357	4,560	5,321
Total debt	16,353	6,610	6,680	5,498	6,068
Shareholders' equity attributable to Johnson Controls	24,118	10,335	11,270	12,273	11,584
Total debt to capitalization (4)	40 %	39%	37%	31%	34%
Net book value per share (5)	\$ 25.77	\$ 15.96	\$ 16.93	\$ 17.93	\$ 16.98
<b>ORDINARY SHARE INFORMATION</b>					
Dividends per share	\$ 1.16	\$ 1.04	\$ 0.88	\$ 0.76	\$ 0.72
Market prices					
High	\$ 48.97	\$ 54.52	\$ 52.50	\$ 43.49	\$ 35.95
Low	30.30	38.48	39.42	24.75	23.37
Weighted average shares (in millions)					
Basic	667.4	655.2	666.9	683.7	681.5
Diluted	667.4	661.5	674.8	689.2	688.6
Number of shareholders	41,299	35,425	36,687	38,067	40,019

- (1) Segment earnings before interest and taxes (EBIT) is calculated as income from continuing operations before income taxes and noncontrolling interests excluding net financing charges, significant restructuring and impairment costs, and net mark-to-market adjustments on pension and postretirement plans.
- (2) Return on average shareholders' equity attributable to Johnson Controls (ROE) represents income from continuing operations attributable to Johnson Controls divided by average shareholders' equity attributable to Johnson Controls.

- (3) Working capital is defined as current assets less current liabilities, excluding cash, cash in escrow related to Adient debt, short-term debt, the current portion of long-term debt, and the current portion of assets and liabilities held for sale.
- (4) Total debt to total capitalization represents total debt divided by the sum of total debt and shareholders' equity attributable to Johnson Controls.
- (5) Net book value per share represents shareholders' equity attributable to Johnson Controls divided by the number of common shares outstanding at the end of the period.
- (6) Income (loss) from continuing operations attributable to Johnson Controls includes \$620 million, \$397 million, \$324 million, \$903 million and \$271 million of significant restructuring and impairment costs in fiscal year 2016, 2015, 2014, 2013 and 2012, respectively. It also includes \$503 million, \$422 million, \$237 million, \$(407) million and \$494 million of net mark-to-market charges (gains) on pension and postretirement plans in fiscal year 2016, 2015, 2014, 2013 and 2012, respectively. The preceding amounts are stated on a pre-tax basis.

**ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

The Company operates in three primary businesses: Buildings, Automotive Experience and Power Solutions. Buildings provides facility systems and services including comfort and energy management for the residential and non-residential buildings markets, security products and services, fire detection and suppression products and services, and life safety products. Automotive Experience designs and manufactures interior products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. Power Solutions designs and manufactures automotive batteries for the replacement and original equipment markets.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company for the three-year period ended September 30, 2016. This discussion should be read in conjunction with Item 8, the consolidated financial statements and the notes to consolidated financial statements.

In the fourth quarter of fiscal 2016, the Company changed its accounting policy for accruing for defense costs related to asbestos claims on a discounted basis. The Company's historical accounting treatment for asbestos claim defense costs was to accrue as incurred. The new policy is to record an accrual for all future asbestos related defense costs which are determined to be probable and estimable of being incurred. The Company believes this new policy is preferable as it better reflects the economics of settlement of the Company's asbestos claims, improves comparability among the Company's peer group and provides greater transparency to on-going operating results. These changes have been reported through retrospective application of the new policy to all periods presented. These changes did not have an impact to any period presented on the consolidated statements of income. Refer to Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements for further information regarding this accounting policy change.

**Subsequent Event**

On July 24, 2015, the Company announced its intent to pursue a separation of the Automotive Experience business through a spin-off to shareholders. The spin-off was completed on October 31, 2016. The new publicly traded company is named Adient plc.

**FISCAL YEAR 2016 COMPARED TO FISCAL YEAR 2015**

**Net Sales**

(in millions)	Year Ended September 30,		Change
	2016	2015	
Net sales	\$ 37,674	\$ 37,179	1%

The increase in consolidated net sales was due to higher sales in the Buildings business (\$3,837 million) and Power Solutions business (\$243 million), partially offset by lower sales in the Automotive Experience business (\$2,831 million) and the unfavorable impact of foreign currency translation (\$754 million). Excluding the unfavorable impact of foreign currency translation,

consolidated net sales increased 3% as compared to the prior year. Increased sales resulted from the Johnson Controls - Hitachi (JCH) joint venture and the Tyco merger, as well as higher volumes in the Buildings Systems and Service North America segment in the Buildings business, higher Automotive Experience volumes globally, and higher global battery shipments and favorable product mix in the Power Solutions business, partially offset by the deconsolidation of the majority of the Automotive Experience Interiors business in the prior year. Refer to the segment analysis below within Item 7 for a discussion of net sales by segment.

### Cost of Sales / Gross Profit

(in millions)	Year Ended September 30,		Change
	2016	2015	
Cost of sales	\$ 30,360	\$ 30,732	-1%
Gross profit	7,314	6,447	13%
% of sales	19.4%	17.3%	

Cost of sales decreased in fiscal 2016 as compared to fiscal 2015, with gross profit as a percentage of sales increasing by 210 basis points. Foreign currency translation had a favorable impact on cost of sales of approximately \$635 million. Gross profit in the Buildings business included the incremental gross profit related to the JCH joint venture and Tyco merger, and higher volumes in the Buildings Systems and Service North America segment. Gross profit in the Automotive Experience business was favorably impacted by higher volumes globally, restructuring savings and operational efficiencies, partially offset by unfavorable commercial settlements and unfavorable mix. Gross profit in the Power Solutions business was favorably impacted by higher volumes, and favorable pricing and product mix, partially offset by higher operating costs. Net mark-to-market adjustments on pension and postretirement plans had a net favorable year over year impact on cost of sales of \$43 million (\$113 million charge in fiscal 2016 compared to a \$156 million charge in fiscal 2015) primarily due to the unfavorable U.S. investment returns versus expectations and the adoption of new mortality rate changes in the U.S. in the prior year, partially offset by a decrease in year-over-year discount rates. Refer to the segment analysis below within Item 7 for a discussion of segment earnings before interest and taxes (EBIT) by segment.

### Selling, General and Administrative Expenses

(in millions)	Year Ended September 30,		Change
	2016	2015	
Selling, general and administrative expenses	\$ 5,325	\$ 3,986	34%
% of sales	14.1%	10.7%	

Selling, general and administrative expenses (SG&A) increased by \$1,339 million year over year, and SG&A as a percentage of sales increased by 340 basis points. The net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year over year impact on SG&A of \$124 million (\$390 million charge in fiscal 2016 compared to a \$266 million charge in fiscal 2015) primarily due to a decrease in year-over-year discount rates, partially offset by the unfavorable U.S. investment returns versus expectations and the adoption of new mortality rate changes in the U.S. in the prior year. Additionally, the net unfavorable impact on SG&A resulting from separation costs was \$442 million (recorded in the Automotive Experience segment), and transaction and integration costs was \$130 million (recorded in the Buildings segments). Excluding the impact of separation costs, the Automotive Experience business SG&A decreased due to the deconsolidation of the majority of the Automotive Experience Interiors business in the prior year, restructuring savings and cost reduction initiatives. Excluding the impact of transaction and integration costs, the Buildings business SG&A increased primarily due to incremental SG&A related to the JCH joint venture and Tyco merger, and product and sales force investments in North America. The Power Solutions business SG&A decreased primarily due to lower employee related expenses and cost reduction initiatives. Foreign currency translation had a favorable impact on SG&A of \$69 million. Refer to the segment analysis below within Item 7 for a discussion of segment EBIT by segment.

## Restructuring and Impairment Costs

(in millions)	Year Ended September 30,		Change
	2016	2015	
Restructuring and impairment costs	\$ 620	\$ 397	56%

Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for further disclosure related to the Company's restructuring plans.

## Net Financing Charges

(in millions)	Year Ended September 30,		Change
	2016	2015	
Net financing charges	\$ 314	\$ 288	9%

Net financing charges increased in fiscal 2016 as compared to fiscal 2015 primarily due to higher average borrowing levels; in part due to the acquisition of debt as a result of the Tyco merger as well as new debt incurred in fiscal 2016 in advance of the spin-off of the Automotive Experience business in the first quarter of fiscal 2017.

## Equity Income

(in millions)	Year Ended September 30,		Change
	2016	2015	
Equity income	\$ 531	\$ 375	42%

The increase in equity income was primarily due to current year income related to partially-owned affiliates of the JCH joint venture in the Buildings business, current year income related to the Automotive Experience Interiors joint venture formed on July 2, 2015 and higher income at certain Automotive Experience Seating partially-owned affiliates, partially offset by the unfavorable impact of foreign currency translation (\$13 million). Refer to the segment analysis below within Item 7 for a discussion of segment EBIT by segment.

## Income Tax Provision

(in millions)	Year Ended September 30,		Change
	2016	2015	
Income tax provision	\$ 2,238	\$ 600	*
Effective tax rate	141%	28%	

\* Measure not meaningful

The U.S. federal statutory tax rate is being used as a comparison since the Company was a U.S. domiciled company in fiscal 2015 and for 11 months of 2016. The effective rate is above the U.S. statutory rate for fiscal 2016 primarily due to the tax consequences surrounding the planned spin-off of the Automotive Experience business and related expenses, the jurisdictional mix of restructuring and impairment costs, and the tax impacts of the merger and integration related costs, partially offset by the benefits of continuing global tax planning initiatives and foreign tax rate differentials. The effective rate is below the U.S. statutory rate for fiscal 2015 primarily due to the benefits of continuing global tax planning initiatives, income in certain non-U.S. jurisdictions with a tax rate lower than the U.S. statutory tax rate and adjustments due to tax audit resolutions, partially offset by the tax consequences of business divestitures, and significant restructuring and impairment costs. The fiscal 2016 effective tax rate increased as compared to the fiscal 2015 effective tax rate primarily due to the tax effects of transactions predominantly due to the planned spin-off (\$1,795 million), and the tax effects of restructuring and impairment costs (\$74 million), partially offset by tax planning initiatives (\$151 million). The fiscal year 2016 and 2015 global tax planning initiatives related primarily to foreign tax credit planning, global financing structures and alignment of our global business functions in a tax efficient manner. Refer to Note 18, "Income Taxes," of the notes to consolidated financial statements for further details.

## ***Valuation Allowances***

The Company reviews the realizability of its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

In the fourth quarter of fiscal 2016, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that no other material changes were needed to its valuation allowances. Therefore, there was no impact to income tax expense due to valuation allowance changes in the three month period or year ended September 30, 2016.

In the fourth quarter of fiscal 2015, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that certain deferred tax assets primarily within Spain, Germany, and the United Kingdom would not be realized, and was more likely than not that certain deferred tax assets of Poland and Germany would be realized. The impact of the net valuation allowance provision offset the benefit of valuation allowance releases and, as such, there was no net impact to income tax expense in the three month period or year ended September 30, 2015.

## ***Uncertain Tax Positions***

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities.

During fiscal 2015, the Company settled a significant number of tax examinations in Germany, Mexico and the U.S., impacting fiscal years 1998 to fiscal 2012. The settlement of unrecognized tax benefits included cash payments for approximately \$440 million and the loss of various tax attributes. The reduction for tax positions of prior years is substantially related to foreign exchange rates. In the fourth quarter of fiscal 2015, income tax audit resolutions resulted in a net \$99 million benefit to income tax expense.

The Company's federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service ("IRS") and respective non-U.S. tax authorities. Although the outcome of tax audits is always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. At September 30, 2016, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

## ***Other Tax Matters***

During fiscal 2016 and 2015, the Company incurred significant charges for restructuring and impairment costs. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. A substantial portion of these charges cannot be benefited for tax purposes due to the Company's current tax position in these jurisdictions and the underlying tax basis in the impaired assets, resulting in \$126 million and \$52 million incremental tax expense in fiscal 2016 and 2015, respectively.

During the fourth quarter of fiscal 2016, the Company completed its merger with Tyco. As a result of that transaction, the Company incurred incremental tax expense of \$137 million. In preparation for the spin-off of the Automotive Experience business in the first quarter of fiscal 2017, the Company incurred incremental tax expense of \$121 million in fiscal 2016. The Company also completed substantial business reorganizations which resulted in total tax charges of \$1,891 million in fiscal 2016. Included in this amount is the tax charge provided for in the third quarter of fiscal 2016 of \$85 million for changes in entity tax status and the charge provided for in the second quarter of fiscal 2016 of \$780 million for income tax expense on foreign undistributed earnings of certain non-U.S. subsidiaries.

In the fourth quarter of fiscal 2015, the Company completed its global automotive interiors joint venture with Yanfeng Automotive Trim Systems. Refer to Note 3, "Acquisitions and Divestitures," of the notes to consolidated financial statements for additional information. In connection with the divestiture of the Interiors business, the Company recorded a pre-tax gain on divestiture of \$145 million, \$38 million net of tax. The tax impact of the gain is due to the jurisdictional mix of gains and losses on the divestiture, which resulted in non-benefited expenses in certain countries and taxable gains in other countries. In addition, in the third and fourth quarters of fiscal 2015, the Company provided income tax expense for repatriation of cash and other tax reserves associated with the Automotive Experience Interiors joint venture transaction, which resulted in a tax charge of \$75 million and \$223 million, respectively.

### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

After the fourth quarter of fiscal 2016, on October 13, 2016, the U.S. Treasury and the IRS released final and temporary Section 385 regulations. These regulations address whether certain instruments between related parties are treated as debt or equity. The Company does not expect that the regulations will have a material impact on its consolidated financial statements.

The "look-through rule," under subpart F of the U.S. Internal Revenue Code, expired for the Company on September 30, 2015. The "look-through rule" had provided an exception to the U.S. taxation of certain income generated by foreign subsidiaries. The rule was extended in December 2015 retroactive to the beginning of the Company's 2016 fiscal year. The retroactive extension was signed into legislation and was made permanent through the Company's 2020 fiscal year.

In the second quarter of fiscal 2015, tax legislation was adopted in Japan which reduced its statutory income tax rate. As a result of the law change, the Company recorded income tax expense of \$17 million in the second quarter of fiscal 2015.

During the fiscal years ended 2016 and 2015, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Company's consolidated financial statements.

### **Income From Discontinued Operations, Net of Tax**

(in millions)	Year Ended September 30,			Change
	2016	2015		
Income from discontinued operations, net of tax	\$ —	\$ 128	*	

\* Measure not meaningful

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information.

### **Income Attributable to Noncontrolling Interests**

(in millions)	Year Ended September 30,			Change
	2016	2015		
Income from continuing operations attributable to noncontrolling interests	\$ 216	\$ 112	93%	
Income from discontinued operations attributable to noncontrolling interests	—	4	*	

\* Measure not meaningful

The increase in income from continuing operations attributable to noncontrolling interests for fiscal 2016 was primarily due to current year income related to the JCH joint venture in the Buildings business.

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's discontinued operations.

### Net Income (Loss) Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2016	2015	
Net income (loss) attributable to Johnson Controls	\$ (868)	\$ 1,563	*

\* Measure not meaningful

The decrease in net income (loss) attributable to Johnson Controls was primarily due to an increase in the income tax provision, higher SG&A primarily due to higher separation and transaction costs in the current year, and current year restructuring and impairment costs, partially offset by higher gross profit. Fiscal 2016 diluted earnings (loss) per share attributable to Johnson Controls was (\$1.30) compared to \$2.36 in fiscal 2015.

### Comprehensive Income (Loss) Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2016	2015	
Comprehensive income (loss) attributable to Johnson Controls	\$ (964)	\$ 743	*

\* Measure not meaningful

The decrease in comprehensive income (loss) attributable to Johnson Controls was due to lower net income (loss) attributable to Johnson Controls (\$2,431 million), partially offset by a decrease in other comprehensive loss attributable to Johnson Controls (\$724 million) primarily related to favorable foreign currency translation adjustments. These year-over-year favorable foreign currency translation adjustments were primarily driven by the weakening of the Brazilian real, Canadian dollar, Colombian peso, euro and Japanese currencies against the U.S. dollar in the prior year.

### SEGMENT ANALYSIS

Management evaluates the performance of its business units based primarily on segment EBIT, which is defined as income from continuing operations before income taxes and noncontrolling interests excluding net financing charges, significant restructuring and impairment costs, and net mark-to-market adjustments on pension and postretirement plans.

#### *Buildings*

(in millions)	Net Sales for the Year Ended September 30,		Change	Segment EBIT for the Year Ended September 30,		Change
	2016	2015		2016	2015	
Building Efficiency						
Systems and Service North America	\$ 4,292	\$ 4,184	3%	\$ 412	\$ 375	10%
Products North America	2,488	2,450	2%	173	306	-43%
Asia	4,830	1,985	*	431	191	*
Rest of World	1,766	1,891	-7%	20	51	-61%
	<u>13,376</u>	<u>10,510</u>	<u>27%</u>	<u>1,036</u>	<u>923</u>	<u>12%</u>
Tyco	808	—	*	(17)	—	*
	<u><u>\$ 14,184</u></u>	<u><u>\$ 10,510</u></u>	<u><u>35%</u></u>	<u><u>\$ 1,019</u></u>	<u><u>\$ 923</u></u>	<u><u>10%</u></u>

\* Measure not meaningful

#### Net Sales:

- The increase in Systems and Service North America was due to higher volumes of controls systems and service (\$183 million), partially offset by lower volumes related to business divestitures (\$52 million) and the unfavorable impact of foreign currency translation (\$23 million). The increase in volumes was primarily attributable to market share gains.

- The increase in Products North America was due to higher volumes (\$49 million), partially offset by the unfavorable impact of foreign currency translation (\$11 million). The increase in volumes was primarily driven by new product offerings.
- The increase in Asia was due to incremental sales related to the JCH joint venture (\$2,808 million), higher service volumes (\$56 million), and higher volumes of equipment and control systems (\$30 million), partially offset by the unfavorable impact of foreign currency translation (\$49 million). The increase in volume was driven by favorable local economic conditions.
- The decrease in Rest of World was due to the unfavorable impact of foreign currency translation (\$80 million) and lower volumes in Latin America (\$22 million), Europe (\$16 million) and the Middle East (\$14 million), partially offset by incremental sales related to a business acquisition (\$7 million). The net decrease in volumes was primarily attributable to unfavorable local market conditions and the discontinuance of certain products.
- The increase in Tyco was due to incremental sales related to the Tyco Merger (\$808 million).

Segment EBIT:

- The increase in Systems and Service North America was due to lower selling, general and administrative expenses (\$63 million) as a result of restructuring actions and other cost reduction initiatives and a current year gain on business divestiture net of a prior year gain on business divestitures, higher volumes (\$42 million), and prior year transaction and integration costs (\$4 million), partially offset by current year transaction costs (\$53 million), unfavorable margin rates (\$8 million), lower income due to a prior year business divestiture (\$5 million), the unfavorable impact of foreign currency translation (\$4 million) and a pension settlement loss (\$2 million).
- The decrease in Products North America was due to higher selling, general and administrative expenses (\$118 million) due to global product and related sales force investments and a prior year gain on business divestitures, current year transaction costs (\$30 million), unfavorable margin rates (\$6 million), a pension settlement loss (\$3 million) and the unfavorable impact of foreign currency translation (\$1 million), partially offset by higher volumes (\$16 million), prior year transaction and integration costs (\$8 million), and higher equity income (\$1 million).
- The increase in Asia was due primarily to incremental operating income related to the JCH joint venture exclusive of global investments in related products and technologies (\$293 million), higher volumes (\$29 million), prior year transaction and integration costs (\$24 million), and lower selling, general and administrative expenses (\$2 million), partially offset by current year transaction and integration costs (\$87 million), unfavorable margin rates (\$12 million) and the unfavorable impact of foreign currency translation (\$9 million).
- The decrease in Rest of World was due to current year transaction costs (\$21 million), lower volumes (\$13 million), higher selling, general and administrative expenses (\$5 million), unfavorable margin rates (\$3 million), lower equity income (\$3 million) and the unfavorable impact of foreign currency translation (\$3 million), partially offset by a gain on business divestiture (\$12 million), a gain on acquisition of a partially-owned affiliate (\$4 million) and prior year transaction costs (\$1 million).
- The Tyco loss was due to the impact of nonrecurring purchasing accounting adjustments (\$74 million) and current year transaction costs (\$29 million), partially offset by incremental operating income for the period subsequent to the Merger (\$86 million).

## Automotive Experience

(in millions)	Net Sales for the Year Ended September 30,			Segment EBIT for the Year Ended September 30,		
	2016	2015	Change	2016	2015	Change
	\$ 16,355	\$ 16,539	-1%	\$ 676	\$ 928	-27%
Seating	482	3,540	-86%	75	254	-70%
Interiors	<u>\$ 16,837</u>	<u>\$ 20,079</u>	<u>-16%</u>	<u>\$ 751</u>	<u>\$ 1,182</u>	<u>-36%</u>

### Net Sales:

- The decrease in Seating was due to the unfavorable impact of foreign currency translation (\$402 million), and net unfavorable pricing and commercial settlements (\$142 million), partially offset by higher volumes (\$341 million) and incremental sales related to a prior year business acquisition (\$19 million). The higher volumes were attributable to growth in Asia and Europe, partially offset by softness in the Americas due to changes in automotive production levels and expiring programs in North America.
- The decrease in Interiors was due to the deconsolidation of the majority of the Interiors business in the prior year (\$2,954 million), lower volumes primarily due to plant wind downs (\$87 million), the unfavorable impact of foreign currency translation (\$9 million), and net unfavorable pricing and commercial settlements (\$8 million).

### Segment EBIT:

- The decrease in Seating was due to current year separation costs related to the Automotive Experience spin-off (\$458 million), net unfavorable pricing and commercial settlements (\$33 million), unfavorable mix due to lower volumes at higher margin platforms (\$26 million), the unfavorable impact of foreign currency translation (\$16 million), a prior year gain on a business divestiture (\$10 million) and a pension settlement loss (\$5 million), partially offset by lower operating costs as a result of restructuring actions and operational efficiencies (\$74 million), lower selling, general and administrative expenses as a result of a favorable legal settlement and cost reduction initiatives (\$54 million), lower purchasing costs resulting from supplier price concessions (\$46 million), higher equity income (\$37 million), higher volumes (\$35 million), lower engineering expenses (\$32 million), prior year separation costs (\$16 million) and incremental operating income related to a business acquisition (\$2 million).
- The decrease in Interiors was due to a prior year net gain on a business divestiture (\$145 million), the impact of the July 2, 2015 joint venture transaction and related prior year held for sale depreciation impact (\$109 million), lower volumes (\$12 million), net unfavorable pricing and commercial settlements (\$7 million), current year integration costs (\$1 million) and the unfavorable impact of foreign currency translation (\$1 million), partially offset by prior year transaction and integration costs (\$38 million), favorable settlements related to prior year business divestitures (\$22 million), lower selling, general and administrative expenses as a result of cost reduction initiatives (\$21 million), lower operating costs (\$10 million) and higher equity income (\$5 million).

## Power Solutions

(in millions)	Year Ended September 30,			Change
	2016	2015		
Net sales	\$ 6,653	\$ 6,590	1%	
Segment EBIT	1,253	1,153	9%	

- Net sales increased due to higher sales volumes (\$246 million), and favorable pricing and product mix (\$105 million), partially offset by the unfavorable impact of foreign currency translation (\$180 million) and the impact of lower lead costs on pricing (\$108 million). The increase in volumes was primarily driven by start-stop battery volumes and growth in China. Additionally, higher start-stop volumes contributed to favorable product mix.
- Segment EBIT increased due to higher volumes (\$77 million), favorable pricing and product mix (\$55 million), and lower selling, general and administrative expenses due to lower employee related expenses and cost reduction initiatives (\$55 million), partially offset by higher operating costs primarily driven by efforts to increase supply to satisfy growing customer

demand and launch new capacity in China (\$48 million), the unfavorable impact of foreign currency translation (\$29 million), restructuring and impairment costs included in equity income (\$7 million), a pension settlement loss (\$1 million), transaction costs (\$1 million) and lower equity income (\$1 million).

## FISCAL YEAR 2015 COMPARED TO FISCAL YEAR 2014

### Net Sales

(in millions)	Year Ended September 30,		Change
	2015	2014	
Net sales	\$ 37,179	\$ 38,749	-4%

The decrease in consolidated net sales was due to the unfavorable impact of foreign currency translation (\$2.5 billion) and lower sales in the Automotive Experience business (\$344 million), partially offset by higher sales in the Building Efficiency business (\$839 million) and Power Solutions business (\$408 million). Excluding the unfavorable impact of foreign currency translation, consolidated net sales increased 2% as compared to the prior year. The favorable impacts of higher Automotive Experience volumes globally, incremental sales related to the prior year acquisition of ADTi in the Building Efficiency business, higher Building Efficiency volumes in North America and the Middle East markets, and higher global battery shipments and favorable product mix in the Power Solutions business, were partially offset by the deconsolidation of the majority of the Automotive Experience Interiors business on July 2, 2015. The incremental sales related to business acquisitions were \$751 million across the Building Efficiency and Automotive Experience segments. Refer to the segment analysis below within Item 7 for a discussion of net sales by segment.

### Cost of Sales / Gross Profit

(in millions)	Year Ended September 30,		Change
	2015	2014	
Cost of sales	\$ 30,732	\$ 32,444	-5%
Gross profit	6,447	6,305	2%
% of sales	17.3%	16.3%	

The decrease in cost of sales year over year corresponds to the sales decrease described above. Foreign currency translation had a favorable impact on cost of sales of approximately \$2.2 billion. Gross profit in the Building Efficiency business was favorably impacted by incremental gross profit related to the ADTi acquisition, favorable margin rates, prior year contract related charges in the Middle East and higher market demand in North America. Gross profit in the Power Solutions business was favorably impacted by higher volumes and lower operating costs. Gross profit in the Automotive Experience business was favorably impacted by higher volumes globally, lower purchasing costs and favorable commercial settlements, partially offset by higher operating costs and unfavorable mix. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year over year impact on cost of sales of \$113 million (\$156 million charge in fiscal 2015 compared to a \$43 million charge in fiscal 2014) primarily due to unfavorable U.S. investment returns versus expectations and the adoption of new mortality rate changes in the U.S. in the current year. Refer to the segment analysis below within Item 7 for a discussion of segment EBIT by segment.

### Selling, General and Administrative Expenses

(in millions)	Year Ended September 30,		Change
	2015	2014	
Selling, general and administrative expenses	\$ 3,986	\$ 4,216	-5%
% of sales	10.7%	10.9%	

Selling, general and administrative expenses (SG&A) decreased by \$230 million year over year, and SG&A as a percentage of sales decreased 20 basis points. Net mark-to-market adjustments on pension and postretirement plans had a net unfavorable year over year impact on SG&A of \$72 million (\$266 million charge in fiscal 2015 compared to a \$194 million charge in fiscal 2014) primarily due to unfavorable U.S. investment returns versus expectations and the adoption of new mortality rate changes in the U.S. in the current year. The Automotive Experience business SG&A decreased primarily due to gains on business divestitures, a prior year net loss on business divestitures, lower engineering expenses and lower employee related costs, partially offset by

transaction, integration and separation costs. The Building Efficiency business SG&A increased primarily due to incremental SG&A related to the prior year acquisition of ADTi, current year transaction and integration costs, and higher investments. The Power Solutions business SG&A increased primarily due to higher employee related expenses. Foreign currency translation had a favorable impact on SG&A of \$189 million. Refer to the segment analysis below within Item 7 for a discussion of segment EBIT by segment.

### Restructuring and Impairment Costs

(in millions)	Year Ended September 30,		Change
	2015	2014	
Restructuring and impairment costs	\$ 397	\$ 324	23%

Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for further disclosure related to the Company's restructuring plans.

### Net Financing Charges

(in millions)	Year Ended September 30,		Change
	2015	2014	
Net financing charges	\$ 288	\$ 244	18%

Net financing charges increased in fiscal 2015 as compared to fiscal 2014 primarily due to higher average borrowing levels related to the acquisition of ADTi and the share repurchase program.

### Equity Income

(in millions)	Year Ended September 30,		Change
	2015	2014	
Equity income	\$ 375	\$ 395	-5%

The decrease in equity income was primarily due to prior year gains on acquisitions of partially-owned affiliates in the Power Solutions business (\$19 million) and Building Efficiency business (\$19 million), partially offset by higher current year income at certain Automotive Experience partially-owned affiliates. Refer to the segment analysis below within Item 7 for a discussion of segment EBIT by segment.

### Income Tax Provision

(in millions)	Year Ended September 30,		Change
	2015	2014	
Income tax provision	\$ 600	\$ 407	47%
Effective tax rate	28%	21%	

The effective rate is below the U.S. statutory rate for fiscal 2015 primarily due to the benefits of continuing global tax planning initiatives, income in certain non-U.S. jurisdictions with a tax rate lower than the U.S. statutory tax rate and adjustments due to tax audit resolutions, partially offset by the tax consequences of business divestitures, and significant restructuring and impairment costs. The effective rate is below the U.S. statutory rate for fiscal 2014 primarily due to the benefits of continuing global tax planning initiatives and income in certain non-U.S. jurisdictions with a tax rate lower than the U.S. statutory tax rate partially offset by the tax consequences of business divestitures, significant restructuring and impairment costs, and valuation allowance adjustments. The fiscal 2015 effective tax rate increased as compared to the fiscal 2014 effective tax rate primarily due to the tax effects of business divestitures (\$283 million), partially offset by reserve and valuation allowance adjustments (\$133 million). The fiscal year 2015 and 2014 global tax planning initiatives related primarily to foreign tax credit planning, global financing structures and alignment of our global business functions in a tax efficient manner. Refer to Note 18, "Income Taxes," of the notes to consolidated financial statements for further details.

### ***Valuation Allowances***

The Company reviews the realizability of its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

In the fourth quarter of fiscal 2015, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that certain deferred tax assets primarily within Spain, Germany and the United Kingdom would not be realized and it is more likely than not that certain deferred tax assets of Poland and Germany will be realized. The impact of the net valuation allowance provision offset the benefit of valuation allowance releases and, as such, there was no net impact to income tax expense in the three month period ended September 30, 2015.

In the fourth quarter of fiscal 2014, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that deferred tax assets within Italy would not be realized. Therefore, the Company recorded \$34 million of net valuation allowances as income tax expense in the three month period ended September 30, 2014.

In the first quarter of fiscal 2014, the Company determined that it was more likely than not that the deferred tax asset associated with a capital loss in Mexico would not be utilized. Therefore, the Company recorded a \$21 million valuation allowance as income tax expense.

### ***Uncertain Tax Positions***

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities.

During fiscal 2015, the Company settled a significant number of tax examinations in Germany, Mexico and the U.S., impacting fiscal years 1998 to fiscal 2012. The settlement of unrecognized tax benefits included cash payments for approximately \$440 million and the loss of various tax attributes. The reduction for tax positions of prior years is substantially related to foreign exchange rates. In the fourth quarter of fiscal 2015, income tax audit resolutions resulted in a net \$99 million benefit to income tax expense.

The Company's federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the IRS and respective non-U.S. tax authorities. Although the outcome of tax audits is always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. At September 30, 2015, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

### ***Other Tax Matters***

During fiscal 2015 and 2014, the Company incurred significant charges for restructuring and impairment costs. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. A substantial portion of these charges cannot be benefited for tax purposes due to our current tax position in these jurisdictions and the underlying tax basis in the impaired assets, resulting in \$52 million and \$75 million incremental tax expense in fiscal 2015 and 2014, respectively.

In the fourth quarter of fiscal 2015, the Company completed its global automotive interiors joint venture with Yanfeng Automotive Trim Systems. Refer to Note 3, "Acquisitions and Divestitures," of the notes to consolidated financial statements for additional information. In connection with the divestiture of the Interiors business, the Company recorded a pre-tax gain on divestiture of \$145 million, \$38 million net of tax. The tax impact of the gain is due to the jurisdictional mix of gains and losses on the divestiture, which resulted in non-benefited expenses in certain countries and taxable gains in other countries. In addition, in the third and

fourth quarters of fiscal 2015, the Company provided income tax expense for repatriation of foreign cash and other tax reserves associated with the Automotive Experience Interiors joint venture transaction, which resulted in a tax charge of \$75 million and \$223 million, respectively.

During the fourth quarter of fiscal 2014, the Company recorded a discrete tax benefit of \$51 million due to change in entity status.

In the third quarter of fiscal 2014, the Company disposed of its Automotive Experience Interiors headliner and sun visor product lines. Refer to Note 3, "Acquisitions and Divestitures," of the notes to consolidated financial statements for additional information. As a result, the Company recorded a pre-tax loss on divestiture of \$95 million and income tax expense of \$38 million. The income tax expense is due to the jurisdictional mix of gains and losses on the sale, which resulted in non-benefited losses in certain countries and taxable gains in other countries.

#### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

The "look-through rule," under subpart F of the U.S. Internal Revenue Code, expired for the Company on September 30, 2015. The "look-through rule" had provided an exception to the U.S. taxation of certain income generated by foreign subsidiaries. The "look-through rule" previously expired for the Company on September 30, 2014 but was extended retroactively to the beginning of the Company's 2015 fiscal year.

In the second quarter of fiscal 2015, tax legislation was adopted in Japan which reduced its statutory income tax rate. As a result of the law change, the Company recorded income tax expense of \$17 million in the second quarter of fiscal 2015. Tax legislation was also adopted in various other jurisdictions during the fiscal year ended September 30, 2015. These law changes did not have a material impact on the Company's consolidated financial statements.

As a result of changes to Mexican tax law in the first quarter of fiscal 2014, the Company recorded a benefit to income tax expense of \$25 million. Tax legislation was also adopted in various other jurisdictions during the fiscal year ended September 30, 2014. These law changes did not have a material impact on the Company's consolidated financial statements.

#### **Income (Loss) From Discontinued Operations, Net of Tax**

(in millions)	Year Ended September 30,		Change
	2015	2014	
Income (loss) from discontinued operations, net of tax	\$ 128	\$ (166)	*

\* Measure not meaningful

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information.

#### **Income Attributable to Noncontrolling Interests**

(in millions)	Year Ended September 30,		Change
	2015	2014	
Income from continuing operations attributable to noncontrolling interests	\$ 112	\$ 105	7%
Income from discontinued operations attributable to noncontrolling interests	4	23	-83%

The increase in income from continuing operations attributable to noncontrolling interests for fiscal 2015 was primarily due to higher income at a Power Solutions partially-owned affiliate.

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's discontinued operations.

## Net Income Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2015	2014	
Net income attributable to Johnson Controls	\$ 1,563	\$ 1,215	29%

The increase in net income attributable to Johnson Controls was primarily due to higher income from continuing and discontinued operations, partially offset by an increase in the income tax provision. Fiscal 2015 diluted earnings per share attributable to Johnson Controls was \$2.36 compared to \$1.80 in fiscal 2014.

## Comprehensive Income Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2015	2014	
Comprehensive income attributable to Johnson Controls	\$ 743	\$ 560	33%

The increase in comprehensive income attributable to Johnson Controls was due to higher net income attributable to Johnson Controls (\$348 million), partially offset by an increase in other comprehensive loss attributable to Johnson Controls (\$165 million) primarily related to unfavorable foreign currency translation adjustments. These year-over-year unfavorable foreign currency translation adjustments were primarily driven by the weakening of the Brazilian real, British pound, Canadian dollar, Colombian peso and euro currencies against the U.S. dollar.

## Segment Analysis

Management evaluates the performance of its business units based primarily on segment EBIT, which is defined as income from continuing operations before income taxes and noncontrolling interests excluding net financing charges, significant restructuring and impairment costs, and net mark-to-market adjustments on pension and postretirement plans.

### *Building Efficiency*

(in millions)	Net Sales for the Year Ended September 30,		Change	Segment EBIT for the Year Ended September 30,		Change
	2015	2014		2015	2014	
Systems and Service North America	\$ 4,184	\$ 4,098	2%	\$ 375	\$ 354	6%
Products North America	2,450	1,807	36%	306	238	29%
Asia	1,985	2,077	-4%	191	270	-29%
Rest of World	1,891	2,103	-10%	51	(45)	*
	\$ 10,510	\$ 10,085	4%	\$ 923	\$ 817	13%

\* Measure not meaningful

### Net Sales:

- The increase in Systems and Service North America was due to higher volumes of controls systems and service (\$129 million), partially offset by the unfavorable impact of foreign currency translation (\$43 million).
- The increase in Products North America was due to incremental sales related to the ADTi acquisition (\$587 million), and higher volumes of residential and commercial products (\$65 million), partially offset by the unfavorable impact of foreign currency translation (\$9 million).
- The decrease in Asia was due to the unfavorable impact of foreign currency translation (\$107 million), and lower volumes of equipment and controls systems (\$80 million), partially offset by incremental sales due to business acquisitions (\$58 million) and higher service volumes (\$37 million).

- The decrease in Rest of World was due to the unfavorable impact of foreign currency translation (\$255 million) and lower volumes in Latin America (\$72 million), partially offset by higher volumes in the Middle East (\$71 million) and Europe (\$22 million), and incremental sales related to the ADTi acquisition (\$22 million).

#### Segment EBIT:

- The increase in Systems and Service North America was due to higher volumes (\$30 million), net unfavorable prior year contract related charges (\$9 million) and a prior year pension settlement loss (\$3 million), partially offset by higher selling, general and administrative expenses net of a current year gain on business divestiture (\$13 million), current year transaction and integration costs (\$4 million), and the unfavorable impact of foreign currency translation (\$4 million).
- The increase in Products North America was due to incremental operating income related to the ADTi acquisition (\$53 million), prior year acquisition related costs (\$27 million), higher volumes (\$22 million), higher equity income (\$2 million), a prior year pension settlement loss (\$1 million) and the favorable impact of foreign currency translation (\$1 million), partially offset by higher selling, general and administrative expenses net of current year gains on business divestitures (\$28 million), current year transaction and integration costs (\$8 million), and unfavorable mix and margin rates (\$2 million).
- The decrease in Asia was due to higher selling, general and administrative expenses (\$26 million), current year transaction and integration costs (\$24 million), a prior year gain on acquisition of partially-owned affiliates (\$19 million), lower volumes (\$17 million) and the unfavorable impact of foreign currency translation (\$17 million), partially offset by favorable mix and margin rates (\$17 million), and incremental operating income due to business acquisitions (\$7 million).
- The increase in Rest of World was due to net unfavorable prior year contract related charges in the Middle East (\$50 million), favorable mix and margin rates (\$49 million), higher equity income (\$7 million), higher volumes (\$4 million), lower selling, general and administrative expenses (\$1 million), and incremental operating income due to business acquisitions (\$1 million), partially offset by the unfavorable impact of foreign currency translation (\$15 million) and current year transaction costs (\$1 million).

#### *Automotive Experience*

(in millions)	Net Sales for the Year Ended September 30,			Segment EBIT for the Year Ended September 30,		
	2015	2014	Change	2015	2014	Change
Seating	\$ 16,539	\$ 17,531	-6%	\$ 928	\$ 853	9%
Interiors	3,540	4,501	-21%	254	(1)	*
	<u>\$ 20,079</u>	<u>\$ 22,032</u>	<u>-9%</u>	<u>\$ 1,182</u>	<u>\$ 852</u>	<u>39%</u>

\* Measure not meaningful

#### Net Sales:

- The decrease in Seating was due to the unfavorable impact of foreign currency translation (\$1.4 billion), partially offset by higher volumes (\$280 million), incremental sales related to a business acquisition (\$57 million), and net favorable pricing and commercial settlements (\$51 million).
- The decrease in Interiors was due to the deconsolidation of the majority of the Interiors business on July 2, 2015 (\$924 million), lower volumes related to a prior year business divestiture (\$248 million), the unfavorable impact of foreign currency translation (\$229 million) and unfavorable sales mix (\$138 million), partially offset by higher volumes (\$506 million), net favorable pricing and commercial settlements (\$45 million), and incremental sales related to business acquisitions (\$27 million).

### Segment EBIT:

- The increase in Seating was due to net favorable pricing and commercial settlements (\$65 million), lower purchasing costs (\$64 million), higher volumes (\$56 million), lower selling, general and administrative expenses (\$30 million), lower engineering expenses (\$29 million), higher equity income (\$20 million), a gain on a business divestiture (\$10 million), incremental operating income related to a business acquisition (\$7 million) and a prior year pension settlement loss (\$5 million), partially offset by higher operating costs (\$117 million), the unfavorable impact of foreign currency translation (\$47 million), unfavorable mix (\$31 million) and current year separation costs (\$16 million).
- The increase in Interiors was due to a net gain on a business divestiture (\$145 million), a prior year net loss on business divestitures (\$86 million), higher volumes (\$67 million), lower operating costs (\$23 million), lower selling, general and administrative expenses (\$16 million), lower purchasing costs (\$6 million), lower engineering expenses (\$5 million), higher equity income (\$3 million), incremental operating income related to business acquisitions (\$3 million) and a prior year pension settlement loss (\$1 million), partially offset by current year transaction and integration costs (\$38 million), unfavorable mix (\$27 million), lower operating income related to a current year business divestiture (\$19 million), net unfavorable pricing and commercial settlements (\$12 million), and the unfavorable impact of foreign currency translation (\$4 million).

### **Power Solutions**

(in millions)	Year Ended September 30,		Change
	2015	2014	
Net sales	\$ 6,590	\$ 6,632	-1%
Segment EBIT	1,153	1,052	10%

- Net sales decreased due to the unfavorable impact of foreign currency translation (\$450 million), partially offset by higher sales volumes (\$291 million), and favorable pricing and product mix (\$117 million).
- Segment EBIT increased due to higher volumes (\$90 million), lower operating costs (\$79 million), favorable pricing and product mix (\$16 million), a prior year pension settlement loss (\$5 million) and higher equity income (\$2 million), partially offset by the unfavorable impact of foreign currency translation (\$52 million), higher selling, general and administrative expenses (\$20 million), and a prior year gain on acquisition of a partially-owned affiliate (\$19 million).

### **GOODWILL, LONG-LIVED ASSETS AND OTHER INVESTMENTS**

Goodwill at September 30, 2016 was \$23.4 billion, \$16.6 billion higher than the prior year. The increase was primarily due to goodwill generated as a result of the Tyco merger and JCH joint venture in the Buildings business.

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments or one level below the reportable segments in certain instances, using a fair value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. In certain instances, the Company uses discounted cash flow analyses or estimated sales price to further support the fair value estimates. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement." The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value.

During fiscal 2014, as a result of operating results, restructuring actions and expected future profitability, the Company's forecasted cash flow estimates used in the goodwill assessment were negatively impacted as of September 30, 2014 for the Building Efficiency Rest of World - Latin America reporting unit. As a result, the Company concluded that the carrying value of the Building Efficiency Rest of World - Latin America reporting unit exceeded its fair value as of September 30, 2014. The Company recorded a goodwill impairment charge of \$47 million in the fourth quarter of fiscal 2014, which was determined by comparing the carrying value of

the reporting unit's goodwill with the implied fair value of goodwill for the reporting unit. The Building Efficiency Rest of World - Latin America reporting unit has no remaining goodwill at September 30, 2016 and 2015.

The assumptions included in the impairment tests require judgment, and changes to these inputs could impact the results of the calculations. Other than management's projections of future cash flows, the primary assumptions used in the impairment tests were the weighted-average cost of capital and long-term growth rates. Although the Company's cash flow forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates management is using to operate the underlying businesses, there are significant judgments in determining the expected future cash flows attributable to a reporting unit. The impairment charges are non-cash expenses recorded within restructuring and impairment costs on the consolidated statements of income and did not adversely affect the Company's debt position, cash flow, liquidity or compliance with financial covenants.

Indefinite lived other intangible assets are also subject to at least annual impairment testing. A considerable amount of management judgment and assumptions are required in performing the impairment tests. While the Company believes the judgments and assumptions used in the impairment tests are reasonable and no impairment existed during fiscal years 2016, 2015 and 2014, different assumptions could change the estimated fair values and, therefore, impairment charges could be required, which could be material to the consolidated financial statements.

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals.

In the second, third and fourth quarters of fiscal 2016, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its restructuring actions announced in fiscal 2016. As a result, the Company reviewed the long-lived assets for impairment and recorded \$190 million of asset impairment charges within restructuring and impairment costs on the consolidated statements of income, of which \$29 million was recorded in the second quarter, \$51 million was recorded in the third quarter and \$110 million was recorded in the fourth quarter. Of the total impairment charges, \$64 million related to the Power Solutions segment, \$55 million related to Corporate assets, \$55 million related to the Automotive Experience Seating segment, \$8 million related to the Building Efficiency Products North America segment, \$4 million related to the Building Efficiency Asia segment, \$3 million related to the Building Efficiency Rest of World segment and \$1 million related to the Automotive Experience Interiors segment. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairments were measured, depending on the asset, under either an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impaired assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

In the fourth quarter of fiscal 2015, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its announced restructuring actions and the intention to spin-off the Automotive Experience business. As a result, the Company reviewed the long-lived assets for impairment and recorded a \$183 million impairment charge within restructuring and impairment costs on the consolidated statements of income. Of the total impairment charge, \$139 million related to Corporate assets, \$27 million related to the Automotive Experience Seating segment, \$16 million related to the Building Efficiency Rest of World segment and \$1 million related to the Building Efficiency Systems and Service North America segment. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairment was measured, depending on the asset, either under an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impairment assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

In the third and fourth quarters of fiscal 2014, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its restructuring actions announced in fiscal 2014. In addition, in the fourth quarter of fiscal 2014, the Company concluded that it had a triggering event requiring assessment of impairment of long-lived assets held by the Building Efficiency Rest of World - Latin America reporting unit due to the impairment of goodwill in the

quarter. As a result, the Company reviewed the long-lived assets for impairment and recorded a \$91 million impairment charge within restructuring and impairment costs on the consolidated statements of income, of which \$45 million was recorded in the third quarter and \$46 million in the fourth quarter of fiscal 2014. Of the total impairment charge, \$45 million related to the Automotive Experience Interiors segment, \$34 million related to the Building Efficiency Rest of World segment, \$7 million related to the Automotive Experience Seating segment and \$5 million related to Corporate assets. In addition, the Company recorded \$43 million of asset and investment impairments within discontinued operations in the third quarter of fiscal 2014 related to the divestiture of the Automotive Experience Electronics business. Refer to Note 4, "Discontinued Operations," and Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairment was measured, depending on the asset, either under an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impairment assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

Investments in partially-owned affiliates ("affiliates") at September 30, 2016 were \$2.7 billion, \$0.6 billion higher than the prior year. The increase was primarily due to the investment in the JCH joint venture and positive earnings at certain Automotive Experience affiliates.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

(in millions)	September 30, 2016	September 30, 2015	Change
Current assets	\$ 17,109	\$ 10,469	
Current liabilities	(16,293)	(10,446)	
	816	23	*
Less: Cash	(684)	(597)	
Less: Cash in escrow related to Adient debt	(2,034)	—	
Add: Short-term debt	1,119	52	
Add: Current portion of long-term debt	628	813	
Less: Assets held for sale	(174)	(55)	
Add: Liabilities held for sale	28	42	
Working capital (as defined)	\$ (301)	\$ 278	*
Accounts receivable	\$ 8,018	\$ 5,751	39%
Inventories	3,560	2,377	50%
Accounts payable	6,764	5,174	31%

\* Measure not meaningful

- The Company defines working capital as current assets less current liabilities, excluding cash, cash in escrow related to Adient debt, short-term debt, the current portion of long-term debt, and the current portion of assets and liabilities held for sale. Management believes that this measure of working capital, which excludes financing-related items, provides a more useful measurement of the Company's operating performance.
- The decrease in working capital at September 30, 2016 as compared to September 30, 2015, was primarily related to an increase in accounts payable due to timing of supplier payments, timing of income tax payments and an increase in restructuring reserves, partially offset by the impact of the Tyco merger, the impact of the JCH joint venture and an increase in accounts receivable due to timing of customer receipts.
- The Company's days sales in accounts receivable at September 30, 2016 were 58, a slight increase from 56 at September 30, 2015. There has been no significant adverse change in the level of overdue receivables or changes in revenue recognition methods.
- The Company's inventory turns for the year ended September 30, 2016 were slightly lower than the comparable period ended September 30, 2015 primarily due to changes in inventory production levels.
- Days in accounts payable at September 30, 2016 were 73 days, lower than 74 days at the comparable period ended September 30, 2015.

## Cash Flows

(in millions)	Year Ended September 30,	
	2016	2015
Cash provided by operating activities	\$ 1,895	\$ 1,600
Cash provided (used) by investing activities	(887)	470
Cash used by financing activities	(933)	(1,821)
Capital expenditures	(1,249)	(1,135)

- The increase in cash provided by operating activities was primarily due to favorable changes in other assets and lower pension contributions, partially offset by higher income tax payments and current year separation costs.
- The increase in cash used by investing activities was primarily due to cash received from business divestitures in the prior year, cash paid for the JCH joint venture in the current year and an increase in capital expenditures, partially offset by cash acquired in the Tyco merger in the current year.
- The decrease in cash used by financing activities was primarily due to an increase in long-term debt, lower stock repurchases in the current year and an increase in short-term debt, partially offset by higher repayments of long-term debt, an increase in dividends paid due to timing and an increase in dividends paid to noncontrolling interests related to the JCH joint venture.
- The increase in capital expenditures in the current year is primarily related to higher capital investments in the Buildings and Power Solutions businesses, partially offset by lower capital investments in the Automotive Experience business.

## Capitalization

(in millions)	September 30,	September 30,	Change
	2016	2015	
Short-term debt	\$ 1,119	\$ 52	
Current portion of long-term debt	628	813	
Long-term debt	14,606	5,745	
Total debt	\$ 16,353	\$ 6,610	*
Shareholders' equity attributable to Johnson Controls ordinary shareholders	24,118	10,335	*
Total capitalization	\$ 40,471	\$ 16,945	*
Total debt as a % of total capitalization	40%	39%	

\* Measure not meaningful

- The Company believes the percentage of total debt to total capitalization is useful to understanding the Company's financial condition as it provides a review of the extent to which the Company relies on external debt financing for its funding and is a measure of risk to its shareholders.
- In connection with the Tyco merger on September 2, 2016, JCI Inc., a wholly owned subsidiary of the Company, replaced its \$2.5 billion committed five-year credit facility scheduled to mature in August 2018 with a \$2.0 billion committed four-year credit facility scheduled to mature in August 2020. Also, in connection with the Tyco merger on September 2, 2016, Tyco International Holding S.à.r.l ("TSarl"), a wholly owned subsidiary of the Company, entered into a four-year, \$1.0 billion revolving credit agreement scheduled to mature in August 2020.
- At September 30, 2016, the Company had committed bilateral U.S. dollar denominated revolving credit facilities totaling \$135 million, which are scheduled to expire in fiscal 2017. There were no draws on any of these revolving facilities as of September 30, 2016.
- Simultaneously with the closing of the Tyco Merger on September 2, 2016, TSarl borrowed \$4.0 billion under the Term Loan Credit Agreement dated as of March 10, 2016 with a syndicate of lenders, providing for a three and a half year senior unsecured term loan facility to finance the cash consideration for, and fees, expenses and costs incurred in connection with the Merger.

- In August 2016, Adient Global Holdings, Ltd. (AGH), a wholly-owned subsidiary of the Company, issued a one billion euro, 3.5% fixed rate, 8-year senior unsecured note scheduled to mature in August 2024. AGH also issued a \$900 million, 4.875%, 10-year senior unsecured note scheduled to mature in August 2026. The proceeds from the notes were deposited into escrow and are expected to be released in connection with the spin-off. The notes have not been, and are not expected to be, guaranteed by the Company or any of its subsidiaries that will not be subsidiaries of Adient following the spin-off. Approximately \$1,500 million of the proceeds will be distributed to the Company in connection with the spin-off and approximately \$500 million of the proceeds will be used for Adient's general corporate purposes.
- In July 2016, AGH entered into a 5-year, \$1,500 million Term A loan facility and a 5-year, \$1,500 million revolving credit facility scheduled to mature in July 2021. The term loan was fully drawn in August 2016. As of September 30, 2016, there were no draws on the facility. Upon completion of the spin-off of Adient, AGH will become a wholly-owned subsidiary of Adient. On the date of the spin-off, Adient and certain of its wholly-owned subsidiaries will guarantee the debt, and the guarantees of the Company will automatically be released. The Company used the proceeds of the term loan to early repay its four tranches of euro-denominated floating rate credit facilities, totaling 390 million euro, that were outstanding as of September 30, 2015; three term loans of \$500 million, \$200 million and \$125 million that were entered into during fiscal 2016, plus accrued interest, and a \$90 million outstanding credit facility. The remainder of the proceeds were used for general corporate purposes.
- In February 2016, the Company entered into a nine-month, \$100 million floating rate term loan scheduled to mature in November 2016. Proceeds from the term loan were used for general corporate purposes.
- In February 2016, the Company terminated a 37 million euro committed revolving credit facility scheduled to mature in September 2016, and subsequently entered into a nine-month, 100 million euro, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.
- In January 2016, the Company entered into a ten-month, \$200 million, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.
- In January 2016, the Company entered into a ten-month, \$125 million, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.
- In January 2016, the Company retired \$800 million in principal amount, plus accrued interest, of its 5.5% fixed rate notes that matured in January 2016.
- In September 2015, the Company retired, at maturity, \$500 million, \$150 million and \$100 million floating rate term loans plus accrued interest that were entered into during fiscal 2015.
- In June 2015, the Company entered into a five-year, 37 billion yen floating rate syndicated term loan scheduled to mature in June 2020. Proceeds from the syndicated term loan were used for general corporate purposes.
- In May 2015, the Company made a partial repayment of 32 million euro in principal amount, plus accrued interest, of its 70 million euro floating rate credit facility scheduled to mature in November 2017. The remaining outstanding portion as of September 30, 2015 was repaid during fiscal 2016.
- In March 2015, the Company retired \$125 million in principal amount, plus accrued interest, of its 7.7% fixed rate notes that matured in March 2015.
- In January 2015, the Company entered into a one-year, \$90 million, committed revolving credit facility scheduled to mature in January 2016. The Company drew on the full credit facility during the quarter ended March 31, 2015. Proceeds from the revolving credit facility were used for general corporate purposes. The \$90 million was repaid in September 2015.
- The Company also selectively makes use of short-term credit lines. The Company estimates that, as of September 30, 2016, it could borrow up to \$1.7 billion based on average borrowing levels during the quarter on committed credit lines.
- The Company believes its capital resources and liquidity position at September 30, 2016 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, stock repurchases, minimum pension contributions, debt maturities and any potential acquisitions in fiscal 2017 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Company currently manages its short-term debt position in the U.S. and euro commercial paper markets and bank loan markets. In the event Johnson Controls,

Inc., and TSarl are unable to issue commercial paper, they would have the ability to draw on their \$2.0 billion and \$1.0 billion revolving credit facilities, respectively. Both facilities mature in August 2020. There were no draws on the revolving credit facilities as of September 30, 2016. As such, the Company believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.

- The Company earns a significant amount of its operating income outside of the parent company. Outside basis differences in these subsidiaries are deemed to be permanently reinvested. The Company currently does not intend nor foresee a need to repatriate undistributed earnings included in the outside basis differences other than in tax efficient manners. However, in fiscal 2016, the Company did provide income tax expense related to a change in the Company's assertion over a portion of the permanently reinvested earnings as a result of the planned spin-off of the Automotive Experience business. Except as noted, the Company's intent is to reduce basis differences only when it would be tax efficient. The Company expects existing U.S. cash and liquidity to continue to be sufficient to fund the Company's U.S. operating activities and cash commitments for investing and financing activities for at least the next twelve months and thereafter for the foreseeable future. In addition, the Company expects existing non-U.S. cash, cash equivalents, short-term investments and cash flows from operations to continue to be sufficient to fund the Company's non-U.S. operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next twelve months and thereafter for the foreseeable future. Should the Company require more capital in the U.S. than is generated by operations in the U.S., the Company could elect to raise capital in the U.S. through debt or equity issuances. In addition, should the Company require more capital at the Luxembourg and Ireland holding and financing entities, other than amounts that can be provided in tax efficient methods, the Company could also elect to raise capital through debt or equity issuances. This alternative could result in increased interest expense or other dilution of the Company's earnings. The Company has borrowed funds in the U.S. and continues to have the ability to borrow funds in the U.S. at reasonable interest rates.
- The Company's debt financial covenants require it to maintain a minimum consolidated shareholders' equity attributable to Johnson Controls of at least \$3.5 billion at all times and allow a maximum aggregated amount of 10% of its consolidated shareholders' equity for liens and pledges. For purposes of calculating the covenants, consolidated shareholders' equity attributable to Johnson Controls is calculated without giving effect to (i) the application of ASC 715-60, "Defined Benefit Plans - Other Postretirement," or (ii) the cumulative foreign currency translation adjustment. TSarl's, a wholly-owned subsidiary of Johnson Controls, revolving credit facility contains customary terms and conditions, and financial covenants that limit the ratio of TSarl's debt to earnings before interest, taxes, depreciation, and amortization and excluding special items to 3.5x and that limit its ability to incur subsidiary debt or grant liens on its property. As of September 30, 2016, the Company was in compliance with all covenants and other requirements set forth in its credit agreements and indentures and expects to remain in compliance for the foreseeable future. None of the Company's debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the Company's credit rating.
- To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2016 and recorded \$620 million of restructuring and impairment costs in the consolidated statements of income within continuing operations. The restructuring action related to cost reduction initiatives in the Company's Automotive Experience, Buildings and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures, asset impairments, change-in-control payments and immaterial changes in estimates to prior year plans. The Company currently estimates that upon completion of the restructuring action, the fiscal 2016 restructuring plan will reduce annual operating costs from continuing operations by approximately \$300 million, which is primarily the result of lower cost of sales and selling, general and administrative expenses due to reduced employee-related costs, depreciation and amortization expense. The Company expects the annual benefit of these actions will be substantially realized by the end of fiscal 2018. For fiscal 2016, there were no significant savings, net of execution costs, realized for this plan. The restructuring action is expected to be substantially complete in fiscal 2018. The restructuring plan reserve balance of \$445 million at September 30, 2016 is expected to be paid in cash. Included in the reserve is \$78 million of committed restructuring actions taken by Tyco for liabilities assumed as part of the Tyco acquisition.
- To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2015 and recorded \$397 million of restructuring and impairment costs in the consolidated statements of income within continuing operations. The restructuring action related to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. The Company currently estimates that upon completion of the restructuring action, the fiscal 2015 restructuring plan will reduce annual operating costs from continuing operations by approximately \$250 million, which is primarily the result of lower cost of sales and selling, general and administrative expenses due to reduced employee-related costs and depreciation expense. The Company expects that a portion of these savings, net of execution costs, will

be achieved in fiscal 2016 and the full annual benefit of these actions is expected in fiscal 2017. For fiscal 2016, the savings from continuing operations, net of execution costs, were approximately 55% of the expected annual operating cost reduction. The restructuring action is expected to be substantially complete in 2016. The restructuring plan reserve balance of \$117 million at September 30, 2016 is expected to be paid in cash.

- To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company committed to significant restructuring plans in fiscal 2014 and 2013 and recorded \$324 million and \$903 million, respectively, of restructuring and impairment costs in the consolidated statements of income within continuing operations. The restructuring actions related to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and included workforce reductions, plant closures, and asset and goodwill impairments. The Company currently estimates that upon completion of the restructuring actions, the fiscal 2014 and 2013 restructuring plans will reduce annual operating costs from continuing operations by approximately \$175 million and \$350 million, respectively, which is primarily the result of lower cost of sales due to reduced employee-related costs and lower depreciation and amortization expense. The full annual benefit of these actions, net of execution costs, were achieved in fiscal 2016. The restructuring actions were substantially complete in 2016. The respective year's restructuring plan reserve balances of \$23 million and \$24 million, respectively, at September 30, 2016 are expected to be paid in cash.

A summary of the Company's significant contractual obligations as of September 30, 2016 is as follows (in millions):

	Total	2017	2018-2019	2020-2021	2022 and Beyond
<b>Contractual Obligations</b>					
Long-term debt (including capital lease obligations)*	\$ 15,234	\$ 628	\$ 379	\$ 6,905	\$ 7,322
Interest on long-term debt (including capital lease obligations)*	6,447	414	795	723	4,515
Operating leases	1,352	406	537	254	155
Purchase obligations	2,624	2,218	308	92	6
Pension and postretirement contributions	745	330	78	84	253
Tax indemnification liabilities**	290	—	—	—	—
<b>Total contractual cash obligations</b>	<b>\$ 26,692</b>	<b>\$ 3,996</b>	<b>\$ 2,097</b>	<b>\$ 8,058</b>	<b>\$ 12,251</b>

\* See "Capitalization" for additional information related to the Company's long-term debt. The Company's outstanding interest rate swaps in an asset position are not included in the table at September 30, 2016, which indicates the Company was in a net position of receiving cash under such swaps.

\*\* As a result of the Tyco merger in the fourth quarter of fiscal 2016, the Company recorded as part of the acquired liabilities of Tyco \$290 million of post sale contingent tax indemnification liabilities within other noncurrent liabilities in the consolidated statements of financial position. The liabilities are recorded at fair value and relate to certain tax related matters borne by the buyer of previously divested subsidiaries of Tyco which Tyco has indemnified certain parties and the amounts are probable of being paid. Of the \$290 million recorded as of September 30, 2016, \$255 million is related to prior divested businesses and the remainder relates to Tyco's tax sharing agreements from its 2007 and 2012 spin-off transactions. The payments due by period are not presented due to uncertainty as to when these liabilities will be settled or paid.

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Company's consolidated financial statements and the uncertainties that could impact the Company's results of operations, financial position and cash flows.

## Revenue Recognition

The Buildings business recognizes revenue from certain long-term contracts over the contractual period under the POC method of accounting. This method of accounting recognizes sales and gross profit as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded primarily in accounts receivable. Likewise, contracts where billings to date have exceeded recognized revenues are recorded primarily in other current liabilities. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed monthly. Sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. The periodic reviews have not resulted in adjustments that were significant to the Company's results of operations. The Company continually evaluates all of the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The Buildings business enters into extended warranties and long-term service and maintenance agreements with certain customers. For these arrangements, revenue is recognized on a straight-line basis over the respective contract term.

The Buildings business also sells certain heating, ventilating and air conditioning (HVAC) and refrigeration products and services in bundled arrangements, where multiple products and/or services are involved. Significant deliverables within these arrangements include equipment, commissioning, service labor and extended warranties. Approximately four to twelve months separate the timing of the first deliverable until the last piece of equipment is delivered, and there may be extended warranty arrangements with duration of one to five years commencing upon the end of the standard warranty period. In addition, the Buildings business sells security monitoring systems that may have multiple elements, including equipment, installation, monitoring services and maintenance agreements. Revenues associated with sale of equipment and related installations are recognized once delivery, installation and customer acceptance is completed, while the revenue for monitoring and maintenance services are recognized as services are rendered. In accordance with ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force," the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative selling price method. In order to estimate relative selling price, market data and transfer price studies are utilized. Revenue recognized for security monitoring equipment and installation is limited to the lesser of their allocated amounts under the estimated selling price hierarchy or the non-contingent up-front consideration received at the time of installation, since collection of future amounts under the arrangement with the customer is contingent upon the delivery of monitoring and maintenance services. For transactions in which the Company retains ownership of the subscriber system asset, fees for monitoring and maintenance services are recognized on a straight-line basis over the contract term. Non-refundable fees received in connection with the initiation of a monitoring contract, along with associated direct and incremental selling costs, are deferred and amortized over the estimated life of the customer relationship.

In all other cases, the Company recognizes revenue at the time title passes to the customer or as services are performed.

## Goodwill and Indefinite-Lived Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments or one level below the reportable segments in certain instances, using a fair value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. In certain instances, the Company uses discounted cash flow analyses or estimated sales price to further support the fair value estimates. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement." The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. Refer to Note 7, "Goodwill and Other Intangible Assets," of the notes to consolidated financial statements for information regarding the goodwill impairment testing performed in the fourth quarters of fiscal years 2016, 2015 and 2014.

Indefinite-lived intangible assets are also subject to at least annual impairment testing. Indefinite-lived intangible assets consist of trademarks and tradenames and are tested for impairment using a relief-from-royalty method. A considerable amount of management judgment and assumptions are required in performing the impairment tests.

## **Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including tangible assets and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals. Refer to Note 17, "Impairment of Long-Lived Assets," of the notes to consolidated financial statements for information regarding the impairment testing performed in fiscal years 2016, 2015 and 2014.

## **Employee Benefit Plans**

The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement benefits. Plan assets and obligations are measured annually, or more frequently if there is a remeasurement event, based on the Company's measurement date utilizing various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates as of that date. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate.

The Company utilizes a mark-to-market approach for recognizing pension and postretirement benefit expenses, including measuring the market related value of plan assets at fair value and recognizing actuarial gains and losses in the fourth quarter of each fiscal year or at the date of a remeasurement event. Refer to Note 15, "Retirement Plans," of the notes to consolidated financial statements for disclosure of the Company's pension and postretirement benefit plans.

U.S. GAAP requires that companies recognize in the statement of financial position a liability for defined benefit pension and postretirement plans that are underfunded or unfunded, or an asset for defined benefit pension and postretirement plans that are overfunded. U.S. GAAP also requires that companies measure the benefit obligations and fair value of plan assets that determine a benefit plan's funded status as of the date of the employer's fiscal year end.

The Company considers the expected benefit payments on a plan-by-plan basis when setting assumed discount rates. As a result, the Company uses different discount rates for each plan depending on the plan jurisdiction, the demographics of participants and the expected timing of benefit payments. For the U.S. pension and postretirement plans, the Company uses a discount rate provided by an independent third party calculated based on an appropriate mix of high quality bonds. For the non-U.S. pension and postretirement plans, the Company consistently uses the relevant country specific benchmark indices for determining the various discount rates. The Company's discount rate on U.S. pension plans was 3.70% and 4.40% at September 30, 2016 and 2015, respectively. The Company's discount rate on postretirement plans was 3.30% and 3.75% at September 30, 2016 and 2015, respectively. The Company's weighted average discount rate on non-U.S. pension plans was 1.90% and 3.15% at September 30, 2016 and 2015, respectively.

At September 30, 2015, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits for plans that utilize a yield curve approach. This change compared to the previous method will result in different service and interest components of net periodic benefit cost (credit) in future periods. Historically, the Company estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of the total benefit obligations or annual net periodic benefit cost (credit) as the change in the service and interest costs is completely offset in the net actuarial (gain) loss reported. The change in the service and interest costs was not significant. The Company has accounted for this change as a change in accounting estimate.

In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plans' invested assets. Reflecting the relatively long-term nature of the plans' obligations, approximately 47% of the plans' assets are invested in fixed income securities and 41% in equity securities, with the remainder primarily invested in alternative investments. For the years ending September 30, 2016 and 2015, the Company's expected long-term return on U.S. pension plan assets used to determine net periodic benefit cost was 7.50%. The actual rate of return on U.S. pension plans was above 7.50% in fiscal 2016 and was below 7.50% in

fiscal 2015. For the years ending September 30, 2016 and 2015, the Company's weighted average expected long-term return on non-U.S. pension plan assets was 4.50%. The actual rate of return on non-U.S. pension plans was above 4.50% in fiscal 2016 and approximated 4.50% in 2015. For the years ending September 30, 2016 and 2015, the Company's weighted average expected long-term return on postretirement plan assets was 5.45% and 5.75%, respectively. The actual rate of return on postretirement plan assets was above 5.45% in fiscal 2016 and was below 5.75% in fiscal 2015.

Beginning in fiscal 2017, the Company believes the long-term rate of return will approximate 7.50%, 3.40% and 5.60% for U.S. pension, non-U.S. pension and postretirement plans, respectively. Any differences between actual investment results and the expected long-term asset returns will be reflected in net periodic benefit costs in the fourth quarter of each fiscal year. If the Company's actual returns on plan assets are less than the Company's expectations, additional contributions may be required.

In fiscal 2016, total employer contributions to the defined benefit pension plans were \$136 million, of which \$34 million were voluntary contributions made by the Company. The Company expects to contribute approximately \$326 million in cash to its defined benefit pension plans in fiscal 2017 including \$247 million due to change-in-control provisions triggered by the Tyco merger. In fiscal 2016, total employer and employee contributions to the postretirement plans were \$7 million. The Company expects to contribute approximately \$4 million in cash to its postretirement plans in fiscal 2017.

Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company's financial position, results of operations or cash flows.

### **Loss Contingencies**

Accruals are recorded for various contingencies including legal proceedings, environmental matters, self-insurance and other claims that arise in the normal course of business. The accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarially determined estimates. Additionally, the Company records receivables from third party insurers when recovery has been determined to be probable.

The Company is subject to laws and regulations relating to protecting the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Refer to Note 23, "Commitments and Contingencies," of the notes to consolidated financial statements.

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. The Company records receivables from third party insurers when recovery has been determined to be probable.

### **Asbestos-Related Contingencies and Insurance Receivables**

The Company and certain of its subsidiaries along with numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2069 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Company affiliates). Asbestos related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be made through 2069. Annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable. The Company's estimate of asbestos-related insurance recoveries represents estimated amounts due to the Company for previously paid and settled claims and the probable reimbursements relating to its estimated liability for pending and future claims discounted to present value. In determining the amount of insurance recoverable, the Company considers available

insurance, allocation methodologies, solvency and creditworthiness of the insurers. Refer to Note 23, "Commitments and Contingencies," of the notes to consolidated financial statements for a discussion on management's judgments applied in the recognition and measurement of asbestos-related assets and liabilities.

## **Product Warranties**

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate of future warranty-related costs based on actual historical return rates and other known factors. Based on analysis of return rates and other factors, the Company's warranty provisions are adjusted as necessary. At September 30, 2016, the Company had recorded \$396 million of warranty reserves, including extended warranties for which deferred revenue is recorded. The Company monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates. Refer to Note 21, "Guarantees," of the notes to consolidated financial statements for disclosure of the Company's product warranty liabilities.

## **Income Taxes**

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance that primarily represents non-U.S. operating and other loss carryforwards for which realization is uncertain. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities, and the valuation allowance recorded against the Company's net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year.

The Company reviews the realizability of its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary. At September 30, 2016, the Company had a valuation allowance of \$3,564 million, of which \$3,067 million relates to net operating loss carryforwards primarily in Australia, Belgium, Brazil, China, France, Spain, Switzerland, Luxembourg and the United Kingdom for which sustainable taxable income has not been demonstrated; and \$497 million for other deferred tax assets.

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. At September 30, 2016, the Company had unrecognized tax benefits of \$1,836 million.

The Company does not generally provide additional U.S. or non-U.S. income taxes on outside basis differences of consolidated subsidiaries included in shareholders' equity attributable to Johnson Controls. The reduction of the outside basis differences via the sale or liquidation of these subsidiaries and/or distributions could create taxable income. The Company's intent is to reduce the outside basis differences only when it would be tax efficient. Refer to "Capitalization" within the "Liquidity and Capital Resources" section for discussion of U.S. and non-U.S. cash projections.

Refer to Note 18, "Income Taxes," of the notes to consolidated financial statements for the Company's income tax disclosures.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### *Recently Adopted Accounting Pronouncements*

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated statements of financial position. During the quarter ended December 31, 2015, the Company early adopted ASU No. 2015-17 and applied the change retrospectively to all periods presented.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 limits discontinued operations reporting to situations where the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results, and requires expanded disclosures for discontinued operations. ASU No. 2014-08 was effective for the Company for the quarter ended December 31, 2015. The adoption of this guidance did not have any impact on the Company's consolidated financial statements as there were no dispositions or disposals during the quarter ended December 31, 2015.

#### *Recently Issued Accounting Pronouncements*

In October 2016, the FASB issued ASU No. 2016-17, "Consolidations (Topic 810): Interests Held through Related Parties that are under Common Control." The ASU changes how a single decision maker of a variable interest entity (VIE) that holds indirect interest in the entity through related parties that are under common control determines whether it is the primary beneficiary of the VIE. The new guidance amends ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" issued in February 2015. The guidance should be applied coincidentally with the adoption of ASU 2015-02, which is effective for the Company for the quarter ending December 31, 2016. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory". The ASU requires the tax effects of all intra-entity sales of assets other than inventory to be recognized in the period in which the transaction occurs. The guidance will be effective for the Company for the quarter ending December 31, 2018 with early adoption permitted but only in the first interim period of a fiscal year. The changes are required to be applied by means of a cumulative-effect adjustment recorded in retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." ASU No. 2016-15 provides clarification guidance on eight specific cash flow presentation issues in order to reduce the diversity in practice. ASU No. 2016-15 will be effective for the Company for the quarter ending December 31, 2018, with early adoption permitted. The guidance should be applied retrospectively to all periods presented, unless deemed impracticable, in which case prospective application is permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU No. 2016-13 changes the impairment model for financial assets measured at amortized cost, requiring presentation at the net amount expected to be collected. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts. Available-for-sale debt securities with unrealized losses will now be recorded through an allowance for credit losses. ASU No. 2016-13 will be effective for the Company for the quarter ended December 31, 2020, with early adoption permitted for the quarter ended December 31, 2019. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 impacts certain aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. ASU No. 2016-09 will be effective for the Company for the quarter ending December 31, 2017, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." ASU No. 2016-07 eliminates the requirement for an investment that qualifies for the use of the equity method of accounting as a result of an increase in the level of ownership or degree of influence to adjust the investment, results of operations and retained earnings retrospectively. ASU No. 2016-07 will be effective prospectively for the Company for increases in the level of ownership interest or degree of influence that result in the adoption of the equity method that occur during or after the quarter ending December 31, 2017, with early adoption permitted. The impact of this guidance for the Company is dependent on any future increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU No. 2016-02 requires recognition of operating leases as lease assets and liabilities on the balance sheet, and disclosure of key information about leasing arrangements. ASU No.

2016-02 will be effective retrospectively for the Company for the quarter ending December 31, 2019, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 will be effective for the Company for the quarter ending December 31, 2018, and early adoption is not permitted, with certain exceptions. The changes are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." ASU No. 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU No. 2015-11 will be effective prospectively for the Company for the quarter ending December 31, 2017, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Such investments should be disclosed separate from the fair value hierarchy. ASU No. 2015-07 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements but will impact pension asset disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. ASU No. 2015-03 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU No. 2015-02 amends the analysis performed to determine whether a reporting entity should consolidate certain types of legal entities. The ASU No. 2015-02 was amended by ASU No. 2016-17, "Consolidations (Topic 810): Interests Held through Related Parties that are under Common Control," issued in October 2016. ASU No. 2015-02 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 clarifies the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets. The original standard was effective retrospectively for the Company for the quarter ending December 31, 2017; however in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU No. 2014-09 by one-year for all entities. The new standard will become effective retrospectively for the Company for the quarter ending December 31, 2018, with early adoption permitted, but not before the original effective date. Additionally, in March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," in April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," all of which provide additional clarification on certain topics addressed in ASU No. 2014-09. ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12 follow the same implementation guidelines as ASU No. 2014-09 and ASU No. 2015-14. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

## RISK MANAGEMENT

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, interest rates and stock-based compensation. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which strictly prohibit the use of financial instruments for speculative purposes. At the inception of the hedge, the Company assesses the effectiveness of the hedge instrument and designates the hedge instrument as either (1) a hedge of a recognized asset or liability or of a recognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an unrecognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a non-U.S. operation (a net investment hedge). The Company performs hedge effectiveness

testing on an ongoing basis depending on the type of hedging instrument used. All other derivatives not designated as hedging instruments under ASC 815, "Derivatives and Hedging," are revalued in the consolidated statements of income.

For all foreign currency derivative instruments designated as cash flow hedges, retrospective effectiveness is tested on a monthly basis using a cumulative dollar offset test. The fair value of the hedged exposures and the fair value of the hedge instruments are revalued, and the ratio of the cumulative sum of the periodic changes in the value of the hedge instruments to the cumulative sum of the periodic changes in the value of the hedge is calculated. The hedge is deemed as highly effective if the ratio is between 80% and 125%. For commodity derivative contracts designated as cash flow hedges, effectiveness is tested using a regression calculation. Ineffectiveness is minimal as the Company aligns most of the critical terms of its derivatives with the supply contracts.

For net investment hedges, the Company assesses its net investment positions in the non-U.S. operations and compares it with the outstanding net investment hedges on a quarterly basis. The hedge is deemed effective if the aggregate outstanding principal of the hedge instruments designated as the net investment hedge in a non-U.S. operation does not exceed the Company's net investment positions in the respective non-U.S. operation.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate bonds. At September 30, 2016, all outstanding interest rate swaps qualify for the long-haul method. The Company assesses retrospective and prospective effectiveness and records any measured ineffectiveness in the consolidated statements of income on a monthly basis.

Equity swaps and any other derivative instruments not designated as hedging instruments under ASC 815 require no assessment of effectiveness.

A discussion of the Company's accounting policies for derivative financial instruments is included in Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements, and further disclosure relating to derivatives and hedging activities is included in Note 10, "Derivative Instruments and Hedging Activities," and Note 11, "Fair Value Measurements," of the notes to consolidated financial statements.

## **Foreign Exchange**

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. In order to maintain strict control and achieve the benefits of the Company's global diversification, foreign exchange exposures for each currency are netted internally so that only its net foreign exchange exposures are, as appropriate, hedged with financial instruments.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. The Company also selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with ASC 815.

The Company had entered into cross-currency interest rate swaps and foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of the cross-currency interest rate swaps and debt obligations are reflected in the AOCI account within shareholders' equity attributable to Johnson Controls ordinary shareholders where they offset gains and losses recorded on the Company's net investments globally.

At September 30, 2016 and 2015, the Company estimates that an unfavorable 10% change in the exchange rates would have decreased net unrealized gains by approximately \$297 million and \$234 million, respectively.

## **Interest Rates**

The Company uses interest rate swaps to offset its exposure to interest rate movements. In accordance with ASC 815, these outstanding swaps qualify and are designated as fair value hedges. The Company had eight interest rate swaps totaling \$850 million outstanding at September 30, 2016 and twelve interest rates swaps totaling \$1.7 billion outstanding at September 30, 2015. A 10% increase in the average cost of the Company's variable rate debt would have resulted in an unfavorable change in pre-tax interest expense of approximately \$11 million and \$6 million for the year ended September 30, 2016 and 2015, respectively.

## **Commodities**

The Company uses commodity hedge contracts in the financial derivatives market in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks are systematically managed pursuant to policy guidelines. As a cash flow hedge, gains and losses resulting from the hedging instruments offset the gains or losses on purchases of the underlying commodities that will be used in the business. The maturities of the commodity hedge contracts coincide with the expected purchase of the commodities.

## **ENVIRONMENTAL, HEALTH AND SAFETY AND OTHER MATTERS**

The Company's global operations are governed by environmental laws and worker safety laws. Under various circumstances, these laws impose civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where Company-related substances have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with applicable environmental laws and worker safety laws and to protect the environment and workers. The Company believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with such laws or the remediation of Company-related substances released into the environment. Such matters typically are resolved with regulatory authorities through commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

The Company accrues for potential environmental liabilities when it is probable a liability has been incurred and the amount of the liability is reasonably estimable. As of September 30, 2016, reserves for environmental liabilities totaled \$55 million, of which \$15 million was recorded within other current liabilities and \$40 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where the Company may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability. However, while neither the timing nor the amount of ultimate costs associated with known environmental remediation matters can be determined at this time, the Company does not expect that these matters will have a material adverse effect on its financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the Power Solutions and Buildings businesses. At September 30, 2016, the Company recorded conditional asset retirement obligations of \$74 million.

The Company and certain of its subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases have typically involved product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components. As of September 30, 2016, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position is \$148 million. The net liability within the consolidated statements of financial position is comprised of a liability for pending and future claims and related defense costs of \$548 million, of which \$35 million is recorded in other current liabilities and \$513 million is recorded in other noncurrent liabilities. The Company also maintains separate cash, investments and receivables related to insurance recoveries within the consolidated statements of financial position of \$400 million, of which \$41 million is recorded in other current assets, and \$359 million is recorded in other noncurrent assets. Assets include \$16 million of cash and \$264 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable, the amount of such recoveries recorded at September 30, 2016 is \$120 million. The Company believes that the asbestos related liabilities and insurance related receivables recorded as of September 30, 2016 are appropriate. The assets recorded in fiscal 2016 were as a result of assets acquired as part of the Tyco merger.

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. At September 30, 2016, the insurable liabilities totaled \$473 million, of which \$70 million was recorded within other current liabilities, \$36 million was recorded within accrued compensation and benefits, and \$367 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. The Company records receivables from third party insurers when recovery has been determined to be probable. The Company maintains captive insurance companies to manage certain of its insurable liabilities.

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses, including those pertaining to product liability, environmental, safety and health, intellectual property, employment, commercial and contractual matters, and various other casualty matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented. Refer to Note 23, "Commitments and Contingencies," of the notes to consolidated financial statements for additional information.

## QUARTERLY FINANCIAL DATA

(in millions, except per share data) (quarterly amounts unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>2016</b>					
Net sales	\$ 8,929	\$ 9,031	\$ 9,516	\$ 10,198	\$ 37,674
Gross profit	1,633	1,729	1,887	2,065	7,314
Net income (loss) (1)	490	(469)	459	(1,132)	(652)
Net income (loss) attributable to Johnson Controls	450	(530)	383	(1,171)	(868)
Earnings (loss) per share (2)					
Basic	0.69	(0.82)	0.59	(1.61)	(1.30)
Diluted	0.69	(0.82)	0.59	(1.61)	(1.30)
<b>2015</b>					
Net sales	\$ 9,624	\$ 9,198	\$ 9,608	\$ 8,749	\$ 37,179
Gross profit	1,609	1,573	1,706	1,559	6,447
Net income (3)	546	557	207	369	1,679
Net income attributable to Johnson Controls	507	529	178	349	1,563
Earnings per share (4)					
Basic	0.77	0.81	0.27	0.54	2.39
Diluted	0.76	0.80	0.27	0.53	2.36

- (1) The fiscal 2016 first quarter net income includes \$101 million for transaction, integration and separation costs. The fiscal 2016 second quarter net loss includes \$229 million of significant restructuring and impairment costs, and \$131 million for transaction, integration and separation costs. The fiscal 2016 third quarter net income includes \$167 million for transaction, integration, and separation costs, and \$102 million of significant restructuring and impairment costs. The fiscal 2016 fourth quarter net loss includes \$514 million of net mark-to-market and settlement losses on pension and postretirement plans, \$296 million of significant restructuring and impairment costs, and \$293 million for transaction, integration and separation costs. The preceding amounts are stated on a pre-tax and pre-noncontrolling interest impact basis.
- (2) Basic and diluted earnings (loss) per share will not cross-foot due to the impact of the Tyco merger on the weighted-average shares included within the earnings per share calculation.
- (3) The fiscal 2015 first quarter net income includes \$20 million for transaction and integration costs. The fiscal 2015 second quarter net income includes \$28 million for transaction and integration costs, and a \$200 million gain on divestiture of two GWS joint ventures within discontinued operations. The fiscal 2015 third quarter net income includes \$48 million for transaction, integration, and separation costs. The fiscal 2015 fourth quarter net income includes \$422 million of net mark-to-market losses on pension and postretirement plans, \$397 million of significant restructuring and impairment costs, a \$145 million gain on divestiture of the Interiors business, \$82 million for transaction, integration and separation costs, and a \$940 million gain on the divestiture of GWS within discontinued operations. The preceding amounts are stated on a pre-tax basis.
- (4) Due to the use of the weighted-average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

**ITEM 7A****QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See "Risk Management" included in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Index to Consolidated Financial Statements**

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### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Johnson Controls International plc

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Johnson Controls International plc and its subsidiaries at September 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the accompanying consolidated financial statements, the Company changed the manner in which it classifies deferred taxes in fiscal 2016.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded the operations of the Tyco business from its assessment of internal control over financial reporting as of September 30, 2016 given that the acquisition date of Tyco was September 2, 2016. We have also excluded the Tyco business from our audit of internal control over financial reporting. The Tyco business is a wholly-owned subsidiary whose total assets and total revenues represent approximately 44 percent and less than 2 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2016.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

November 23, 2016

**Johnson Controls International plc**  
**Consolidated Statements of Income**

(in millions, except per share data)	Year Ended September 30,		
	2016	2015	2014
Net sales			
Products and systems*	\$ 33,635	\$ 33,513	\$ 34,978
Services*	4,039	3,666	3,771
	37,674	37,179	38,749
Cost of sales			
Products and systems*	27,625	28,214	29,910
Services*	2,735	2,518	2,534
	30,360	30,732	32,444
Gross profit	7,314	6,447	6,305
Selling, general and administrative expenses	(5,325)	(3,986)	(4,216)
Restructuring and impairment costs	(620)	(397)	(324)
Net financing charges	(314)	(288)	(244)
Equity income	531	375	395
	1,586	2,151	1,916
Income from continuing operations before income taxes	2,238	600	407
Income tax provision	(652)	1,551	1,509
Income (loss) from continuing operations	—	128	(166)
Income (loss) from discontinued operations, net of tax (Note 4)	(652)	1,679	1,343
Net income (loss)	216	112	105
Income from continuing operations attributable to noncontrolling interests	—	4	23
Income from discontinued operations attributable to noncontrolling interests	—	—	—
Net income (loss) attributable to Johnson Controls	\$ (868)	\$ 1,563	\$ 1,215
Amounts attributable to Johnson Controls ordinary shareholders:			
Income (loss) from continuing operations	\$ (868)	\$ 1,439	\$ 1,404
Income (loss) from discontinued operations	—	124	(189)
Net income (loss)	\$ (868)	\$ 1,563	\$ 1,215
Basic earnings (loss) per share attributable to Johnson Controls			
Continuing operations	\$ (1.30)	\$ 2.20	\$ 2.11
Discontinued operations	—	0.19	(0.28)
Net income (loss) **	\$ (1.30)	\$ 2.39	\$ 1.82
Diluted earnings (loss) per share attributable to Johnson Controls			
Continuing operations	\$ (1.30)	\$ 2.18	\$ 2.08
Discontinued operations	—	0.19	(0.28)
Net income (loss) **	\$ (1.30)	\$ 2.36	\$ 1.80

\* Products and systems consist of Automotive Experience, Buildings and Power Solutions products and systems. Services are Buildings technical services.

\*\* Certain items do not sum due to rounding.

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statements of Comprehensive Income (Loss)**

(in millions)	<b>Year Ended September 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ (652)	\$ 1,679	\$ 1,343
<b>Other comprehensive income (loss), net of tax:</b>			
Foreign currency translation adjustments	(94)	(825)	(642)
Realized and unrealized gains (losses) on derivatives	9	(10)	(3)
Realized and unrealized losses on marketable common stock	(1)	—	(7)
Pension and postretirement plans	(1)	(10)	(5)
Other comprehensive loss	(87)	(845)	(657)
Total comprehensive income (loss)	(739)	834	686
Comprehensive income attributable to noncontrolling interests	225	91	126
Comprehensive income (loss) attributable to Johnson Controls	\$ (964)	\$ 743	\$ 560

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statements of Financial Position**

(in millions, except par value and share data)	September 30,	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 684	\$ 597
Cash in escrow related to Adient debt	2,034	—
Accounts receivable, less allowance for doubtful accounts of \$194 and \$82, respectively	8,018	5,751
Inventories	3,560	2,377
Assets held for sale	174	55
Other current assets	2,639	1,689
Current assets	17,109	10,469
Property, plant and equipment - net	7,872	5,870
Goodwill	23,409	6,824
Other intangible assets - net	7,653	1,516
Investments in partially-owned affiliates	2,735	2,143
Other noncurrent assets	4,475	2,800
Total assets	\$ 63,253	\$ 29,622
<b>Liabilities and Equity</b>		
Short-term debt	\$ 1,119	\$ 52
Current portion of long-term debt	628	813
Accounts payable	6,764	5,174
Accrued compensation and benefits	1,763	1,090
Liabilities held for sale	28	42
Other current liabilities	5,991	3,275
Current liabilities	16,293	10,446
Long-term debt	14,606	5,745
Pension and postretirement benefits	1,738	767
Other noncurrent liabilities	5,292	1,954
Long-term liabilities	21,636	8,466
Commitments and contingencies (Note 23)		
Redeemable noncontrolling interests	234	212
Ordinary shares - par value \$0.01, \$0.01; 2.0 billion, 1.8 billion shares authorized; 936,247,911, 717,039,108 shares issued, respectively	9	7
Ordinary A shares - par value €1.00; 40,000 shares authorized, none outstanding as of September 30, 2016 and 2015	—	—
Preferred shares - par value \$0.01; 200,000,000 shares authorized, none outstanding as of September 30, 2016 and 2015	—	—
Ordinary shares held in treasury, at cost (2016 - 452,083; 2015 - 69,671,840 shares)	(20)	(3,152)
Capital in excess of par value	16,105	3,740
Retained earnings	9,177	10,797
Accumulated other comprehensive loss	(1,153)	(1,057)
Shareholders' equity attributable to Johnson Controls	24,118	10,335
Noncontrolling interests	972	163
Total equity	25,090	10,498
Total liabilities and equity	\$ 63,253	\$ 29,622

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statements of Cash Flows**

(in millions)	Year Ended September 30,		
	2016	2015	2014
<b>Operating Activities</b>			
Net income (loss) attributable to Johnson Controls	\$ (868)	\$ 1,563	\$ 1,215
Income from continuing operations attributable to noncontrolling interests	216	112	105
Income from discontinued operations attributable to noncontrolling interests	—	4	23
Net income (loss)	(652)	1,679	1,343
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	953	860	955
Pension and postretirement benefit expense	460	396	321
Pension and postretirement contributions	(137)	(409)	(161)
Equity in earnings of partially-owned affiliates, net of dividends received	(250)	(144)	(153)
Deferred income taxes	(1,241)	327	(329)
Non-cash restructuring and impairment charges	221	183	181
Loss (gain) on divestitures - net	(26)	(1,340)	111
Fair value adjustment of equity investment	(4)	—	(38)
Equity-based compensation	142	90	82
Other	5	(1)	(2)
Changes in assets and liabilities, excluding acquisitions and divestitures:			
Accounts receivable	(344)	(297)	(18)
Inventories	1	(99)	(311)
Other assets	148	(113)	(192)
Restructuring reserves	141	(6)	(31)
Accounts payable and accrued liabilities	398	348	440
Accrued income taxes	2,080	126	197
Cash provided by operating activities	1,895	1,600	2,395
<b>Investing Activities</b>			
Capital expenditures	(1,249)	(1,135)	(1,199)
Sale of property, plant and equipment	32	37	79
Acquisition of businesses, net of cash acquired	353	(22)	(1,733)
Business divestitures	32	1,646	225
Changes in long-term investments	(48)	(44)	19
Other	(7)	(12)	16
Cash provided (used) by investing activities	(887)	470	(2,593)
<b>Financing Activities</b>			
Increase (decrease) in short-term debt - net	556	(68)	73
Increase in long-term debt	1,501	299	2,001
Repayment of long-term debt	(1,299)	(191)	(833)
Debt financing costs	(45)	—	—
Stock repurchases	(501)	(1,362)	(1,249)
Payment of cash dividends	(915)	(657)	(568)
Proceeds from the exercise of stock options	70	275	186
Cash paid to acquire a noncontrolling interest	(2)	(38)	(5)
Dividends paid to noncontrolling interests	(306)	(68)	(55)
Other	8	(11)	38
Cash used by financing activities	(933)	(1,821)	(412)
Effect of exchange rate changes on cash and cash equivalents	12	(81)	(20)
Change in cash held for sale	—	20	(16)
<b>Increase (decrease) in cash and cash equivalents</b>	87	188	(646)
Cash and cash equivalents at beginning of period	597	409	1,055
Cash and cash equivalents at end of period	\$ 684	\$ 597	\$ 409

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statements of Shareholders' Equity Attributable to Johnson Controls Ordinary Shareholders**

(in millions, except per share data)	Total	Ordinary Shares	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)
<b>At September 30, 2013</b>	\$ 12,273	\$ 7	\$ 3,092	\$ 9,287	\$ (531)	\$ 418
Comprehensive income (loss)	560	—	—	1,215	—	(655)
Cash dividends						
Common (\$0.88 per share)	(586)	—	—	(586)	—	—
Repurchases of common stock	(1,249)	—	—	—	(1,249)	—
Other, including options exercised	272	—	277	(1)	(4)	—
<b>At September 30, 2014</b>	11,270	7	3,369	9,915	(1,784)	(237)
Comprehensive income (loss)	743	—	—	1,563	—	(820)
Cash dividends						
Common (\$1.04 per share)	(681)	—	—	(681)	—	—
Repurchases of common stock	(1,362)	—	—	—	(1,362)	—
Other, including options exercised	365	—	371	—	(6)	—
<b>At September 30, 2015</b>	10,335	7	3,740	10,797	(3,152)	(1,057)
Comprehensive loss	(964)	—	—	(868)	—	(96)
Result of contribution of Johnson Controls, Inc. to Johnson Controls International plc	15,808	2	12,157	—	3,649	—
Cash dividends						
Common (\$1.16 per share)	(752)	—	—	(752)	—	—
Repurchases of common stock	(501)	—	—	—	(501)	—
Other, including options exercised	192	—	208	—	(16)	—
<b>At September 30, 2016</b>	<b>\$ 24,118</b>	<b>\$ 9</b>	<b>\$ 16,105</b>	<b>\$ 9,177</b>	<b>\$ (20)</b>	<b>\$ (1,153)</b>

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Notes to Consolidated Financial Statements**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Nature of Operations**

On September 2, 2016, Johnson Controls, Inc. ("JCI Inc.") and Tyco International plc ("Tyco") completed their combination pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of January 24, 2016, as amended by Amendment No. 1, dated as of July 1, 2016, by and among JCI Inc., Tyco and certain other parties named therein, including Jagara Merger Sub LLC, an indirect wholly owned subsidiary of Tyco ("Merger Sub"). Pursuant to the terms of the Merger Agreement, on September 2, 2016, Merger Sub merged with and into JCI Inc., with JCI Inc. being the surviving corporation in the merger and a wholly owned, indirect subsidiary of Tyco (the "Merger"). Following the Merger, Tyco changed its name to "Johnson Controls International plc." The Merger changed the jurisdiction of organization from the United States to Ireland. The domicile to Ireland became effective on September 2, 2016.

The merger was accounted for as a reverse acquisition using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations." JCI Inc. was the accounting acquirer for financial reporting purposes. Accordingly, the historical consolidated financial statements of JCI Inc. for periods prior to this transaction are considered to be the historic financial statements of the Company. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for further information.

### **Principles of Consolidation**

The consolidated financial statements include the consolidated accounts of Johnson Controls International plc., a corporation organized under the laws of Ireland, and its subsidiaries (Johnson Controls International plc and all its subsidiaries, hereinafter collectively referred to as the "Company" or "Johnson Controls"). The financial statements have been prepared in United States dollars ("USD") and in accordance with generally accepted accounting principles in the United States (U.S. GAAP). All significant intercompany transactions have been eliminated. The results of companies acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest exceeds 20% and the Company does not have a controlling interest.

Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, "Consolidation," the Company may consolidate a partially-owned affiliate. To determine whether to consolidate a partially-owned affiliate, the Company first determines if the entity is a variable interest entity (VIE). An entity is considered to be a VIE if it has one of the following characteristics: 1) the entity is thinly capitalized; 2) residual equity holders do not control the entity; 3) equity holders are shielded from economic losses or do not participate fully in the entity's residual economics; or 4) the entity was established with non-substantive voting. If the entity meets one of these characteristics, the Company then determines if it is the primary beneficiary of the VIE. The party with the power to direct activities of the VIE that most significantly impact the VIE's economic performance and the potential to absorb benefits or losses that could be significant to the VIE is considered the primary beneficiary and consolidates the VIE. If the entity is not considered a VIE, then the Company applies the voting interest model to determine whether or not the Company shall consolidate the partially-owned affiliate.

### *Consolidated VIEs*

Based upon the criteria set forth in ASC 810, the Company has determined that it was the primary beneficiary in three VIEs for the reporting periods ended September 30, 2016 and 2015, as the Company absorbs significant economics of the entities and has the power to direct the activities that are considered most significant to the entities.

Two of the VIEs manufacture products in North America for the automotive industry. The Company funds the entities' short-term liquidity needs through revolving credit facilities and has the power to direct the activities that are considered most significant to the entities through its key customer supply relationships.

In fiscal 2012, a pre-existing VIE accounted for under the equity method was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The Company acquired additional interests in two of the reorganized group entities. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The Company is considered the primary beneficiary of one of the entities due to the Company's power pertaining to decisions over significant activities of the entity. As such, this VIE has been

consolidated within the Company's consolidated statements of financial position. The impact of consolidation of the entity on the Company's consolidated statements of income for the years ended September 30, 2016, 2015 and 2014 was not material. The VIE is named as a co-obligor under a third party debt agreement of \$170 million, maturing in fiscal 2020, under which it could become subject to paying more than its allocated share of the third party debt in the event of bankruptcy of one or more of the other co-obligors. The other co-obligors, all related parties in which the Company is an equity investor, consist of the remaining group entities involved in the reorganization. As part of the overall reorganization transaction, the Company has also provided financial support to the group entities in the form of loans totaling \$37 million, which are subordinate to the third party debt agreement. The Company is a significant customer of certain co-obligors, resulting in a remote possibility of loss. Additionally, the Company is subject to a floor guaranty expiring in fiscal 2022; in the event that the other owner party no longer owns any part of the group entities due to sale or transfer, the Company has guaranteed that the proceeds received from the sale or transfer will not be less than \$25 million. The Company has partnered with the group entities to design and manufacture battery components for the Power Solutions business.

The carrying amounts and classification of assets (none of which are restricted) and liabilities included in the Company's consolidated statements of financial position for the consolidated VIEs are as follows (in millions):

	September 30,	
	2016	2015
Current assets	\$ 284	\$ 281
Noncurrent assets	98	128
<b>Total assets</b>	<b>\$ 382</b>	<b>\$ 409</b>
Current liabilities	\$ 230	\$ 232
Noncurrent liabilities	29	34
<b>Total liabilities</b>	<b>\$ 259</b>	<b>\$ 266</b>

The Company did not have a significant variable interest in any other consolidated VIEs for the presented reporting periods.

#### *Nonconsolidated VIEs*

As mentioned previously within the "Consolidated VIEs" section above, in fiscal 2012, a pre-existing VIE was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The Company is not considered to be the primary beneficiary of two of the entities as the Company cannot make key operating decisions considered to be most significant to the VIEs. Therefore, the entities are accounted for under the equity method of accounting as the Company's interest exceeds 20% and the Company does not have a controlling interest. The Company's maximum exposure to loss includes the partially-owned affiliate investment balance of \$59 million and \$62 million at September 30, 2016 and 2015, respectively, as well as the subordinated loan from the Company, third party debt agreement and floor guaranty mentioned previously within the "Consolidated VIEs" section above. Current liabilities due to the VIEs are not material and represent normal course of business trade payables for all presented periods.

The Company did not have a significant variable interest in any other nonconsolidated VIEs for the presented reporting periods.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. See Note 10, "Derivative Instruments and Hedging Activities," and Note 11, "Fair Value Measurements," of the notes to consolidated financial statements for fair value of financial instruments, including derivative instruments, hedging activities and long-term debt.

## **Assets and Liabilities Held for Sale**

The Company classifies assets and liabilities (disposal groups) to be sold as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the disposal group; the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell the disposal group have been initiated; the sale of the disposal group is probable, and transfer of the disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the disposal group beyond one year; the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The Company initially measures a disposal group that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a disposal group until the date of sale. The Company assesses the fair value of a disposal group less any costs to sell each reporting period it remains classified as held for sale and reports any subsequent changes as an adjustment to the carrying value of the disposal group, as long as the new carrying value does not exceed the carrying value of the disposal group at the time it was initially classified as held for sale.

Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group, if material, in the line items assets held for sale and liabilities held for sale in the consolidated statements of financial position. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information.

## **Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

## **Cash in Escrow Related to Adient Debt**

At September 30, 2016, the Company held restricted cash of \$2,034 million related to restricted proceeds deposited into escrow from the issuance of \$2,000 million aggregate principal of unsecured, unsubordinated notes by Adient Global Holdings Ltd. ("AGH"), a wholly owned subsidiary of the Company, and are expected to be released upon the completion of the Adient spin-off. At September 30, 2015, there was no cash in escrow for this purpose. Approximately \$1,500 million of the proceeds will be distributed to the Company in connection with the spin-off and approximately \$500 million of the proceeds will be used for Adient's general corporate purposes.

## **Restricted Cash**

At September 30, 2016, the Company held restricted cash of approximately \$88 million, of which \$79 million was recorded within other current assets in the consolidated statements of financial position and \$9 million was recorded within other noncurrent assets in the consolidated statements of financial position. These amounts were primarily related to cash held in escrow from business divestitures and cash restricted for payment of asbestos liabilities. As of September 30, 2015, the Company did not hold a material amount of restricted cash.

## **Receivables**

Receivables consist of amounts billed and currently due from customers and unbilled costs and accrued profits related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for doubtful accounts resulting from the inability or unwillingness of customers to make required payments. The allowance for doubtful accounts is based on historical experience, existing economic conditions and any specific customer collection issues the Company has identified. The Company enters into supply chain financing programs to sell certain accounts receivable without recourse to third-party financial institutions. Sales of accounts receivable are reflected as a reduction of accounts receivable on the consolidated statements of financial position and the proceeds are included in cash flows from operating activities in the consolidated statements of cash flows.

## **Inventories**

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

## **Pre-Production Costs Related to Long-Term Supply Arrangements**

The Company's policy for engineering, research and development, and other design and development costs related to products that will be sold under long-term supply arrangements requires such costs to be expensed as incurred or capitalized if reimbursement from the customer is contractually assured. Income related to recovery of these costs is recorded within selling, general and administrative expense in the consolidated statements of income. At September 30, 2016 and 2015, the Company recorded within the consolidated statements of financial position approximately \$316 million and \$299 million, respectively, of engineering and research and development costs for which customer reimbursement is contractually assured. The reimbursable costs are recorded in other current assets if reimbursement will occur in less than one year and in other noncurrent assets if reimbursement will occur beyond one year.

Costs for molds, dies and other tools used to make products that will be sold under long-term supply arrangements are capitalized within property, plant and equipment if the Company has title to the assets or has the non-cancelable right to use the assets during the term of the supply arrangement. Capitalized items, if specifically designed for a supply arrangement, are amortized over the term of the arrangement; otherwise, amounts are amortized over the estimated useful lives of the assets. The carrying values of assets capitalized in accordance with the foregoing policy are periodically reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At September 30, 2016 and 2015, approximately \$62 million and \$60 million, respectively, of costs for molds, dies and other tools were capitalized within property, plant and equipment which represented assets to which the Company had title. In addition, at September 30, 2016 and 2015, the Company recorded within the consolidated statements of financial position in other current assets approximately \$203 million and \$149 million, respectively, of costs for molds, dies and other tools for which customer reimbursement is contractually assured.

## **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives generally range from 3 to 40 years for buildings and improvements, subscriber systems up to 15 years, and from 3 to 15 years for machinery and equipment. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

## **Goodwill and Indefinite-Lived Intangible Assets**

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments or one level below the reportable segments in certain instances, using a fair value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. In certain instances, the Company uses discounted cash flow analyses or estimated sales price to further support the fair value estimates. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement." The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. Refer to Note 7, "Goodwill and Other Intangible Assets," of the notes to consolidated financial statements for information regarding the goodwill impairment testing performed in the fourth quarters of fiscal years 2016, 2015 and 2014.

Indefinite-lived intangible assets are also subject to at least annual impairment testing. Indefinite-lived intangible assets consist of trademarks and tradenames and are tested for impairment using a relief-from-royalty method. A considerable amount of management judgment and assumptions are required in performing the impairment tests.

## **Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals. Refer to Note 17, "Impairment of Long-Lived Assets," of the notes to consolidated financial statements for information regarding the impairment testing performed in fiscal years 2016, 2015 and 2014.

## **Percentage-of-Completion Contracts**

The Buildings business records certain long-term contracts under the percentage-of-completion (POC) method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts primarily within accounts receivable and billings in excess of costs and earnings on uncompleted contracts primarily within other current liabilities in the consolidated statements of financial position. Costs and earnings in excess of billings related to these contracts were \$841 million and \$453 million at September 30, 2016 and 2015, respectively. Billings in excess of costs and earnings related to these contracts were \$431 million and \$340 million at September 30, 2016 and 2015, respectively.

## **Revenue Recognition**

The Buildings business recognizes revenue from certain long-term contracts over the contractual period under the POC method of accounting. This method of accounting recognizes sales and gross profit as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded primarily in accounts receivable. Likewise, contracts where billings to date have exceeded recognized revenues are recorded primarily in other current liabilities. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed monthly. Sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. The periodic reviews have not resulted in adjustments that were significant to the Company's results of operations. The Company continually evaluates all of the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The Buildings business enters into extended warranties and long-term service and maintenance agreements with certain customers. For these arrangements, revenue is recognized on a straight-line basis over the respective contract term.

The Buildings business also sells certain heating, ventilating and air conditioning (HVAC) and refrigeration products and services in bundled arrangements, where multiple products and/or services are involved. Significant deliverables within these arrangements include equipment, commissioning, service labor and extended warranties. Approximately four to twelve months separate the timing of the first deliverable until the last piece of equipment is delivered, and there may be extended warranty arrangements with duration of one to five years commencing upon the end of the standard warranty period. In addition, the Building's business sells security monitoring systems that may have multiple elements, including equipment, installation, monitoring services and maintenance agreements. Revenues associated with sale of equipment and related installations are recognized once delivery, installation and customer acceptance is completed, while the revenue for monitoring and maintenance services are recognized as services are rendered. In accordance with ASU No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force," the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative selling price method. In order to estimate relative selling price, market data and transfer price studies are utilized. Revenue recognized for security monitoring equipment and installation is limited to the lesser of their allocated amounts under the estimated selling price hierarchy or the non-contingent up-front consideration received at the time of installation, since collection of future amounts under the arrangement with the customer is contingent upon the delivery of monitoring and maintenance services. For transactions in which the Company retains ownership of the subscriber system asset, fees for monitoring and maintenance services are recognized on a straight-line basis over the contract term. Non-refundable fees received in connection with the initiation of a monitoring contract, along with associated direct and incremental selling costs, are deferred and amortized over the estimated life of the customer relationship.

In all other cases, the Company recognizes revenue at the time title passes to the customer or as services are performed.

## **Subscriber System Assets, Dealer Intangibles and Related Deferred Revenue Accounts**

The Tyco portion of the Buildings business considers assets related to the acquisition of new customers in its electronic security business in three asset categories: internally generated residential subscriber systems outside of North America, internally generated commercial subscriber systems (collectively referred to as subscriber system assets) and customer accounts acquired through the ADT dealer program, primarily outside of North America (referred to as dealer intangibles). Subscriber system assets include installed property, plant and equipment for which the Company retains ownership and deferred costs directly related to the customer acquisition and system installation. Subscriber system assets represent capitalized equipment (e.g. security control panels, touchpad, motion detectors, window sensors, and other equipment) and installation costs associated with electronic security monitoring arrangements under which the Company retains ownership of the security system assets in a customer's place of business, or outside of North America, residence. Installation costs represent costs incurred to prepare the asset for its intended use. The Company pays property taxes on the subscriber system assets and upon customer termination, may retrieve such assets. These assets embody a probable future economic benefit as they generate future monitoring revenue for the Company.

Costs related to the subscriber system equipment and installation are categorized as property, plant and equipment rather than deferred costs. Deferred costs associated with subscriber system assets represent direct and incremental selling expenses (such as commissions) related to acquiring the customer. Commissions related to up-front consideration paid by customers in connection with the establishment of the monitoring arrangement are determined based on a percentage of the up-front fees and do not exceed deferred revenue. Such deferred costs are recorded as other current and noncurrent assets within the consolidated statements of financial position.

Subscriber system assets and any deferred revenue resulting from the customer acquisition are accounted for over the expected life of the subscriber. In certain geographical areas where the Company has a large number of customers that behave in a similar manner over time, the Company accounts for subscriber system assets and related deferred revenue using pools, with separate pools for the components of subscriber system assets and any related deferred revenue based on the same month and year of acquisition. The Company depreciates its pooled subscriber system assets and related deferred revenue using a straight-line method with lives up to 15 years and considering customer attrition. The Company uses a straight-line method with a 15-year life for non-pooled subscriber system assets (primarily in Europe, Latin America and Asia) and related deferred revenue, with remaining balances written off upon customer termination.

Certain contracts and related customer relationships result from purchasing residential security monitoring contracts from an external network of independent dealers who operate under the ADT dealer program, primarily outside of North America. Acquired contracts and related customer relationships are recorded at their contractually determined purchase price.

During the first 6 months (12 months in certain circumstances) after the purchase of the customer contract, any cancellation of monitoring service, including those that result from customer payment delinquencies, results in a chargeback by the Company to the dealer for the full amount of the contract purchase price. The Company records the amount charged back to the dealer as a reduction of the previously recorded intangible asset.

Intangible assets arising from the ADT dealer program described above are amortized in pools determined by the same month and year of contract acquisition on a straight-line basis over the period of the customer relationship. The estimated useful life of dealer intangibles ranges from 12 to 15 years.

## **Research and Development Costs**

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statements of income. Such expenditures for the years ended September 30, 2016, 2015 and 2014 were \$618 million, \$733 million and \$792 million, respectively. A portion of the costs associated with these activities is reimbursed by customers and, for the fiscal years ended September 30, 2016, 2015 and 2014 were \$308 million, \$364 million and \$352 million, respectively.

## **Earnings Per Share**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of common shares and common equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock options and unvested restricted stock. See Note 13, "Earnings per Share," of the notes to consolidated financial statements for the calculation of earnings per share.

## **Foreign Currency Translation**

Substantially all of the Company's international operations use the respective local currency as the functional currency. Assets and liabilities of international entities have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period. Monetary assets and liabilities denominated in non-functional currencies are adjusted to reflect period-end exchange rates. The aggregate transaction losses, net of the impact of foreign currency hedges, included in net income for the years ended September 30, 2016, 2015 and 2014 were \$95 million, \$119 million and \$8 million, respectively.

## **Derivative Financial Instruments**

The Company has written policies and procedures that place all financial instruments under the direction of Corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for speculative purposes is strictly prohibited. The Company selectively uses financial instruments to manage the market risk from changes in foreign exchange rates, commodity prices, stock-based compensation liabilities and interest rates.

The fair values of all derivatives are recorded in the consolidated statements of financial position. The change in a derivative's fair value is recorded each period in current earnings or accumulated other comprehensive income (AOCI), depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction. See Note 10, "Derivative Instruments and Hedging Activities," and Note 11, "Fair Value Measurements," of the notes to consolidated financial statements for disclosure of the Company's derivative instruments and hedging activities.

## **Investments**

The Company invests in debt and equity securities which are classified as available for sale and are marked to market at the end of each accounting period. Unrealized gains and losses on these securities, other than the deferred compensation plan assets, are recognized in accumulated other comprehensive loss within the consolidated statement of shareholders' equity unless an unrealized loss is deemed to be other than temporary, in which case such loss is charged to earnings. The deferred compensation plan assets are marked to market at the end of each accounting period and all unrealized gains and losses are recorded in the consolidated statements of income.

## **Pension and Postretirement Benefits**

The Company utilizes a mark-to-market approach for recognizing pension and postretirement benefit expenses, including measuring the market related value of plan assets at fair value and recognizing actuarial gains and losses in the fourth quarter of each fiscal year or at the date of a remeasurement event. Refer to Note 15, "Retirement Plans," of the notes to consolidated financial statements for disclosure of the Company's pension and postretirement benefit plans.

## **Loss Contingencies**

Accruals are recorded for various contingencies including legal proceedings, environmental matters, self-insurance and other claims that arise in the normal course of business. The accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarially determined estimates. Additionally, the Company records receivables from third party insurers when recovery has been determined to be probable.

The Company is subject to laws and regulations relating to protecting the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Refer to Note 23, "Commitments and Contingencies," of the notes to consolidated financial statements.

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. The Company records receivables from third party insurers when recovery has been determined to be probable. The Company maintains captive insurance companies to manage certain of its insurable liabilities.

## **Asbestos-Related Contingencies and Insurance Receivables**

The Company and certain of its subsidiaries along with numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2069 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Company affiliates). Asbestos related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be made through 2069. Annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable. The Company's estimate of asbestos-related insurance recoveries represents estimated amounts due to the Company for previously paid and settled claims and the probable reimbursements relating to its estimated liability for pending and future claims discounted to present value. In determining the amount of insurance recoverable, the Company considers available insurance, allocation methodologies, solvency and creditworthiness of the insurers. Refer to Note 23, "Commitments and Contingencies," of the notes to consolidated financial statements for a discussion on management's judgments applied in the recognition and measurement of asbestos-related assets and liabilities.

## **Income Taxes**

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax liabilities and assets are determined based on the differences between the book and tax bases of particular assets and liabilities and operating loss carryforwards, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset deferred tax assets if, based upon the available evidence, including consideration of tax planning strategies, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Refer to Note 18, "Income Taxes," of the notes to consolidated financial statements.

## **Retrospective Changes**

In the fourth quarter of fiscal 2016, the Company changed its accounting policy for accruing for defense costs related to asbestos claims on a discounted basis. The Company's historical accounting treatment for asbestos claim defense costs was to accrue as incurred. The new policy is to record an accrual for all future asbestos related defense costs which are determined to be probable and estimable of being incurred. The Company believes this new policy is preferable as it better reflects the economics of settlement of the Company's asbestos claims, improves comparability among the Company's peer group and provides greater transparency to on-going operating results. These changes have been reported through retrospective application of the new policy to all periods presented. These changes did not have an impact to any period presented on the consolidated statements of income. The financial statement impact of this change for all periods presented was an increase to other noncurrent liabilities of \$68 million, an increase to other noncurrent assets of \$27 million and a decrease to retained earnings of \$41 million.

In September 2016, as a result of the Tyco merger and further discussed within Note 2, "Merger Transaction," of the notes to consolidated financial statements, each outstanding share of common stock, par value \$1.00 per share, of JCI Inc. common stock (other than shares held by JCI Inc., Tyco and certain of their subsidiaries) was converted into the right to receive either a cash consideration or a share consideration. As a result, the par value of the Company's ordinary shares is \$0.01. This change resulted in a decrease to ordinary shares and corresponding increase in capital in excess of par value in the consolidated statements of financial position and is reported through retrospective application of the new par value for all periods presented.

## New Accounting Pronouncements

### *Recently Adopted Accounting Pronouncements*

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated statements of financial position. During the quarter ended December 31, 2015, the Company early adopted ASU No. 2015-17 and applied the change retrospectively to all periods presented. Historical information was already revised throughout these financial statements to reflect the adoption of ASU No. 2015-17 within the Company's recasted consolidated financial statements and notes to consolidated financial statement for the year ended September 30, 2015 in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on March 3, 2016.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 limits discontinued operations reporting to situations where the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results, and requires expanded disclosures for discontinued operations. ASU No. 2014-08 was effective for the Company for the quarter ended December 31, 2015. The adoption of this guidance did not have any impact on the Company's consolidated financial statements as there were no dispositions or disposals during the quarter ended December 31, 2015.

### *Recently Issued Accounting Pronouncements*

In October 2016, the FASB issued ASU No. 2016-17, "Consolidations (Topic 810): Interests Held through Related Parties that are under Common Control." The ASU changes how a single decision maker of a VIE that holds indirect interest in the entity through related parties that are under common control determines whether it is the primary beneficiary of the VIE. The new guidance amends ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" issued in February 2015. The guidance should be applied coincidentally with the adoption of ASU 2015-02, which is effective for the Company for the quarter ending December 31, 2016. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory". The ASU requires the tax effects of all intra-entity sales of assets other than inventory to be recognized in the period in which the transaction occurs. The guidance will be effective for the Company for the quarter ending December 31, 2018 with early adoption permitted but only in the first interim period of a fiscal year. The changes are required to be applied by means of a cumulative-effect adjustment recorded in retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." ASU No. 2016-15 provides clarification guidance on eight specific cash flow presentation issues in order to reduce the diversity in practice. ASU No. 2016-15 will be effective for the Company for the quarter ending December 31, 2018, with early adoption permitted. The guidance should be applied retrospectively to all periods presented, unless deemed impracticable, in which case prospective application is permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU No. 2016-13 changes the impairment model for financial assets measured at amortized cost, requiring presentation at the net amount expected to be collected. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts. Available-for-sale debt securities with unrealized losses will now be recorded through an allowance for credit losses. ASU No. 2016-13 will be effective for the Company for the quarter ended December 31, 2020, with early adoption permitted for the quarter ended December 31, 2019. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 impacts certain aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. ASU No. 2016-09 will be effective for the Company for the quarter ending December 31, 2017, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." ASU No. 2016-07 eliminates the requirement for an investment that qualifies for the use of the equity method of accounting as a result of an increase in the level of ownership or degree of influence to adjust the investment, results of operations and retained earnings retrospectively. ASU No. 2016-07 will be effective prospectively for the Company for increases in the level of ownership interest or degree of influence that result in the adoption of the equity method that occur during or after the quarter ending December 31, 2017, with early adoption permitted. The impact of this guidance for the Company is dependent on any future increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU No. 2016-02 requires recognition of operating leases as lease assets and liabilities on the balance sheet, and disclosure of key information about leasing arrangements. ASU No. 2016-02 will be effective retrospectively for the Company for the quarter ending December 31, 2019, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 will be effective for the Company for the quarter ending December 31, 2018, and early adoption is not permitted, with certain exceptions. The changes are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." ASU No. 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU No. 2015-11 will be effective prospectively for the Company for the quarter ending December 31, 2017, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Such investments should be disclosed separate from the fair value hierarchy. ASU No. 2015-07 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements but will impact pension asset disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. ASU No. 2015-03 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU No. 2015-02 amends the analysis performed to determine whether a reporting entity should consolidate certain types of legal entities. The ASU No. 2015-02 was amended by ASU No. 2016-17, "Consolidations (Topic 810): Interests Held through Related Parties that are under Common Control," issued in October 2016. ASU No. 2015-02 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 clarifies the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets. The original standard was effective retrospectively for the Company for the quarter ending December 31, 2017; however in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU No. 2014-09 by one-year for all entities. The new standard will become effective retrospectively for the Company for the quarter ending December 31, 2018, with early adoption permitted, but not before the original effective date. Additionally, in March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," in April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," all of which provide additional clarification on certain topics addressed in ASU No. 2014-09. ASU No. 2016-08, ASU No. 2016-10 and ASU

No. 2016-12 follow the same implementation guidelines as ASU No. 2014-09 and ASU No. 2015-14. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

## **2. MERGER TRANSACTION**

As discussed in Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements, JCI Inc. and Tyco completed the Merger on September 2, 2016. The Merger was accounted for as a reverse acquisition using the acquisition method of accounting in accordance with ASC 805, "Business Combinations." Based on the structure of the Merger and other activities contemplated by the Merger Agreement, relative outstanding share ownership, the composition of the Company's board of directors and the designation of certain senior management positions of the Company, JCI Inc. was the accounting acquirer for financial reporting purposes.

Immediately prior to the Merger and in connection therewith, Tyco shareholders received 0.955 ordinary shares of Tyco (which shares are now referred to as shares of the Company, or "Company ordinary shares") for each Tyco ordinary share they held by virtue of a 0.955-for-one share consolidation. In the Merger, each outstanding share of common stock, par value \$1.00 per share, of JCI Inc. ("JCI Inc. common stock") (other than shares held by JCI Inc., Tyco and certain of their subsidiaries) was converted into the right to receive either the cash consideration or the share consideration (each as described below), at the election of the holder, subject to proration procedures described in the Merger Agreement and applicable withholding taxes. The election to receive the cash consideration was undersubscribed. As a result, holders of shares of JCI Inc. common stock that elected to receive the share consideration and holders of shares of JCI Inc. common stock that made no election (or failed to properly make an election) became entitled to receive, for each such share of JCI Inc. common stock, \$5.7293 in cash, without interest, and 0.8357 Company ordinary shares, subject to applicable withholding taxes. Holders of shares of JCI Inc. common stock that elected to receive the cash consideration became entitled to receive, for each such share of JCI Inc. common stock, \$34.88 in cash, without interest, subject to applicable withholding taxes. In the merger, JCI Inc. shareholders received, in the aggregate, approximately \$3.864 billion in cash. Immediately after the closing of, and giving effect to, the Merger, former JCI Inc. shareholders owned approximately 56% of the issued and outstanding Company ordinary shares and former Tyco stockholders owned approximately 44% of the issued and outstanding Company ordinary shares.

Tyco is a leading global provider of security products and services, fire detection and suppression products and services, and life safety products. The acquisition of Tyco brings together best-in-class product, technology and service capabilities across controls, fire, security, HVAC, power solutions and energy storage, to serve various end-markets including large institutions, commercial buildings, retail, industrial, small business and residential. The combination of the Tyco and JCI Inc. buildings platforms is expected to create immediate opportunities for near-term growth through cross-selling, complementary branch and channel networks, and expanded global reach for established businesses. The new Company is also expected to benefit by combining innovation capabilities and pipelines involving new products, advanced solutions for smart buildings and cities, value-added services driven by advanced data and analytics and connectivity between buildings and energy storage through infrastructure integration.

### *Fair Value of Consideration Transferred*

The total fair value of consideration transferred was approximately \$19.7 billion. Total consideration is comprised of the equity value of the Tyco shares that were outstanding as of September 2, 2016 and the portion of Tyco's share awards and share options earned as of September 2, 2016 (\$224 million). Share awards and share options not earned (\$101 million) as of September 2, 2016 will be expensed over the remaining future vesting period, including \$10 million and \$23 million recognized in selling, general and administrative expenses and restructuring and impairment costs, respectively, for the fiscal year ended September 30, 2016 as a result of change-in-control provisions for current and former employees.

The following table summarizes the total fair value of consideration transferred:

(in millions, except for share consolidation ratio and share data)

Number of Tyco shares outstanding at September 2, 2016	427,181,743
Tyco share consolidation ratio	0.955
Tyco ordinary shares outstanding following the share consolidation and immediately prior to the merger	407,958,565
JCI Inc. converted share price (1)	\$ 47.67
Fair value of equity portion of the merger consideration	\$ 19,447
Fair value of Tyco equity awards	224
<b>Total fair value of consideration transferred</b>	<b>\$ 19,671</b>

(1) Amount equals JCI Inc. closing share price and market capitalization at September 2, 2016 (\$45.45 and \$29,012 million, respectively) adjusted for the Tyco \$3,864 million cash contribution used to purchase 110.8 million shares of JCI Inc. common stock for \$34.88 per share.

#### *Fair Value of Assets Acquired and Liabilities Assumed*

The Company accounted for the merger with Tyco as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date.

As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period in fiscal 2017. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment may result in a change in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations and financial position.

The preliminary fair values of the assets acquired and liabilities assumed are as follows (in millions):

Cash and cash equivalents	\$	489
Accounts receivable		1,648
Inventories		829
Other current assets		1,062
Property, plant, and equipment - net		1,224
Goodwill		16,363
Intangible assets - net		6,203
Other noncurrent assets		560
<b>Total assets acquired</b>	<b>\$</b>	<b>28,378</b>
Short-term debt	\$	462
Accounts payable		711
Accrued compensation and benefits		305
Other current liabilities		1,608
Long-term debt		6,416
Long-term deferred tax liabilities		1,173
Long-term pension and postretirement benefits		774
Other noncurrent liabilities		1,088
<b>Total liabilities acquired</b>	<b>\$</b>	<b>12,537</b>
Noncontrolling interests		34
Net assets acquired	\$	15,807
Cash consideration paid to JCI Inc. shareholders		3,864
<b>Total fair value of consideration transferred</b>	<b>\$</b>	<b>19,671</b>

In connection with the merger, the Company recorded goodwill of \$16.4 billion, which is attributable primarily to expected synergies, expanded market opportunities, and other benefits that the Company believes will result from combining its operations with the operations of Tyco. The goodwill created in the merger is not expected to be deductible for tax purposes and is subject to potential significant changes as the purchase price allocation is completed. Goodwill has preliminarily been allocated to the Tyco segment based on how the business was reviewed by the Company's Chief Operating Decision Maker in the fourth quarter of fiscal 2016 as shown in Note 7, "Goodwill and Other Intangible Assets."

The preliminary purchase price allocation to identifiable intangible assets acquired are as follows:

	Preliminary Fair Value (in millions)	Weighted Average Life (in years)
Customer relationships	\$ 2,280	11
Completed technology	1,530	10
Other definite-lived intangibles	223	8
Indefinite-lived trademarks	2,020	
Other indefinite-lived intangibles	90	
In-process research and development	60	
<b>Total identifiable intangible assets</b>	<b>\$ 6,203</b>	

#### *Actual and Pro Forma Impact*

The Company's consolidated financial statements for the fiscal year ended September 30, 2016 include Tyco's results of operations from the acquisition date of September 2, 2016 through September 30, 2016. Net sales, segment earnings before interest and taxes (EBIT), and net income (loss) from continuing operations attributable to Tyco during this period and included in the Company's consolidated financial statements for the fiscal year ended September 30, 2016 total \$808 million, (\$17) million and (\$48) million, respectively. The (\$17) million segment EBIT includes \$74 million of losses for nonrecurring purchasing accounting adjustments including the amortization from the step-up in fair value of inventory acquired and deferred revenue fair value adjustments, \$29

million of acquisition costs and \$21 million of incremental recurring intangible asset amortization, all of which relate to the Tyco acquisition.

The following unaudited pro forma information assumes the acquisition had occurred on October 1, 2014, and had been included in the Company's consolidated statements of income for fiscal years 2016 and 2015.

(in millions)	Year Ended September 30,	
	2016	2015
Pro forma net sales	\$ 46,484	\$ 46,987
Pro forma net income (loss) from continuing operations	(457)	1,473

In order to reflect the occurrence of the acquisition on October 1, 2014 as required, the unaudited pro forma results include adjustments to reflect, among other things, the amortization of the inventory step-up, the incremental intangible asset amortization to be incurred based on the preliminary values of each identifiable intangible asset, the change in timing of defined benefit plans' mark-to-market gain or loss recognition, the change in timing of transaction and restructuring costs, and interest expense from debt financing obtained to fund the cash consideration paid to JCI Inc. shareholders. These pro forma amounts are not necessarily indicative of the results that would have been obtained if the acquisition had occurred as of the beginning of the period presented or that may occur in the future, and does not reflect future synergies, integration costs, or other such costs or savings. Additional information regarding fiscal 2016 pro forma information can be found in the Form 8-K filed by the Company with the SEC on November 8, 2016 under Item 7.01, "Regulation FD Disclosure."

### **3. ACQUISITIONS AND DIVESTITURES**

#### ***Fiscal Year 2016***

On October 1, 2015, the Company formed a joint venture with Hitachi to expand its Building Efficiency product offerings. The Company acquired a 60 percent ownership interest in the new entity for approximately \$133 million (\$563 million purchase price less cash acquired of \$430 million). The purchase price, net of cash acquired, was paid as of September 30, 2016. In connection with the acquisition, the Company recorded goodwill of \$253 million related to purchase price allocations.

Also during fiscal 2016, the Company completed two additional acquisitions for a combined purchase price, net of cash acquired, of \$6 million, \$3 million of which was paid as of September 30, 2016. The acquisitions in aggregate were not material to the Company's consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of \$6 million. One of the acquisitions increased the Company's ownership from a noncontrolling to controlling interest. As a result, the Company recorded a non-cash gain of \$4 million in equity income for the Building Efficiency Rest of World segment to adjust the Company's existing equity investment in the partially-owned affiliate to fair value.

In the fourth quarter of fiscal 2016, the Company completed two divestitures for a combined sales price of \$39 million, exclusive of net cash divested of \$13 million. None of the sales proceeds were received as of September 30, 2016. The divestitures were not material to the Company's consolidated financial statements. In connection with the divestitures, the Company recorded a gain of \$12 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by \$13 million and \$3 million in the Building Efficiency Rest of World segment and Building Efficiency Products North America segment, respectively.

In the third quarter of fiscal 2016, the Company completed a divestiture for a sales price of \$16 million, all of which was received as of September 30, 2016. The divestiture was not material to the Company's consolidated financial statements. In connection with the divestiture, the Company recorded a gain of \$14 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by \$3 million in the Building Efficiency Systems and Service North America segment.

During fiscal 2016, the Company received \$29 million in net cash proceeds related to prior year business divestitures.

## ***Fiscal Year 2015***

During fiscal 2015, the Company completed three acquisitions for a combined purchase price, net of cash acquired, of \$47 million, \$18 million of which was paid as of September 30, 2015. The acquisitions in the aggregate were not material to the Company's consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of \$9 million.

In the fourth quarter of fiscal 2015, the Company completed the sale of its GWS business to CBRE Group, Inc. The selling price, net of cash divested, was \$1.4 billion, all of which was received as of September 30, 2015. In connection with the sale, the Company recorded a \$940 million gain, \$643 million net of tax, within income (loss) from discontinued operations, net of tax, on the consolidated statements of income and reduced goodwill in assets held for sale by \$220 million. At March 31, 2015, the Company determined that the GWS segment met the criteria to be classified as a discontinued operation. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further disclosure related to the Company's discontinued operations.

In the fourth quarter of fiscal 2015, the Company completed its global automotive interiors joint venture with Yanfeng Automotive Trim Systems. In connection with the divestiture of the Interiors business, the Company recorded a \$145 million gain, \$38 million net of tax. The pre-tax gain is recorded within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill in assets held for sale by \$21 million.

Also during fiscal 2015, the Company completed four additional divestitures for a combined sales price of \$119 million, \$86 million of which was received as of September 30, 2015. The divestitures were not material to the Company's consolidated financial statements. In connection with the divestitures, the Company recorded a gain of \$38 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by \$14 million in the Building Efficiency Products North America segment, recorded a gain of \$10 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by \$4 million in the Automotive Experience Seating segment and recorded a gain of \$7 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by \$2 million in the Building Efficiency Systems and Service North America segment.

In the first nine months of fiscal 2015, the Company adjusted the purchase price allocation of the fiscal 2014 acquisition of Air Distribution Technologies Inc. (ADTi). The adjustment was made as a result of a true-up to the purchase price in the amount of \$4 million, all of which was paid as of September 30, 2015. Also, in connection with this acquisition, the Company recorded additional goodwill of \$34 million in fiscal 2015 related to the final purchase price allocations.

In the second quarter of fiscal 2015, the Company completed the sale of its interests in two GWS joint ventures to Brookfield Asset Management, Inc. The selling price, net of cash divested, was \$141 million, all of which was received as of September 30, 2015. In connection with the sale, the Company recorded a \$200 million gain, \$127 million net of tax, within income (loss) from discontinued operations, net of tax, on the consolidated statements of income and reduced goodwill in assets held for sale by \$20 million.

## ***Fiscal Year 2014***

In the third quarter of fiscal 2014, the Company completed its purchase of ADTi for approximately \$1.6 billion, net of cash acquired, all of which was paid as of June 30, 2014. ADTi is one of the largest independent providers of air distribution and ventilation products in North America. In the third quarter of fiscal 2014, the Company completed a public offering of \$1.7 billion aggregate principal amount of fixed rate senior notes to finance the purchase of ADTi. In fiscal 2014, the Company recorded goodwill of \$837 million in the Building Efficiency Products North America segment as a result of the ADTi acquisition. The Company also recorded approximately \$477 million of intangible assets that are subject to amortization, of which approximately \$475 million was assigned to customer relationships with useful lives between 18 and 20 years. In addition, the Company recorded approximately \$230 million of trade names that are not subject to amortization.

Also during fiscal 2014, the Company completed four additional acquisitions for a combined purchase price, net of cash acquired, of \$144 million, all of which was paid as of September 30, 2014. The acquisitions in the aggregate were not material to the Company's consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of \$140 million. Three of the acquisitions increased the Company's ownership from a noncontrolling to controlling interest. As a result, the Company recorded a combined non-cash gain of \$38 million in equity income to adjust the Company's existing equity investments in the partially-owned affiliates to fair value. The \$38 million gain includes \$19 million for the Power Solutions business and \$19 million for the Building Efficiency Asia business.

In the third quarter of fiscal 2014, the Company completed the divestiture of the Automotive Experience Interiors headliner and sun visor product lines. As part of this divestiture, the Company made a cash payment of \$54 million to the buyer to fund future operational improvement initiatives. The Company recorded a pre-tax loss on divestiture, including transaction costs, of \$95 million within selling, general and administrative expenses on the consolidated statements of income. The tax impact of the divestiture was income tax expense of \$38 million due to the jurisdictional mix of gains and losses on the sale, which resulted in non-benefited losses in certain countries and taxable gains in other countries. There was no change in goodwill as a result of this transaction.

In the third quarter of fiscal 2014, the Company recorded a \$25 million charge within income (loss) from discontinued operations, net of tax, on the consolidated statements of income related to the indemnification of certain costs associated with a divested GWS business in 2004.

In the second quarter of fiscal 2014, the Company announced that it had reached an agreement to sell the remainder of its Automotive Experience Electronics business to Visteon Corporation, subject to regulatory and other approvals. The sale closed on July 1, 2014. The cash proceeds from the sale were \$266 million, all of which was received as of September 30, 2014. At March 31, 2014, the Company determined that the Automotive Experience Electronics segment met the criteria to be classified as a discontinued operation. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further disclosure related to the Company's discontinued operations.

In the first quarter of fiscal 2014, the Company completed one additional divestiture for a sales price of \$13 million, all of which was received as of September 30, 2014. The divestiture was not material to the Company's consolidated financial statements. In connection with the divestiture, the Company recorded a gain, net of transaction costs, of \$9 million in the Automotive Experience Interiors segment within selling, general and administrative expenses on the consolidated statements of income. There was no change in goodwill as a result of this transaction.

During fiscal 2014, the Company adjusted the purchase price allocation of certain fiscal 2013 acquisitions and recorded additional goodwill of \$2 million.

#### 4. DISCONTINUED OPERATIONS

On March 31, 2015, the Company announced that it had reached a definitive agreement to sell the remainder of the GWS business to CBRE Group Inc. (CBRE), subject to regulatory and other approvals. The sale closed on September 1, 2015. The agreement includes a 10-year strategic relationship between the Company and CBRE. The Company is the preferred provider of HVAC equipment, building automation systems and related services to the portfolio of real estate and corporate facilities managed globally by CBRE and GWS. The Company also engages GWS for facility management services. The annual cash flows resulting from these activities with the legacy GWS business are not currently significant nor are they expected to become significant in the future.

At March 31, 2015, the Company determined that its GWS segment met the criteria to be classified as a discontinued operation. The Company did not allocate any general corporate overhead to discontinued operations.

There were no amounts related to the GWS business classified as discontinued operations for the fiscal year ended September 30, 2016. The following table summarizes the results of GWS, reclassified as discontinued operations for the fiscal years ended September 30, 2015 and 2014 (in millions):

	Year Ended September 30,	
	2015	2014
Net sales	\$ 3,025	\$ 4,079
Income from discontinued operations before income taxes	1,203	119
Provision for income taxes on discontinued operations	1,075	75
Income from discontinued operations attributable to noncontrolling interests, net of tax	4	15
Income from discontinued operations	\$ 124	\$ 29

For the fiscal year ended September 30, 2015, the income from discontinued operations before income taxes included a \$940 million gain on divestiture for the remainder of the GWS business, a \$200 million gain on divestiture of the Company's interest

in two GWS joint ventures and current year transaction costs of \$87 million. For the fiscal year ended September 30, 2014, the income from discontinued operations before income taxes included a \$25 million charge related to the indemnification of certain costs associated with a divested GWS business in 2004.

The effective tax rate is different than the U.S. statutory rate for fiscal 2015 primarily due to \$680 million tax expense for repatriation of cash and other tax reserves, and the tax consequences of the sale of the GWS joint ventures (\$73 million) and the remaining business (\$297 million).

The effective tax rate is different than the U.S. statutory rate for fiscal 2014 primarily due to a tax charge of \$35 million related to the change in the Company's assertion over reinvestment of foreign undistributed earnings as well as a non-benefited loss related to the indemnification of certain costs associated with a divested business in 2004, partially offset by foreign tax rate differentials.

In the second quarter of fiscal 2014, the Company announced that it had reached a definitive agreement to sell the remainder of the Automotive Experience Electronics business to Visteon Corporation, subject to regulatory and other approvals. The sale closed on July 1, 2014. At March 31, 2014, the Company determined that the Automotive Experience Electronics segment met the criteria to be classified as a discontinued operation, which required retrospective application to financial information for all periods presented. The Company did not allocate any general corporate overhead to discontinued operations.

There were no amounts related to the Automotive Experience Electronics business classified as discontinued operations for the fiscal years ended September 30, 2016 and 2015. The following table summarizes the results of the Automotive Experience Electronics business, classified as discontinued operations for the fiscal years ended September 30, 2014 (in millions):

	Year Ended September 30,	
	2014	
Net sales	\$	1,027
Loss from discontinued operations before income taxes		(8)
Provision for income taxes on discontinued operations		202
Income from discontinued operations attributable to noncontrolling interests, net of tax		8
Loss from discontinued operations	\$	<u>(218)</u>

For the year ended September 30, 2014, the discontinued operations before income taxes included divestiture-related losses of \$80 million comprised of asset and investment impairment charges of \$43 million, transaction costs of \$27 million and severance obligations of \$10 million.

For the year ended September 30, 2014, the Company's effective tax rate for discontinued operations was different than the U.S. federal statutory rate primarily due to a second quarter discrete non-cash tax charge of \$180 million related to the repatriation of foreign cash associated with the divestiture of the Electronics business and unbenefted foreign losses.

#### ***Assets and Liabilities Held for Sale***

At September 30, 2016, \$157 million of assets and \$28 million of liabilities related to the security business in South Africa of the Buildings Tyco segment were classified as held for sale. There is also \$17 million of certain Corporate assets that were classified as held for sale.

The following table summarizes the carrying value of the Tyco assets and liabilities held for sale at September 30, 2016 (in millions):

Accounts receivable - net	\$	9
Inventories		7
Other current assets		3
Property, plant and equipment - net		15
Goodwill		89
Other intangible assets - net		30
Other noncurrent assets		4
Assets held for sale	\$	<u>157</u>
Accounts payable	\$	9
Other current liabilities		19
Liabilities held for sale	\$	<u>28</u>

At September 30, 2015, \$55 million of assets and \$42 million of liabilities related to certain product lines of the Automotive Experience Interiors segment were classified as held for sale. At September 30, 2016, these product lines no longer met the criteria to be classified as held for sale.

## 5. INVENTORIES

Inventories consisted of the following (in millions):

	September 30,	
	2016	2015
Raw materials and supplies	\$ 1,365	\$ 1,084
Work-in-process	538	369
Finished goods	1,657	924
Inventories	<u>\$ 3,560</u>	<u>\$ 2,377</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in millions):

	September 30,	
	2016	2015
Buildings and improvements	\$ 3,435	\$ 3,091
Subscriber systems	448	—
Machinery and equipment	9,626	8,566
Construction in progress	1,441	1,006
Land	526	338
Total property, plant and equipment	<u>15,476</u>	<u>13,001</u>
Less: accumulated depreciation	(7,604)	(7,131)
Property, plant and equipment - net	<u>\$ 7,872</u>	<u>\$ 5,870</u>

Interest costs capitalized during the fiscal years ended September 30, 2016, 2015 and 2014 were \$19 million, \$25 million and \$28 million, respectively. Accumulated depreciation related to capital leases at September 30, 2016 and 2015 was \$40 million and \$54 million, respectively.

At September 30, 2016, the Company is the lessor of properties included in land of \$21 million, gross building and improvements of \$187 million and accumulated depreciation of \$126 million. At September 30, 2015, the Company is the lessor of properties included in land of \$13 million, gross building and improvements of \$177 million and accumulated depreciation of \$131 million.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill in each of the Company's reportable segments for the fiscal years ended September 30, 2016 and 2015 were as follows (in millions):

	September 30, 2014	Business Acquisitions	Business Divestitures	Currency Translation and Other	September 30, 2015
<b>Building Efficiency</b>					
Systems and Service North America	\$ 982	\$ —	\$ (2)	\$ (2)	\$ 978
Products North America	1,688	34	(14)	(7)	1,701
Asia	414	—	—	(25)	389
Rest of World	345	—	—	(35)	310
<b>Automotive Experience</b>					
Seating	2,556	—	(4)	(188)	2,364
Interiors	—	9	(9)	—	—
Power Solutions	1,142	—	—	(60)	1,082
<b>Total</b>	<b>\$ 7,127</b>	<b>\$ 43</b>	<b>\$ (29)</b>	<b>\$ (317)</b>	<b>\$ 6,824</b>

	September 30, 2015	Business Acquisitions	Business Divestitures	Currency Translation and Other	September 30, 2016
<b>Buildings</b>					
<b>Building Efficiency</b>					
Systems and Service North America	\$ 978	\$ —	\$ (3)	\$ —	\$ 975
Products North America	1,701	—	(3)	(1)	1,697
Asia	389	253	—	15	657
Rest of World	310	5	(13)	(1)	301
Tyco	—	16,364	—	(56)	16,308
<b>Automotive Experience</b>					
Seating	2,364	—	—	21	2,385
Power Solutions	1,082	—	—	4	1,086
<b>Total</b>	<b>\$ 6,824</b>	<b>\$ 16,622</b>	<b>\$ (19)</b>	<b>\$ (18)</b>	<b>\$ 23,409</b>

In connection with the Tyco merger, the Company recorded goodwill of \$16,363 million based on the preliminary purchase price allocation. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for additional information.

At September 30, 2014, accumulated goodwill impairment charges included \$430 million and \$47 million related to the Automotive Experience Interiors and Building Efficiency Rest of World - Latin America reporting units, respectively. There were no goodwill impairments resulting from fiscal 2016 and 2015 annual impairment tests. Except for recent acquisitions which are recorded at fair value, no reporting unit was determined to be at risk of failing step one of the goodwill impairment test.

At October 1, 2015, the Company assessed goodwill for impairment in the Building Efficiency business due to the change in reportable segments as described in Note 19, "Segment Information," of the notes to consolidated financial statements. As a result, the Company performed impairment testing for goodwill under the new segments and determined that the estimated fair value of each reporting unit substantially exceeded its corresponding carrying amount including recorded goodwill, and as such, no

impairment existed at October 1, 2015. No reporting unit was determined to be at risk of failing step one of the goodwill impairment test.

During fiscal 2014, as a result of operating results, restructuring actions and expected future profitability, the Company's forecasted cash flow estimates used in the goodwill assessment were negatively impacted as of September 30, 2014 for the Building Efficiency Rest of World - Latin America reporting unit. As a result, the Company concluded that the carrying value of the Building Efficiency Rest of World - Latin America reporting unit exceeded its fair value as of September 30, 2014. The Company recorded a goodwill impairment charge of \$47 million in the fourth quarter of fiscal 2014, which was determined by comparing the carrying value of the reporting unit's goodwill with the implied fair value of goodwill for the reporting unit. The Building Efficiency Rest of World - Latin America reporting unit has no remaining goodwill at September 30, 2016 and 2015.

The assumptions included in the impairment tests require judgment, and changes to these inputs could impact the results of the calculations. Other than management's projections of future cash flows, the primary assumptions used in the impairment tests were the weighted-average cost of capital and long-term growth rates. Although the Company's cash flow forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates management is using to operate the underlying businesses, there are significant judgments in determining the expected future cash flows attributable to a reporting unit. The impairment charges are non-cash expenses recorded within restructuring and impairment costs on the consolidated statements of income and did not adversely affect the Company's debt position, cash flow, liquidity or compliance with financial covenants.

The Company's other intangible assets, primarily from business acquisitions valued based on independent appraisals, consisted of (in millions):

	September 30, 2016			September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Technology	\$ 1,556	\$ (37)	\$ 1,519	\$ 80	\$ (59)	\$ 21
Customer relationships	3,268	(274)	2,994	975	(206)	769
Miscellaneous	590	(155)	435	307	(123)	184
Total amortized intangible assets	5,414	(466)	4,948	1,362	(388)	974
Unamortized intangible assets						
Trademarks/trade names	2,555	—	2,555	542	—	542
Miscellaneous	150	—	150	—	—	—
	2,705	—	2,705	542	—	542
Total intangible assets	\$ 8,119	\$ (466)	\$ 7,653	\$ 1,904	\$ (388)	\$ 1,516

Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for additional information of intangibles recorded as a result of the Tyco merger.

Amortization of intangible assets for the fiscal years ended September 30, 2016, 2015 and 2014 was \$133 million, \$92 million and \$86 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization for fiscal 2017, 2018, 2019, 2020 and 2021 will be approximately \$465 million, \$440 million, \$424 million, \$414 million and \$405 million, respectively. Excluding the amortization expense of Automotive Experience and the nonrecurring impact of select Tyco intangible assets, the Company expects its fiscal 2017 amortization expense to be \$430 million. There were no indefinite lived intangible asset impairments resulting from fiscal 2016, 2015 and 2014 annual impairment tests.

## 8. LEASES

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were \$44 million and \$46 million at September 30, 2016 and 2015, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense for the fiscal years ended September 30, 2016, 2015 and 2014 was \$402 million, \$413 million and \$459 million, respectively.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2016 were as follows (in millions):

	Capital Leases	Operating Leases
2017	\$ 5	406
2018	4	310
2019	3	227
2020	3	156
2021	3	98
After 2021	12	155
Total minimum lease payments	<u>30</u>	<u>\$ 1,352</u>
Interest	(6)	
Present value of net minimum lease payments	<u><u>\$ 24</u></u>	

## 9. DEBT AND FINANCING ARRANGEMENTS

Short-term debt consisted of the following (in millions):

	September 30,	
	2016	2015
Bank borrowings and commercial paper	\$ 1,119	\$ 52
Weighted average interest rate on short-term debt outstanding	1.3%	7.2%

In connection with the Tyco merger, JCI Inc. replaced its \$2.5 billion committed five-year credit facility scheduled to mature in August 2018 with a \$2.0 billion committed four-year credit facility scheduled to mature in August 2020. Additionally, Tyco International Holding S.a.r.L. ("TSarl"), a wholly-owned subsidiary of Johnson Controls, entered into a \$1.0 billion committed four-year credit facility scheduled to mature in August 2020. The facilities are used to support the Company's outstanding commercial paper. There were no draws on either committed credit facilities during the fiscal years ended September 30, 2016 and 2015. Average outstanding commercial paper for the fiscal year ended September 30, 2016 was \$1,418 million, and there was \$440 million outstanding as of September 30, 2016. Average outstanding commercial paper for the fiscal year ended September 30, 2015 was \$1,537 million and there was none outstanding at September 30, 2015.

In February 2016, the Company entered into a nine-month, \$100 million floating rate term loan scheduled to mature in November 2016. Proceeds from the term loan were used for general corporate purposes.

In February 2016, the Company terminated a 37 million euro committed revolving credit facility scheduled to mature in September 2016, and subsequently entered into a nine-month, 100 million euro, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.

In January 2016, the Company entered into a ten-month, \$200 million, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.

In January 2016, the Company entered into a ten-month, \$125 million, floating rate term loan scheduled to mature in October 2016. Proceeds from the term loan were used for general corporate purposes.

Long-term debt consisted of the following (in millions; due dates by fiscal year):

	September 30,	
	2016	2015
Unsecured notes		
JCI Inc. - 5.5% due in 2016 (\$800 million par value)	—	800
JCI Inc. - 7.125% due in 2017 (\$150 million par value)	149	153
JCI Inc. - 2.6% due in 2017 (\$400 million par value)	404	404
JCI Inc. - 2.355% due in 2017 (\$46 million par value)	46	46
JCI Inc. - 1.4% due in 2018 (\$300 million par value)	301	303
JCI Inc. - 5.0% due in 2020 (\$500 million par value)	499	499
JCI Inc. - 4.25% due 2021 (\$500 million par value)	498	498
JCI Inc. - 3.75% due in 2022 (\$450 million par value)	448	448
JCI Inc. - 3.625% due in 2024 (\$500 million par value)	500	500
JCI Inc. - 6.0% due in 2036 (\$400 million par value)	396	395
JCI Inc. - 5.7% due in 2041 (\$300 million par value)	299	299
JCI Inc. - 5.25% due in 2042 (\$250 million par value)	250	250
JCI Inc. - 4.625% due in 2044 (\$450 million par value)	447	447
JCI Inc. - 6.95% due in 2046 (\$125 million par value)	125	125
JCI Inc. - 4.95% due in 2064 (\$450 million par value)	449	449
Tyco International Finance S.A. ("TIFSA") - 3.75% due in 2018 (\$67 million par value)	69	—
TIFSA - 4.625% due in 2023 (\$42 million par value)	46	—
TIFSA - 1.375% due in 2025 (EUR 500 million par value)	571	—
TIFSA - 3.90% due in 2026 (\$750 million par value)	824	—
TIFSA - 5.125% due in 2045 (\$750 million par value)	903	—
Adient - 3.5% due in 2024 (EUR 1,000 million par value)	1,119	—
Adient - 4.875% due in 2026 (\$900 million par value)	900	—
TSarl - Term Loan A - LIBOR plus 1.50% due in 2020	4,000	—
Adient - Term Loan A - LIBOR plus 1.005% due in 2021	1,500	—
Capital lease obligations	24	48
Other foreign-denominated debt		
Euro	61	529
Japanese Yen	367	308
Other	39	57
Gross long-term debt	<u>15,234</u>	<u>6,558</u>
Less: current portion	<u>628</u>	<u>813</u>
Net long-term debt	<u><u>\$ 14,606</u></u>	<u><u>\$ 5,745</u></u>

At September 30, 2016, the Company's other foreign-denominated long-term debt was at fixed and floating rates with a weighted-average interest rate of 1.3%. At September 30, 2015, the Company's other foreign-denominated long-term debt was at fixed and floating rates with a weighted-average interest rate of 1.1%.

The installments of long-term debt maturing in subsequent fiscal years are: 2017 - \$628 million; 2018 - \$379 million; 2019 - \$0 million; 2020 - \$4,906 million; 2021 - \$1,999 million; 2022 and thereafter - \$7,322 million. The Company's long-term debt includes various financial covenants, none of which are expected to restrict future operations.

Total interest paid on both short and long-term debt for the fiscal years ended September 30, 2016, 2015 and 2014 was \$319 million, \$373 million and \$314 million, respectively. The Company uses financial instruments to manage its interest rate exposure (see Note 10, "Derivative Instruments and Hedging Activities," and Note 11, "Fair Value Measurements," of the notes to consolidated financial statements). These instruments affect the weighted average interest rate of the Company's debt and interest expense.

## **Financing Arrangements**

### *Financing in connection with Tyco Merger*

Simultaneously with the closing of the Tyco merger on September 2, 2016, TSarl borrowed \$4,000 million under the Term Loan Credit Agreement dated as of March 10, 2016 with a syndicate of lenders, providing for a three and a half year senior unsecured term loan facility to finance the cash consideration for, and fees, expenses and costs incurred in connection with the Merger.

### *Financing in connection with Adient spin-off*

In August 2016, Adient Global Holdings, Ltd. (AGH), a wholly-owned subsidiary of the Company, issued a one billion euro, 3.5% fixed rate, 8-year senior unsecured note scheduled to mature in August 2024. AGH also issued a \$900 million, 4.875%, 10-year senior unsecured note scheduled to mature in August 2026. The proceeds from the notes were deposited into escrow and are expected to be released in connection with the spin-off. The notes have not been, and are not expected to be, guaranteed by the Company or any of its subsidiaries that will not be subsidiaries of Adient following the spin-off. Approximately \$1,500 million of the proceeds will be distributed to the Company in connection with the spin-off and approximately \$500 million of the proceeds will be used for Adient's general corporate purposes.

In July 2016, AGH entered into a 5-year, \$1,500 million Term A loan facility and a 5-year, \$1,500 million revolving credit facility scheduled to mature in July 2021. The term loan was fully drawn in August 2016. As of September 30, 2016, there were no draws on the facility. Upon completion of the spin-off of Adient, AGH will become a wholly-owned subsidiary of Adient. On the date of the spin-off, Adient and certain of its wholly-owned subsidiaries will guarantee the debt, and the guarantees of the Company will automatically be released. The Company used the proceeds of the term loan to early repay its four tranches of euro-denominated floating rate credit facilities, totaling 390 million euro, that were outstanding as of September 30, 2015; three term loans of \$500 million, \$200 million and \$125 million that were entered into during fiscal 2016, plus accrued interest, and a \$90 million outstanding credit facility. The remainder of the proceeds were used for general corporate purposes.

### *Other financing arrangements*

At September 30, 2016, the Company had committed bilateral U.S. dollar denominated revolving credit facilities totaling \$135 million, which are scheduled to expire in fiscal 2017. There were no draws on any of these revolving facilities in fiscal 2016.

In January 2016, the Company retired \$800 million in principal amount, plus accrued interest, of its 5.5% fixed rate notes that matured in January 2016.

In September 2015, the Company retired, at maturity, \$500 million, \$150 million and \$100 million floating rate term loans plus accrued interest that were entered into during fiscal 2015.

In June 2015, the Company entered into a five-year, 37 billion yen floating rate syndicated term loan scheduled to mature in June 2020. Proceeds from the syndicated term loan were used for general corporate purposes.

In May 2015, the Company made a partial repayment of 32 million euro in principal amount, plus accrued interest, of its 70 million euro floating rate credit facility scheduled to mature in November 2017. The remaining outstanding portion as of September 30, 2015 was repaid during fiscal 2016.

In March 2015, the Company retired \$125 million in principal amount, plus accrued interest, of its 7.7% fixed rate notes that matured in March 2015.

In January 2015, the Company entered into a one-year, \$90 million, committed revolving credit facility scheduled to mature in January 2016. The Company drew on the full credit facility during the quarter ended March 31, 2015. Proceeds from the revolving credit facility were used for general corporate purposes. The \$90 million was repaid in September 2015.

## Net Financing Charges

The Company's net financing charges line item in the consolidated statements of income for the years ended September 30, 2016, 2015 and 2014 contained the following components (in millions):

	Year Ended September 30,		
	2016	2015	2014
Interest expense, net of capitalized interest costs	\$ 309	\$ 288	\$ 254
Banking fees and bond cost amortization	34	23	18
Interest income	(14)	(9)	(10)
Net foreign exchange results for financing activities	(15)	(14)	(18)
Net financing charges	<u>\$ 314</u>	<u>\$ 288</u>	<u>\$ 244</u>

## 10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, stock-based compensation liabilities and interest rates. Under Company policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. A description of each type of derivative utilized by the Company to manage risk is included in the following paragraphs. In addition, refer to Note 11, "Fair Value Measurements," of the notes to consolidated financial statements for information related to the fair value measurements and valuation methods utilized by the Company for each derivative type.

### *Cash Flow Hedges*

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company selectively hedges anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. As cash flow hedges under ASC 815, "Derivatives and Hedging," the effective portion of the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. Any ineffective portion of the hedge is reflected in the consolidated statements of income. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates at September 30, 2016 and 2015.

The Company selectively hedges anticipated transactions that are subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of lead, copper, tin and aluminum in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks are systematically managed pursuant to policy guidelines. As cash flow hedges, the effective portion of the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions, typically sales, occur and affect earnings. Any ineffective portion of the hedge is reflected in the consolidated statements of income. The maturities of the commodity hedge contracts coincide with the expected purchase of the commodities. These contracts were highly effective in hedging the variability in future cash flows attributable to changes in commodity prices at September 30, 2016 and 2015.

The Company had the following outstanding contracts to hedge forecasted commodity purchases:

Commodity	Units	Volume Outstanding as of	
		September 30, 2016	September 30, 2015
Copper	Pounds	5,849,000	14,648,000
Lead	Metric Tons	5,185	6,785
Aluminum	Metric Tons	2,620	5,700
Tin	Metric Tons	185	2,080

In September 2005, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York International Corp. (cash flow hedge). The three forward treasury lock agreements, which had a combined notional amount of

\$1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year notes. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, is amortized to interest expense over the life of the respective note issuance. In January 2006, in connection with the Company's debt refinancing, the three forward treasury lock agreements were terminated.

#### *Fair Value Hedges*

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate bonds. Changes in the fair value of the swap and hedged portion of the debt are recorded in the consolidated statements of income. In the fourth quarter of fiscal 2013, the Company entered into four fixed to floating interest rate swaps totaling \$800 million to hedge the coupon of its 5.5% notes that matured in January 2016. In the third quarter of fiscal 2014, the Company entered into four fixed to floating interest rate swaps totaling \$400 million to hedge the coupon of its 2.6% notes maturing December 2016, three fixed to floating interest rate swaps totaling \$300 million to hedge the coupon of its 1.4% notes maturing November 2017 and one fixed to floating interest rate swap totaling \$150 million to hedge the coupon of its 7.125% notes maturing July 2017. There were eight and twelve interest rate swaps outstanding as of September 30, 2016 and 2015, respectively.

#### *Net Investment Hedges*

The Company enters into cross-currency interest rate swaps and foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of the cross-currency interest rate swaps and debt obligations are reflected in the AOCI account within shareholders' equity attributable to Johnson Controls ordinary shareholders where they offset gains and losses recorded on the Company's net investments globally. At September 30, 2016, the Company had 37 billion yen of foreign denominated debt designated as net investment hedge in the Company's net investment in Japan and a one billion euro and 500 million euro bonds designated as net investment hedges in the Company's net investment in Europe. The Company had no cross-currency interest rate swaps outstanding at September 30, 2016. At September 30, 2015, the Company had four cross-currency interest rate swaps outstanding totaling 20 billion yen. The Company did not have any foreign denominated debt outstanding designated as a net investment hedge at September 30, 2015.

#### *Derivatives Not Designated as Hedging Instruments*

The Company selectively uses equity swaps to reduce market risk associated with certain of its stock-based compensation plans, such as its deferred compensation plans. These equity compensation liabilities increase as the Company's stock price increases and decrease as the Company's stock price decreases. In contrast, the value of the swap agreement moves in the opposite direction of these liabilities, allowing the Company to fix a portion of the liabilities at a stated amount. As of September 30, 2016 the Company had no equity swaps outstanding as a result of the Tyco Merger and proposed spin-off. As of September 30, 2015, the Company had hedged approximately 4.0 million shares of its common stock.

The Company also holds certain foreign currency forward contracts which do not qualify for hedge accounting treatment. The change in fair value of foreign currency exchange derivatives not designated as hedging instruments under ASC 815 are recorded in the consolidated statements of income.

## Fair Value of Derivative Instruments

The following table presents the location and fair values of derivative instruments and hedging activities included in the Company's consolidated statements of financial position (in millions):

	Derivatives and Hedging Activities Designated as Hedging Instruments under ASC 815		Derivatives and Hedging Activities Not Designated as Hedging Instruments under ASC 815	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Other current assets				
Foreign currency exchange derivatives	\$ 41	\$ 31	\$ 49	\$ 27
Commodity derivatives	4	—	—	—
Interest rate swaps	—	1	—	—
Cross-currency interest rate swaps	—	5	—	—
Other noncurrent assets				
Interest rate swaps	1	5	—	—
Equity swap	—	—	—	164
Total assets	<u>\$ 46</u>	<u>\$ 42</u>	<u>\$ 49</u>	<u>\$ 191</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 48	\$ 37	\$ 23	\$ 26
Commodity derivatives	—	7	—	—
Cross-currency interest rate swaps	—	1	—	—
Current portion of long-term debt				
Fixed rate debt swapped to floating	551	801	—	—
Long-term debt				
Foreign currency denominated debt	2,057	—	—	—
Fixed rate debt swapped to floating	301	855	—	—
Total liabilities	<u>\$ 2,957</u>	<u>\$ 1,701</u>	<u>\$ 23</u>	<u>\$ 26</u>

## Counterparty Credit Risk

The use of derivative financial instruments exposes the Company to counterparty credit risk. The Company has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, the Company deals with major banks worldwide having strong investment grade long-term credit ratings. To further reduce the risk of loss, the Company generally enters into International Swaps and Derivatives Association (ISDA) master netting agreements with substantially all of its counterparties. The Company's derivative contracts do not contain any credit risk related contingent features and do not require collateral or other security to be furnished by the Company or the counterparties. The Company's exposure to credit risk associated with its derivative instruments is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. The Company does not anticipate any non-performance by any of its counterparties, and the concentration of risk with financial institutions does not present significant credit risk to the Company.

The Company enters into ISDA master netting agreements with counterparties that permit the net settlement of amounts owed under the derivative contracts. The master netting agreements generally provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event. The Company has not elected to offset the fair value positions of the derivative contracts recorded in the consolidated statements of financial position. Collateral is generally not required of the Company or the counterparties under the master netting agreements. As of September 30, 2016 and September 30, 2015, no cash collateral was received or pledged under the master netting agreements.

The gross and net amounts of derivative assets and liabilities were as follows (in millions):

	Fair Value of Assets		Fair Value of Liabilities	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gross amount recognized	\$ 95	\$ 233	\$ 2,980	\$ 1,727
Gross amount eligible for offsetting	(21)	(8)	(21)	(8)
Net amount	<u><u>\$ 74</u></u>	<u><u>\$ 225</u></u>	<u><u>\$ 2,959</u></u>	<u><u>\$ 1,719</u></u>

*Derivatives Impact on the Statements of Income and Statements of Comprehensive Income*

The following table presents the effective portion of pre-tax gains (losses) recorded in other comprehensive income (loss) related to cash flow hedges for the fiscal years ended September 30, 2016, 2015 and 2014 (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Year Ended September 30,		
	2016	2015	2014
Foreign currency exchange derivatives	\$ (18)	\$ (5)	\$ 1
Commodity derivatives	3	(19)	(7)
Total	<u><u>\$ (15)</u></u>	<u><u>\$ (24)</u></u>	<u><u>\$ (6)</u></u>

The following table presents the location and amount of the effective portion of pre-tax gains (losses) on cash flow hedges reclassified from AOCI into the Company's consolidated statements of income for the fiscal years ended September 30, 2016, 2015 and 2014 (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,		
		2016	2015	2014
Foreign currency exchange derivatives	Cost of sales	\$ (21)	\$ 1	\$ (2)
Commodity derivatives	Cost of sales	(12)	(11)	1
Forward treasury locks	Net financing charges	1	1	1
Total		<u><u>\$ (32)</u></u>	<u><u>\$ (9)</u></u>	<u><u>\$ —</u></u>

The following table presents the location and amount of pre-tax gains (losses) on fair value hedges recognized in the Company's consolidated statements of income for the fiscal years ended September 30, 2016, 2015 and 2014 (in millions):

Derivatives in ASC 815 Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,		
		2016	2015	2014
Interest rate swap	Net financing charges	\$ (5)	\$ 7	\$ 5
Fixed rate debt swapped to floating	Net financing charges	5	(7)	(5)
Total		<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

The following table presents the location and amount of pre-tax gains (losses) on derivatives not designated as hedging instruments recognized in the Company's consolidated statements of income for the fiscal years ended September 30, 2016, 2015 and 2014 (in millions):

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,		
		2016	2015	2014
Foreign currency exchange derivatives	Cost of sales	\$ (18)	\$ (3)	\$ 1
Foreign currency exchange derivatives	Net financing charges	(11)	(12)	18
Foreign currency exchange derivatives	Income tax provision	4	—	—
Equity swap	Selling, general and administrative	14	(9)	(1)
Total		<u><u>\$ (11)</u></u>	<u><u>\$ (24)</u></u>	<u><u>\$ 18</u></u>

The effective portion of pre-tax gains (losses) recorded in foreign currency translation adjustment within other comprehensive income (loss) related to net investment hedges were \$(82) million, \$16 million and \$24 million for the years ended September 30, 2016, 2015 and 2014, respectively. For the years ended September 30, 2016, 2015 and 2014, no gains or losses were reclassified from CTA into income for the Company's outstanding net investment hedges, and no gains or losses were recognized in income for the ineffective portion of cash flow hedges.

## 11. FAIR VALUE MEASUREMENTS

ASC 820, "Fair Value Measurement," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

*Level 1:* Observable inputs such as quoted prices in active markets;

*Level 2:* Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3:* Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

### Recurring Fair Value Measurements

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value as of September 30, 2016 and 2015 (in millions):

	Total as of September 30, 2016	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 90	\$ —	\$ 90	\$ —
Commodity derivatives	4	—	4	—
Exchange traded funds (fixed income) <sup>1</sup>	15	15	—	—
Other noncurrent assets				
Interest rate swaps	1	—	1	—
Investments in marketable common stock	3	3	—	—
Deferred compensation plan assets	81	81	—	—
Exchange traded funds (fixed income) <sup>1</sup>	163	163	—	—
Exchange traded funds (equity) <sup>1</sup>	86	86	—	—
Total assets	<u>\$ 443</u>	<u>\$ 348</u>	<u>\$ 95</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 71	\$ —	\$ 71	\$ —
Current portion of long-term debt				
Fixed rate debt swapped to floating	551	—	551	—
Long-term debt				
Foreign currency denominated debt	2,057	2,057	—	—
Fixed rate debt swapped to floating	301	—	301	—
Total liabilities	<u>\$ 2,980</u>	<u>\$ 2,057</u>	<u>\$ 923</u>	<u>\$ —</u>

<sup>1</sup>Classified as restricted investments for payment of asbestos liabilities. See Note 23, "Commitments and Contingencies" of the notes to consolidated financial statements for further details.

	Fair Value Measurements Using:			
	Total as of September 30, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 58	\$ —	\$ 58	\$ —
Interest rate swaps	1	—	1	—
Cross-currency interest rate swaps	5	—	5	—
Other noncurrent assets				
Interest rate swaps	5	—	5	—
Investments in marketable common stock	4	4	—	—
Equity swap	164	164	—	—
Total assets	<u>\$ 237</u>	<u>\$ 168</u>	<u>\$ 69</u>	<u>\$ —</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 63	\$ —	\$ 63	\$ —
Commodity derivatives	7	—	7	—
Cross-currency interest rate swaps	1	—	1	—
Current portion of long-term debt				
Fixed rate debt swapped to floating	801	—	801	—
Long-term debt				
Fixed rate debt swapped to floating	855	—	855	—
Total liabilities	<u>\$ 1,727</u>	<u>\$ —</u>	<u>\$ 1,727</u>	<u>\$ —</u>

## Valuation Methods

*Foreign currency exchange derivatives:* The foreign currency exchange derivatives are valued under a market approach using publicized spot and forward prices.

*Commodity derivatives:* The commodity derivatives are valued under a market approach using publicized prices, where available, or dealer quotes.

*Interest rate swaps and related debt:* The interest rate swaps and related debt balances are valued under a market approach using publicized swap curves.

*Equity swaps:* The equity swaps are valued under a market approach as the fair value of the swaps is equal to the Company's stock price at the reporting period date.

*Cross-currency interest rate swaps:* The cross-currency interest rate swaps are valued using observable market data.

*Deferred compensation plan assets:* Assets held in the deferred compensation plans will be used to pay benefits under certain of the Company's non-qualified deferred compensation plans. The investments primarily consist of mutual funds which are publicly traded on stock exchanges and are valued using a market approach based on the quoted market prices.

*Investments in marketable common stock and exchange traded funds:* Investments in marketable common stock and exchange traded funds are valued using a market approach based on the quoted market prices, where available, or broker/dealer quotes of identical or comparable instruments. There was an unrealized loss recorded on these investments of \$1 million for the year ended September 30, 2016 within AOCI in the consolidated statements of financial position. There were no unrealized gains or losses recorded on these investments for the year ended September 30, 2015. The Company did not hold the exchange traded funds during the year ended September 30, 2015.

*Foreign currency denominated debt:* The Company had entered into foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of debt obligations are reflected in the AOCI

account within shareholders' equity attributable to Johnson Controls ordinary shareholders where they offset gains and losses recorded on the Company's net investments globally. The foreign denominated debt obligation is remeasured to current exchange rates under a market approach using publicized spot prices. At September 30, 2016, the Company had 37 billion yen of foreign denominated debt designated as net investment hedge in the Company's net investment in Japan and one billion euro and 500 million euro bonds designated as net investment hedges in the Company's net investment in Europe. The Company did not have any foreign denominated debt outstanding designated as a net investment hedge at September 30, 2015.

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The fair value of long-term debt, which was \$15.7 billion and \$6.7 billion at September 30, 2016 and 2015, respectively, was determined primarily using market quotes classified as Level 1 inputs within the ASC 820 fair value hierarchy.

## **12. STOCK-BASED COMPENSATION**

On September 2, 2016, the shareholders of the Company approved the Johnson Controls International plc 2012 Share and Incentive Plan (the "Plan"). The original effective date of this Plan was October 1, 2012. The Plan was amended and restated as of November 17, 2014 and was amended and restated again in connection with the Merger that was consummated on September 2, 2016 (the "Amendment Effective Date"). The amendment and restatement is intended to reflect the assumption into this Plan of the remaining share reserves under the Johnson Controls, Inc. 2012 Omnibus Incentive Plan and the Johnson Controls, Inc. 2003 Stock Plan for Outside Directors (the "Legacy Johnson Controls Plans") as of the Amendment Effective Date. Following the Amendment Effective Date, no further awards may be made under the Legacy Johnson Controls Plans. The types of awards authorized by the Plan comprise of stock options, stock appreciation rights, performance shares, performance units and other stock-based awards. The Compensation Committee of the Company's Board of Directors will determine the types of awards to be granted to individual participants and the terms and conditions of the awards. The Plan provides that 76 million shares of the Company's common stock are reserved for issuance under the 2012 Plan, and 46 million shares remain available for issuance at September 30, 2016.

Pursuant to the Merger Agreement, outstanding stock options held by Tyco employees on September 2, 2016 (the "Merger Date") were converted into options to acquire the Company's shares using a 0.955-for-one share consolidation ratio in a manner designed to preserve the intrinsic value of such awards. In addition, pursuant to the Merger Agreement, nonvested restricted stock held by Tyco employees on the Merger Date were converted into nonvested restricted stock of the Company using the 0.955-for-one share consolidation ratio in a manner designed to preserve the intrinsic value of such awards. Outstanding performance share awards held by Tyco employees on the Merger Date were converted to nonvested restricted stock of the Company at the target performance level, and adjusted to reflect the 0.955-for-one consolidation ratio. Except for the conversion of stock options, nonvested restricted stock and performance share awards discussed herein, the material terms of the awards remained unchanged. The modifications made to the awards upon the Merger Date constituted modifications under the authoritative guidance for accounting for stock compensation. This guidance requires the Company to revalue the awards upon the Merger close and allocate the revised fair value between purchase consideration and continuing expense based on the ratio of service performed through the Merger Date over the total service period of the awards. The revised fair value allocated to post-merger services resulted in incremental expense which is recognized over the remaining service period of the awards. The portion of Tyco awards earned as of the Merger Date included as purchase consideration was \$224 million. The total value of Tyco awards not earned as of the Merger Date was \$101 million, which will be expensed over the remaining future vesting period. Of this amount, \$10 million was recorded in selling, general and administrative expenses and \$23 million was recorded in restructuring and impairment costs in the consolidated statement of income for the fiscal year ended September 30, 2016 as a result of change-in-control provisions for current and former employees. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for further information regarding the Merger.

Pursuant to the Merger Agreement, outstanding stock options held by JCI Inc. employees on the Merger Date were converted one-for-one into options to acquire the Company's shares in a manner designed to preserve the intrinsic value of such awards. In addition, pursuant to the Merger Agreement, nonvested restricted stock held by JCI Inc. employees on the Merger Date was converted one-for-one into nonvested restricted stock of the Company in a manner designed to preserve the intrinsic value of such awards. Outstanding performance share awards held by JCI Inc. employees on the Merger Date were converted to nonvested restricted stock of the Company based on certain performance factors. Except for the conversion of stock options, nonvested restricted stock and performance share awards discussed herein, the material terms of the awards remained unchanged, and no incremental fair value resulted from the conversion. References to the Company's stock throughout Note 12 refer to stock of JCI Inc. prior to the Merger Date and to stock of the Company subsequent to the Merger Date.

The Company has four share-based compensation plans, which are described below. For the fiscal year ended September 30, 2016, compensation cost charged against income, excluding the offsetting impact of outstanding equity swaps, for those plans was approximately \$176 million, of which \$137 million was recorded in selling, general and administrative expenses and \$39 million

was recorded in restructuring and impairment costs. For the fiscal years ended September 30, 2015 and 2014, compensation cost charged against income, excluding the offsetting impact of outstanding equity swaps, for those plans was approximately \$85 million and \$81 million, respectively, all of which was recorded in selling, general and administrative expenses. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was approximately \$62 million, \$34 million and \$32 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The Company applies a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting.

## Stock Options

Stock options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Stock option awards typically vest between two and three years after the grant date and expire ten years from the grant date.

The fair value of each option is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended September 30,		
	2016	2015	2014
Expected life of option (years)	6.4	6.6	6.7
Risk-free interest rate	1.64% - 1.70%	1.61% - 1.93%	1.92%
Expected volatility of the Company's stock	36.00%	36.00%	36.00%
Expected dividend yield on the Company's stock	2.11%	2.02%	2.17%

A summary of stock option activity at September 30, 2016, and changes for the year then ended, is presented below:

	Weighted Average Option Price	Shares Subject to Option	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding, September 30, 2015	\$ 31.17	13,039,240		
Granted	43.83	961,705		
Acquired Tyco awards	31.37	10,895,381		
Exercised	27.93	(2,393,703)		
Forfeited or expired	42.90	(170,390)		
Outstanding, September 30, 2016	\$ 32.07	22,332,233	5.3	\$ 327
Exercisable, September 30, 2016	\$ 28.30	15,745,714	4.4	\$ 288

The weighted-average grant-date fair value of options granted during the fiscal years ended September 30, 2016, 2015 and 2014 was \$13.14, \$15.51 and \$14.70, respectively.

The total intrinsic value of options exercised during the fiscal years ended September 30, 2016, 2015 and 2014 was approximately \$39 million, \$227 million and \$135 million, respectively.

In conjunction with the exercise of stock options granted, the Company received cash payments for the fiscal years ended September 30, 2016, 2015 and 2014 of approximately \$70 million, \$275 million and \$186 million, respectively.

The Company has elected to utilize the alternative transition method for calculating the tax effects of stock-based compensation. The alternative transition method includes computational guidance to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation, and a simplified method to determine the subsequent impact on the APIC Pool for employee stock-based compensation awards that are vested and outstanding upon adoption of ASC 718, "Compensation - Stock Compensation." The tax benefit from the exercise of stock options, which is recorded in capital in excess of par value, was \$11 million, \$59 million and \$34 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The Company does not settle stock options granted under share-based payment arrangements for cash.

At September 30, 2016, the Company had approximately \$26 million of total unrecognized compensation cost related to nonvested stock options granted. That cost is expected to be recognized over a weighted-average period of 1.2 years.

### Stock Appreciation Rights (SARs)

SARs vest under the same terms and conditions as stock option awards; however, they are settled in cash for the difference between the market price on the date of exercise and the exercise price. As a result, SARs are recorded in the Company's consolidated statements of financial position as a liability until the date of exercise.

The fair value of each SAR award is estimated using a similar method described for stock options. The fair value of each SAR award is recalculated at the end of each reporting period and the liability and expense are adjusted based on the new fair value.

The assumptions used to determine the fair value of the SAR awards at September 30, 2016 were as follows:

Expected life of SAR (years)	0.5 - 4.2
Risk-free interest rate	0.45% - 1.04%
Expected volatility of the Company's stock	36.00%
Expected dividend yield on the Company's stock	2.11%

A summary of SAR activity at September 30, 2016, and changes for the year then ended, is presented below:

	Weighted Average SAR Price	Shares Subject to SAR	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding, September 30, 2015	\$ 29.53	1,740,100		
Granted	43.86	54,749		
Exercised	27.41	(494,480)		
Forfeited or expired	36.33	(99,204)		
Outstanding, September 30, 2016	<u>\$ 30.49</u>	<u>1,201,165</u>	<u>4.6</u>	<u>\$ 19</u>
Exercisable, September 30, 2016	<u>\$ 29.23</u>	<u>1,114,543</u>	<u>4.3</u>	<u>\$ 19</u>

In conjunction with the exercise of SARs granted, the Company made payments of \$8 million, \$19 million and \$21 million during the fiscal years ended September 30, 2016, 2015 and 2014, respectively.

### Restricted (Nonvested) Stock

The Plan provides for the award of restricted stock or restricted stock units to certain employees. These awards are typically share settled unless the employee is a non-U.S. employee or elects to defer settlement until retirement at which point the award would be settled in cash. Restricted awards typically vest after three years from the grant date. The Plan allows for different vesting terms on specific grants with approval by the Board of Directors.

A summary of the status of the Company's nonvested restricted stock awards at September 30, 2016, and changes for the fiscal year then ended, is presented below:

	Weighted Average Price	Shares/Units Subject to Restriction
Nonvested, September 30, 2015	\$ 45.75	2,370,155
Granted	45.49	4,052,020
Acquired Tyco awards	47.74	2,916,471
Converted performance share awards *	49.20	1,108,036
Vested	34.45	(527,017)
Forfeited	45.83	(353,621)
Nonvested, September 30, 2016	<u><u>\$ 47.27</u></u>	<u><u>9,566,044</u></u>

\* As of the Amendment Effective Date, performance share awards were converted to nonvested restricted stock based on certain performance factors.

At September 30, 2016, the Company had approximately \$182 million of total unrecognized compensation cost related to nonvested restricted stock arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.0 years.

### Performance Share Awards

The Plan permits the grant of performance-based share unit ("PSU") awards. The number of PSUs granted is equal to the PSU award value divided by the closing price of the Company's common stock at the grant date. The PSUs are generally contingent on the achievement of pre-determined performance goals over a three-year performance period as well as on the award holder's continuous employment until the vesting date. Each PSU that is earned will be settled with a share of the Company's common stock following the completion of the performance period, unless the award holder elected to defer a portion or all of the award until retirement which would then be settled in cash.

A summary of the status of the Company's nonvested PSUs at September 30, 2016, and changes for the fiscal year then ended, is presented below:

	Weighted Average Price	Shares/Units Subject to PSU
Nonvested, September 30, 2015	\$ 42.33	924,388
Vested	30.73	(344,318)
Forfeited	49.73	(21,305)
Nonvested, September 02, 2016	<u><u>\$ 49.20</u></u>	<u><u>558,765</u></u>
Conversion to nonvested restricted stock *	49.20	(558,765)
Nonvested, September 30, 2016	<u><u>\$ —</u></u>	<u><u>—</u></u>

\* As of the Amendment Effective Date, PSUs were converted to nonvested restricted stock.

## 13. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of ordinary shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income attributable to Johnson Controls by the weighted average number of ordinary shares and ordinary equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock options, unvested restricted stock and unvested performance share awards. The treasury stock method assumes that the Company uses the proceeds from the exercise of stock option awards to repurchase ordinary shares at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any windfall tax benefits that would be credited to capital in excess of par value when the award generates a tax deduction. If there would be a shortfall resulting in a charge to capital in excess of par value, such an amount would be a reduction of the proceeds. For unvested restricted stock and unvested performance share awards, assumed proceeds under the treasury stock method would include unamortized compensation cost and windfall tax benefits or shortfalls.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share (in millions):

	Year Ended September 30,		
	2016	2015	2014
<b>Income (Loss) Available to Common Shareholders</b>			
Income (loss) from continuing operations	\$ (868)	\$ 1,439	\$ 1,404
Income (loss) from discontinued operations	—	124	(189)
Basic and diluted income (loss) available to common shareholders	<u>\$ (868)</u>	<u>\$ 1,563</u>	<u>\$ 1,215</u>
<b>Weighted Average Shares Outstanding</b>			
Basic weighted average shares outstanding	667.4	655.2	666.9
Effect of dilutive securities:			
Stock options, unvested restricted stock and unvested performance share awards	—	6.3	7.9
Diluted weighted average shares outstanding	<u>667.4</u>	<u>661.5</u>	<u>674.8</u>
<b>Antidilutive Securities</b>			
Options to purchase common shares	—	0.4	0.1

For the twelve months ended September 30, 2016, the total number of potential dilutive shares due to stock options, unvested restricted stock and unvested performance share awards was 5.2 million. However, these items were not included in the computation of diluted loss per share for the twelve months ended September 30, 2016, since to do so would decrease the loss per share.

During the three months ended September 30, 2016 and 2015, the Company declared a dividend of \$0.29 and \$0.26, respectively, per common share. During the twelve months ended September 30, 2016 and 2015, the Company declared four quarterly dividends totaling \$1.16 and \$1.04, respectively, per common share.

## 14. EQUITY AND NONCONTROLLING INTERESTS

### *Share Capital*

In September 2016, as a result of the Tyco Merger and further discussed within Note 2, "Merger Transaction," of the notes to consolidated financial statements, each outstanding share of common stock, par value \$1.00 per share, of JCI Inc. common stock (other than shares held by JCI Inc., Tyco and certain of their subsidiaries) was converted into the right to receive either a cash consideration or a share consideration.

The shares outstanding as of the merger date were calculated as follows (in millions, except share consolidation ratio and per share data):

Pre-merger Tyco shares outstanding	427.2
Share consolidation ratio	0.955
<b>Post-share consolidation Tyco shares</b>	<b>408.0</b>
Johnson Controls Inc. shares outstanding	638.3
Cash contributed by Tyco used to purchase shares of Johnson Controls Inc.	\$ 3,864
Johnson Controls Inc. per share consideration	\$ 34.88
<b>Reduction in shares due to cash consideration paid by Tyco</b>	<b>(110.8)</b>
<b>Adjusted Johnson Controls Inc. shares outstanding (1:1 exchange ratio)</b>	<b>527.5</b>
<b>Shares outstanding at September 2, 2016</b>	<b>935.5</b>
<b>Par value</b>	<b>\$ 9</b>

#### *Dividends*

The authority to declare and pay dividends is vested in the Board of Directors. The timing, declaration and payment of future dividends to holders of the Company's ordinary shares will be determined by the Company's Board of Directors and will depend upon many factors, including the Company's financial condition and results of operations, the capital requirements of the Company's businesses, industry practice and any other relevant factors.

Under Irish law, dividends may only be paid (and share repurchases and redemptions must generally be funded) out of "distributable reserves." The creation of distributable reserves was accomplished by way of a capital reduction, which the Irish High Court approved on December 18, 2014 and as acquired in conjunction with the Tyco Merger.

#### *Share Repurchase Program*

Following the Tyco Merger, the Company adopted, subject to the ongoing existence of sufficient distributable reserves, the existing Tyco International plc \$1 billion share repurchase program in September 2016. The share repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice. There were no shares repurchased between the closing of the Merger and September 30, 2016. Prior to the Merger, the Company repurchased approximately \$501 million of its shares under JCI Inc.'s \$3.65 billion share repurchase program during fiscal year 2016. During fiscal years 2015 and 2014, the Company repurchased approximately \$1.4 billion and \$1.2 billion of its common stock, respectively.

Other comprehensive income includes activity relating to discontinued operations. The following schedules present changes in consolidated equity attributable to Johnson Controls and noncontrolling interests (in millions, net of tax):

	Equity Attributable to Johnson Controls International plc	Equity Attributable to Noncontrolling Interests	Total Equity
At September 30, 2013	\$ 12,273	\$ 260	\$ 12,533
Total comprehensive income:			
Net income	1,215	90	1,305
Foreign currency translation adjustments	(640)	(2)	(642)
Realized and unrealized losses on derivatives	(3)	—	(3)
Realized and unrealized losses on marketable common stock	(7)	—	(7)
Pension and postretirement plans	(5)	—	(5)
Other comprehensive loss	(655)	(2)	(657)
Comprehensive income	560	88	648
Other changes in equity:			
Cash dividends - common stock (\$0.88 per share)	(586)	—	(586)
Dividends attributable to noncontrolling interests	—	(59)	(59)
Repurchases of common stock	(1,249)	—	(1,249)
Change in noncontrolling interest share	—	(32)	(32)
Other, including options exercised	272	(6)	266
At September 30, 2014	11,270	251	11,521
Total comprehensive income:			
Net income	1,563	65	1,628
Foreign currency translation adjustments	(799)	(3)	(802)
Realized and unrealized losses on derivatives	(11)	—	(11)
Pension and postretirement plans	(10)	—	(10)
Other comprehensive loss	(820)	(3)	(823)
Comprehensive income	743	62	805
Other changes in equity:			
Cash dividends - common stock (\$1.04 per share)	(681)	—	(681)
Dividends attributable to noncontrolling interests	—	(57)	(57)
Repurchases of common stock	(1,362)	—	(1,362)
Change in noncontrolling interest share	—	(93)	(93)
Other, including options exercised	365	—	365
At September 30, 2015	10,335	163	10,498
Total comprehensive income (loss):			
Net income (loss)	(868)	168	(700)
Foreign currency translation adjustments	(105)	9	(96)
Realized and unrealized gains (losses) on derivatives	11	(1)	10
Unrealized losses on marketable common stock	(1)	—	(1)
Pension and postretirement plans	(1)	—	(1)
Other comprehensive income (loss)	(96)	8	(88)
Comprehensive income (loss)	(964)	176	(788)
Other changes in equity:			
Result of contribution of Johnson Controls, Inc. to Johnson Controls International plc	15,808	—	15,808
Cash dividends - common stock (\$1.16 per share)	(752)	—	(752)
Dividends attributable to noncontrolling interests	—	(93)	(93)
Repurchases of common stock	(501)	—	(501)
Change in noncontrolling interest share	—	726	726
Other, including options exercised	192	—	192
At September 30, 2016	\$ 24,118	\$ 972	\$ 25,090

The equity attributable to Johnson Controls International plc increased by \$15.8 billion as a result of the Tyco Merger. The increase is primarily due to an increase to equity of \$19.7 billion resulting from the total fair value of consideration transferred, partially offset by a decrease of \$3.9 billion resulting from cash contributed by Tyco used to purchase shares of Johnson Controls Inc.

As previously disclosed, on October 1, 2015, the Company formed a joint venture with Hitachi. In connection with the acquisition, the Company recorded equity attributable to noncontrolling interests of \$691 million. Also, in connection with the Tyco merger, the Company recorded equity attributable to noncontrolling interests of \$34 million.

The Company consolidates certain subsidiaries in which the noncontrolling interest party has within their control the right to require the Company to redeem all or a portion of its interest in the subsidiary. The redeemable noncontrolling interests are reported at their estimated redemption value. Any adjustment to the redemption value impacts retained earnings but does not impact net income. Redeemable noncontrolling interests which are redeemable only upon future events, the occurrence of which is not currently probable, are recorded at carrying value.

The following schedules present changes in the redeemable noncontrolling interests (in millions):

	Year Ended September 30, 2016	Year Ended September 30, 2015	Year Ended September 30, 2014
Beginning balance, September 30	\$ 212	\$ 194	\$ 157
Net income	48	51	38
Foreign currency translation adjustments	2	(23)	—
Realized and unrealized gains (losses) on derivatives	(1)	1	—
Dividends	(27)	(11)	(7)
Other	—	—	6
Ending balance, September 30	<u>\$ 234</u>	<u>\$ 212</u>	<u>\$ 194</u>

The following schedules present changes in AOCI attributable to Johnson Controls (in millions, net of tax):

	Year Ended September 30, 2016	Year Ended September 30, 2015	Year Ended September 30, 2014
<b>Foreign currency translation adjustments</b>			
Balance at beginning of period	\$ (1,047)	\$ (248)	\$ 392
Aggregate adjustment for the period (net of tax effect of \$(43), \$(44) and \$7) *	(105)	(799)	(640)
Balance at end of period	<u>(1,152)</u>	<u>(1,047)</u>	<u>(248)</u>
<b>Realized and unrealized gains (losses) on derivatives</b>			
Balance at beginning of period	(7)	4	7
Current period changes in fair value (net of tax effect of \$(5), \$(7) and \$(3))	(10)	(17)	(3)
Reclassification to income (net of tax effect of \$11, \$3 and \$0) **	21	6	—
Balance at end of period	<u>4</u>	<u>(7)</u>	<u>4</u>
<b>Realize and unrealized gains (losses) on marketable common stock</b>			
Balance at beginning of period	—	—	7
Current period changes in fair value (net of tax effect of \$0)	(1)	—	(1)
Reclassifications to income (net of tax effect of \$0, \$0 and \$(2)) ***	—	—	(6)
Balance at end of period	<u>(1)</u>	<u>—</u>	<u>—</u>
<b>Pension and postretirement plans</b>			
Balance at beginning of period	(3)	7	12
Reclassification to income (net of tax effect of \$0, \$(3) and \$(3)) ****	(1)	(11)	(4)
Other changes (net of tax effect of \$0)	—	1	(1)
Balance at end of period	<u>(4)</u>	<u>(3)</u>	<u>7</u>
Accumulated other comprehensive loss, end of period	<u>\$ (1,153)</u>	<u>\$ (1,057)</u>	<u>\$ (237)</u>

\* During fiscal 2015, \$(19) million of cumulative CTA were recognized as part of the divestiture-related gain recognized within discontinued operations as a result of the divestiture of GWS. During fiscal 2014, \$203 million of cumulative CTA were recognized as part of the divestiture-related losses recognized within discontinued operations as a result of the divestiture of the Automotive Experience Electronics business.

\*\* Refer to Note 10, "Derivative Instruments and Hedging Activities," of the notes to consolidated financial statements for disclosure of the line items on the consolidated statements of income affected by reclassifications from AOCI into income related to derivatives.

\*\*\* During fiscal 2014, the Company sold certain marketable common stock for approximately \$25 million. As a result, the Company recorded \$8 million of realized gains within selling, general and administrative expenses in the Automotive Experience Seating segment.

\*\*\*\* Refer to Note 15, "Retirement Plans," of the notes to consolidated financial statements for disclosure of the components of the Company's net periodic benefit costs associated with its defined benefit pension and postretirement plans. For the year ended September 30, 2016, the amounts reclassified from AOCI into income for pension and postretirement plans were primarily recorded in selling, general and administrative expenses on the consolidated statements of income. For the year ended September 30, 2015 the amounts reclassified from AOCI into income for pension and postretirement plans were primarily recorded in selling, general and administrative expenses and income (loss) from discontinued operations, net of tax on the consolidated statements of income. For the year ended September 30, 2014, the amounts reclassified from AOCI into income for pension and postretirement plans were primarily recorded in cost of sales and income (loss) from discontinued operations, net of tax on the consolidated statements of income.

## 15. RETIREMENT PLANS

### Pension Benefits

The Company has non-contributory defined benefit pension plans covering certain U.S. and non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Effective January 1, 2006, certain of the Company's U.S. pension plans were amended to prohibit new participants from entering the plans. Effective September 30, 2009, active participants continued to accrue benefits under the amended plans until December 31, 2014. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-U.S. plans observes the local legal and regulatory limits. Also, the Company makes contributions to union-trusteed pension funds for construction and service personnel.

For pension plans with accumulated benefit obligations (ABO) that exceed plan assets, the projected benefit obligation (PBO), ABO and fair value of plan assets of those plans were \$7,124 million, \$6,966 million and \$5,234 million, respectively, as of September 30, 2016 and \$3,636 million, \$3,581 million and \$2,939 million, respectively, as of September 30, 2015.

In fiscal 2016, total employer contributions to the defined benefit pension plans were \$136 million, of which \$34 million were voluntary contributions made by the Company. The Company expects to contribute approximately \$326 million in cash to its defined benefit pension plans in fiscal 2017 including \$247 million due to change-in-control provisions triggered by the Tyco merger. Projected benefit payments from the plans as of September 30, 2016 are estimated as follows (in millions):

2017	\$ 569
2018	321
2019	332
2020	337
2021	344
2022-2026	1,879

### Postretirement Benefits

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S., Canada and Brazil. Most non-U.S. employees are covered by government sponsored programs, and the cost to the Company is not significant.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits. Effective January 31, 1994, the Company modified certain salaried plans to place a limit on the Company's cost of future annual retiree medical benefits at no more than 150% of the 1993 cost.

The health care cost trend assumption does not have a significant effect on the amounts reported.

In fiscal 2016, total employer and employee contributions to the postretirement plans were \$7 million. The Company expects to contribute approximately \$4 million in cash to its postretirement plans in fiscal 2017. Projected benefit payments from the plans as of September 30, 2016 are estimated as follows (in millions):

2017	\$ 21
2018	21
2019	21
2020	21
2021	20
2022-2026	86

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) for employers sponsoring postretirement care plans that provide prescription drug benefits. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D.1. Under the Act, the Medicare subsidy amount is received directly by the plan sponsor and not the related plan. Further, the plan sponsor is not required to use the subsidy amount to fund postretirement benefits and may use the subsidy for any valid business purpose. Projected subsidy receipts are estimated to be approximately \$2 million per year over the next ten years.

### **Savings and Investment Plans**

The Company sponsors various defined contribution savings plans that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will contribute to certain savings plans based on the employees' eligible pay and/or will match a percentage of the employee contributions up to certain limits. Matching contributions charged to expense amounted to \$128 million, \$123 million and \$132 million for the fiscal years ended 2016, 2015 and 2014, respectively.

### **Multiemployer Benefit Plans**

The Company contributes to multiemployer benefit plans based on obligations arising from collective bargaining agreements related to certain of its hourly employees in the U.S. These plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

The risks of participating in these multiemployer benefit plans are different from single-employer benefit plans in the following aspects:

- Assets contributed to the multiemployer benefit plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer benefit plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company stops participating in some of its multiemployer benefit plans, the Company may be required to pay those plans an amount based on its allocable share of the underfunded status of the plan, referred to as a withdrawal liability.

The Company participates in approximately 284 multiemployer benefit plans, primarily related to its Buildings business in the U.S., none of which are individually significant to the Company. The number of employees covered by the Company's multiemployer benefit plans has remained consistent over the past three years, and there have been no significant changes that affect the comparability of fiscal 2016, 2015 and 2014 contributions. The Company recognizes expense for the contractually-required contribution for each period. The Company contributed \$46 million, \$45 million and \$44 million to multiemployer benefit plans in fiscal 2016, 2015 and 2014, respectively.

Based on the most recent information available, the Company believes that the present value of actuarial accrued liabilities in certain of these multiemployer benefit plans may exceed the value of the assets held in trust to pay benefits. Currently, the Company is not aware of any significant multiemployer benefit plans for which it is probable or reasonably possible that the Company will be obligated to make up any shortfall in funds. Moreover, if the Company were to exit certain markets or otherwise cease making

contributions to these funds, the Company could trigger a withdrawal liability. Currently, the Company is not aware of any significant multiemployer benefit plans for which it is probable or reasonably possible that the Company will withdraw from the plan. Any accrual for a shortfall or withdrawal liability will be recorded when it is probable that a liability exists and it can be reasonably estimated.

## **Plan Assets**

The Company's investment policies employ an approach whereby a mix of equities, fixed income and alternative investments are used to maximize the long-term return of plan assets for a prudent level of risk. The investment portfolio primarily contains a diversified blend of equity and fixed income investments. Equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small to large capitalizations. Fixed income investments include corporate and government issues, with short-, mid- and long-term maturities, with a focus on investment grade when purchased and a target duration close to that of the plan liability. Investment and market risks are measured and monitored on an ongoing basis through regular investment portfolio reviews, annual liability measurements and periodic asset/liability studies. The majority of the real estate component of the portfolio is invested in a diversified portfolio of high-quality, operating properties with cash yields greater than the targeted appreciation. Investments in other alternative asset classes, including hedge funds and commodities, diversify the expected investment returns relative to the equity and fixed income investments. As a result of our diversification strategies, there are no significant concentrations of risk within the portfolio of investments.

The Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations as appropriate, in order to stay within a range of allocation for each asset category.

The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

The Company's plan assets at September 30, 2016 and 2015, by asset category, are as follows (in millions):

Asset Category	Total as of September 30, 2016	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		—	—	—
<b><u>U.S. Pension</u></b>				
<b>Cash</b>	\$ 38	\$ 38	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	692	499	193	—
Small-Cap	267	252	15	—
International - Developed	655	566	89	—
<b>Fixed Income Securities</b>				
Government	345	280	65	—
Corporate/Other	950	633	317	—
<b>Real Estate</b>	346	—	—	346
<b>Total</b>	<b>\$ 3,293</b>	<b>\$ 2,268</b>	<b>\$ 679</b>	<b>\$ 346</b>
<b><u>Non-U.S. Pension</u></b>				
<b>Cash</b>	\$ 90	\$ 90	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	317	152	165	—
International - Developed	453	160	293	—
International - Emerging	19	19	—	—
<b>Fixed Income Securities</b>				
Government	864	452	412	—
Corporate/Other	561	385	176	—
<b>Hedge Fund</b>	169	—	169	—
<b>Real Estate</b>	63	11	—	52
<b>Total</b>	<b>\$ 2,536</b>	<b>\$ 1,269</b>	<b>\$ 1,215</b>	<b>\$ 52</b>
<b><u>Postretirement</u></b>				
<b>Cash</b>	\$ 7	\$ 7	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	31	31	—	—
Small-Cap	10	10	—	—
International - Developed	23	23	—	—
International - Emerging	12	12	—	—
<b>Fixed Income Securities</b>				
Government	23	23	—	—
Corporate/Other	65	65	—	—
<b>Commodities</b>	12	12	—	—
<b>Real Estate</b>	13	13	—	—
<b>Total</b>	<b>\$ 196</b>	<b>\$ 196</b>	<b>\$ —</b>	<b>\$ —</b>

Fair Value Measurements Using:

Asset Category	Total as of September 30, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><u>U.S. Pension</u></b>				
<b>Cash</b>	\$ 75	\$ 75	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	500	500	—	—
Small-Cap	235	235	—	—
International - Developed	472	472	—	—
<b>Fixed Income Securities</b>				
Government	248	217	31	—
Corporate/Other	753	615	138	—
<b>Real Estate</b>	<u>323</u>	—	—	<u>323</u>
<b>Total</b>	<u>\$ 2,606</u>	<u>\$ 2,114</u>	<u>\$ 169</u>	<u>\$ 323</u>
<b><u>Non-U.S. Pension</u></b>				
<b>Cash</b>	\$ 98	\$ 98	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	68	68	—	—
International - Developed	104	104	—	—
International - Emerging	16	16	—	—
<b>Fixed Income Securities</b>				
Government	441	319	122	—
Corporate/Other	220	192	28	—
<b>Hedge Fund</b>	<u>172</u>	—	<u>172</u>	—
<b>Real Estate</b>	<u>58</u>	<u>7</u>	—	<u>51</u>
<b>Total</b>	<u>\$ 1,177</u>	<u>\$ 804</u>	<u>\$ 322</u>	<u>\$ 51</u>
<b><u>Postretirement</u></b>				
<b>Cash</b>	\$ 10	\$ 10	\$ —	\$ —
<b>Equity Securities</b>				
Large-Cap	30	30	—	—
Small-Cap	10	10	—	—
International - Developed	22	22	—	—
International - Emerging	10	10	—	—
<b>Fixed Income Securities</b>				
Government	22	22	—	—
Corporate/Other	67	67	—	—
<b>Commodities</b>	<u>12</u>	<u>12</u>	—	—
<b>Real Estate</b>	<u>11</u>	<u>11</u>	—	—
<b>Total</b>	<u>\$ 194</u>	<u>\$ 194</u>	<u>\$ —</u>	<u>\$ —</u>

The following is a description of the valuation methodologies used for assets measured at fair value.

*Cash:* The fair value of cash is valued at cost.

*Equity Securities:* The fair value of equity securities is determined by direct quoted market prices. The underlying holdings are direct quoted market prices on regulated financial exchanges. Certain equity securities are held within commingled funds which are valued at the unitized net asset value ("NAV") or percentage of the net asset value as determined by the custodian of the fund. These values are based on the fair value of the underlying net assets owned by the fund.

*Fixed Income Securities:* The fair value of fixed income securities is determined by direct or indirect quoted market prices. If indirect quoted market prices are utilized, the value of assets held in separate accounts is not published, but the investment managers report daily the underlying holdings. The underlying holdings are direct quoted market prices on regulated financial exchanges.

*Commodities:* The fair value of the commodities is determined by quoted market prices of the underlying holdings on regulated financial exchanges.

*Hedge Funds:* The fair value of hedge funds is accounted for by the custodian. The custodian obtains valuations from underlying managers based on market quotes for the most liquid assets and alternative methods for assets that do not have sufficient trading activity to derive prices. The Company and custodian review the methods used by the underlying managers to value the assets. The Company believes this is an appropriate methodology to obtain the fair value of these assets.

*Real Estate:* The fair value of Real Estate Investment Trusts (REITs) is recorded as Level 1 as these securities are traded on an open exchange. The fair value of other investments in real estate is deemed Level 3 since these investments do not have a readily determinable fair value and requires the fund managers independently to arrive at fair value by calculating NAV per share. In order to calculate NAV per share, the fund managers value the real estate investments using any one, or a combination of, the following methods: independent third party appraisals, discounted cash flow analysis of net cash flows projected to be generated by the investment and recent sales of comparable investments. Assumptions used to revalue the properties are updated every quarter. Due to the fact that the fund managers calculate NAV per share, the Company utilizes a practical expedient for measuring the fair value of its Level 3 real-estate investments, as provided for under ASC 820, "Fair Value Measurement." In applying the practical expedient, the Company is not required to further adjust the NAV provided by the fund manager in order to determine the fair value of its investment as the NAV per share is calculated in a manner consistent with the measurement principles of ASC 946, "Financial Services - Investment Companies," and as of the Company's measurement date. The Company believes this is an appropriate methodology to obtain the fair value of these assets. For the component of the real estate portfolio under development, the investments are carried at cost until they are completed and valued by a third party appraiser.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth a summary of changes in the fair value of assets measured using significant unobservable inputs (Level 3) (in millions):

	Total	Hedge Funds	Real Estate
<b><u>U.S. Pension</u></b>			
Asset value as of September 30, 2014	\$ 335	\$ 4	\$ 331
Additions net of redemptions	(59)	(3)	(56)
Realized gain (loss)	28	(1)	29
Unrealized gain	19	—	19
Asset value as of September 30, 2015	\$ 323	\$ —	\$ 323
Additions net of redemptions	(6)	—	(6)
Realized gain	13	—	13
Unrealized gain	16	—	16
Asset value as of September 30, 2016	\$ 346	\$ —	\$ 346
<b><u>Non-U.S. Pension</u></b>			
Asset value as of September 30, 2014	\$ 20	\$ —	\$ 20
Additions net of redemptions	34	—	34
Unrealized loss	(3)	—	(3)
Asset value as of September 30, 2015	\$ 51	\$ —	\$ 51
Unrealized gain	1	—	1
Asset value as of September 30, 2016	\$ 52	\$ —	\$ 52

## Funded Status

The table that follows contains the ABO and reconciliations of the changes in the PBO, the changes in plan assets and the funded status (in millions):

September 30,	Pension Benefits						Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans					
	2016	2015	2016	2015	2016	2015		
<b>Accumulated Benefit Obligation</b>	\$ 4,118	\$ 2,985	\$ 3,359	\$ 1,388	\$ —	\$ —		
<b>Change in Projected Benefit Obligation</b>								
Projected benefit obligation at beginning of year	3,022	2,875	1,447	1,572	211	224		
Service cost	16	31	30	25	2	3		
Interest cost	104	122	44	46	6	9		
Plan participant contributions	—	—	1	1	6	6		
Benefit obligations assumed in Tyco acquisition	974	—	1,635	—	30	—		
Other acquisitions	—	—	279	—	2	—		
Divestitures	—	—	—	(18)	—	—		
Actuarial loss	355	203	295	7	5	—		
Benefits and settlements paid	(301)	(209)	(116)	(65)	(22)	(24)		
Estimated subsidy received	—	—	—	—	1	1		
Curtailment	—	—	—	(5)	—	—		
Other	(1)	—	(1)	43	1	(4)		
Currency translation adjustment	—	—	(92)	(159)	—	(4)		
Projected benefit obligation at end of year	<u>\$ 4,169</u>	<u>\$ 3,022</u>	<u>\$ 3,522</u>	<u>\$ 1,447</u>	<u>\$ 242</u>	<u>\$ 211</u>		
<b>Change in Plan Assets</b>								
Fair value of plan assets at beginning of year	\$ 2,606	\$ 2,504	\$ 1,177	\$ 1,201	\$ 194	\$ 219		
Actual return on plan assets	267	(4)	113	48	17	(9)		
Plan assets acquired in Tyco acquisition	705	—	1,149	—	—	—		
Other acquisitions	—	—	180	—	—	—		
Divestitures	—	—	—	(10)	—	—		
Employer and employee contributions	16	315	121	81	7	8		
Benefits paid	(124)	(201)	(59)	(55)	(22)	(24)		
Settlement payments	(177)	(8)	(57)	(10)	—	—		
Other	—	—	—	39	—	—		
Currency translation adjustment	—	—	(88)	(117)	—	—		
Fair value of plan assets at end of year	<u>\$ 3,293</u>	<u>\$ 2,606</u>	<u>\$ 2,536</u>	<u>\$ 1,177</u>	<u>\$ 196</u>	<u>\$ 194</u>		
Funded status	<u>\$ (876)</u>	<u>\$ (416)</u>	<u>\$ (986)</u>	<u>\$ (270)</u>	<u>\$ (46)</u>	<u>\$ (17)</u>		
Amounts recognized in the statement of financial position consist of:								
Prepaid benefit cost	\$ 22	\$ 17	\$ 32	\$ 30	\$ 53	\$ 37		
Accrued benefit liability	<u>(898)</u>	<u>(433)</u>	<u>(1,018)</u>	<u>(300)</u>	<u>(99)</u>	<u>(54)</u>		
Net amount recognized	<u>\$ (876)</u>	<u>\$ (416)</u>	<u>\$ (986)</u>	<u>\$ (270)</u>	<u>\$ (46)</u>	<u>\$ (17)</u>		
<b>Weighted Average Assumptions (1)</b>								
Discount rate (2)	3.70%	4.40%	1.90%	3.15%	3.30%	3.75%		
Rate of compensation increase	3.20%	3.25%	2.75%	3.00%	NA	NA		

- (1) Plan assets and obligations are determined based on a September 30 measurement date at September 30, 2016 and 2015.
- (2) The Company considers the expected benefit payments on a plan-by-plan basis when setting assumed discount rates. As a result, the Company uses different discount rates for each plan depending on the plan jurisdiction, the demographics of participants and the expected timing of benefit payments. For the U.S. pension and postretirement plans, the Company uses a discount rate provided by an independent third party calculated based on an appropriate mix of high quality bonds. For the non-U.S. pension and postretirement plans, the Company consistently uses the relevant country specific benchmark indices for determining the various discount rates.

At September 30, 2015, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits for plans that utilize a yield curve approach. This change compared to the previous method results in different service and interest components of net periodic benefit cost (credit). Historically, the Company estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of the total benefit obligations or annual net periodic benefit cost (credit) as the change in the service and interest costs is completely offset in the net actuarial (gain) loss reported. The change in the service and interest costs was not significant. The Company accounted for this change as a change in accounting estimate.

#### **Accumulated Other Comprehensive Income**

The amounts in AOCI on the consolidated statements of financial position, exclusive of tax impacts, that have not yet been recognized as components of net periodic benefit cost at September 30, 2016 are as follows (in millions):

	Pension Benefits	Postretirement Benefits
Accumulated other comprehensive loss		
Net transition asset	\$ 1	\$ —
Net prior service cost	4	—
<b>Total</b>	<b>\$ 5</b>	<b>\$ —</b>

The amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year are shown below (in millions):

	Pension Benefits	Postretirement Benefits
Amortization of:		
Net transition obligation	\$ —	\$ —
Net prior service cost	1	—
<b>Total</b>	<b>\$ 1</b>	<b>\$ —</b>

## Net Periodic Benefit Cost

The table that follows contains the components of net periodic benefit cost (in millions):

Year ended September 30,	Pension Benefits												Postretirement Benefits		
	U.S. Plans			Non-U.S. Plans											
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Components of Net Periodic Benefit Cost (Credit):</b>															
Service cost	\$ 16	\$ 31	\$ 70	\$ 30	\$ 32	\$ 38	\$ 2	\$ 3	\$ 5						
Interest cost	104	122	138	44	57	71	6	9	12						
Expected return on plan assets	(191)	(181)	(207)	(61)	(71)	(75)	(10)	(12)	(12)						
Net actuarial (gain) loss	268	387	126	237	14	172	(2)	21	(24)						
Amortization of prior service cost (credit)	—	—	1	1	(1)	(1)	(1)	(1)	(7)						
Curtailment gain	—	—	—	—	(15)	(2)	—	—	—						
Settlement loss	11	1	15	6	—	1	—	—	—						
Net periodic benefit cost (credit)	208	360	143	257	16	204	(5)	20	(26)						
Net periodic benefit (cost) credit related to discontinued operations	—	—	—	—	14	(38)	—	—	—						
Net periodic benefit cost (credit) included in continuing operations	\$ 208	\$ 360	\$ 143	\$ 257	\$ 30	\$ 166	\$ (5)	\$ 20	\$ (26)						
<b>Expense Assumptions:</b>															
Discount rate	4.40%	4.35%	4.90%	3.10%	3.00%	3.60%	3.75%	4.35%	4.90%						
Expected return on plan assets	7.50%	7.50%	8.00%	4.50%	4.50%	4.75%	5.45%	5.75%	5.80%						
Rate of compensation increase	3.25%	3.25%	3.30%	3.30%	2.60%	2.60%	NA	NA	NA						

## 16. SIGNIFICANT RESTRUCTURING AND IMPAIRMENT COSTS

To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company commits to restructuring plans as necessary.

In fiscal 2016, the Company committed to a significant restructuring plan (2016 Plan) and recorded \$620 million of restructuring and impairment costs in the consolidated statements of income, of which \$229 million was recorded in the second quarter, \$102 million was recorded in the third quarter and \$289 million was recorded in the fourth quarter of fiscal 2016. This is the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related to cost reduction initiatives in the Company's Automotive Experience, Buildings and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures, asset impairments, change-in-control payments and immaterial changes in estimates to prior year plans. Of the restructuring and impairment costs recorded, \$284 million related to the Automotive Experience Seating segment, \$115 million related to Corporate, \$85 million related to the Buildings Tyco segment, \$66 million related to the Power Solutions segment, \$26 million related to the Building Efficiency Asia segment, \$17 million related to the Automotive Experience Interiors segment, \$16 million related to the Building Efficiency Rest of World segment, \$9 million related to the Building Efficiency Products North America segment, and \$2 million related to the Building Efficiency Systems and Service North America segment. The restructuring actions are expected to be substantially complete in fiscal 2018. Included in the reserve is \$78 million of committed restructuring actions taken by Tyco for liabilities assumed as part of the Tyco acquisition.

The following table summarizes the changes in the Company's 2016 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Currency Translation	Total
Original Reserve	\$ 368	\$ 190	\$ 62	\$ —	\$ 620
Acquired Tyco restructuring reserves	78	—	—	—	78
Utilized—cash	(32)	—	—	—	(32)
Utilized—noncash	—	(190)	(32)	1	(221)
Balance at September 30, 2016	<u>\$ 414</u>	<u>\$ —</u>	<u>\$ 30</u>	<u>\$ 1</u>	<u>\$ 445</u>

In fiscal 2015, the Company committed to a significant restructuring plan (2015 Plan) and recorded \$397 million of restructuring and impairment costs in the consolidated statements of income. This is the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. Of the restructuring and impairment costs recorded, \$182 million related to the Automotive Experience Seating segment, \$166 million related to Corporate, \$13 million related to the Building Efficiency Rest of World segment, \$11 million related to the Power Solutions segment, \$11 million related to the Building Efficiency Asia segment, \$11 million related to the Building Efficiency Products North America segment, and \$3 million related to the Building Efficiency Systems and Service North America segment. The restructuring actions are expected to be substantially complete in 2016.

The following table summarizes the changes in the Company's 2015 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Total
Original Reserve	\$ 191	\$ 183	\$ 23	\$ 397
Utilized—noncash	—	(183)	—	(183)
Balance at September 30, 2015	<u>\$ 191</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ 214</u>
Utilized—cash	(74)	—	(23)	(97)
Balance at September 30, 2016	<u>\$ 117</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 117</u>

In fiscal 2014, the Company committed to a significant restructuring plan (2014 Plan) and recorded \$324 million of restructuring and impairment costs in the consolidated statements of income. This is the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related primarily to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and included workforce reductions, plant closures, and asset and goodwill impairments. Of the restructuring and impairment costs recorded, \$130 million related to the Automotive Experience Interiors segment, \$119 million related to the Building Efficiency Rest of World segment, \$29 million related to the Automotive Experience Seating segment, \$16 million related to the Power Solutions segment, \$12 million related to the Building Efficiency Systems and Service North America segment, \$7 million related to the Building Efficiency Products North America segment, \$7 million related to Corporate and \$4 million related to the Building Efficiency Asia segment. The restructuring actions are expected to be substantially complete in 2016.

Additionally, the Company recorded \$53 million of restructuring and impairment costs within discontinued operations related to the Automotive Experience Electronics business in fiscal 2014.

The following table summarizes the changes in the Company's 2014 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Goodwill Impairment	Other	Currency Translation	Total
Original Reserve	\$ 191	\$ 134	\$ 47	\$ 5	\$ —	\$ 377
Utilized—cash	(8)	—	—	—	—	(8)
Utilized—noncash	—	(134)	(47)	—	(6)	(187)
Balance at September 30, 2014	\$ 183	\$ —	\$ —	\$ 5	\$ (6)	\$ 182
Utilized—cash	(65)	—	—	(5)	—	(70)
Utilized—noncash	—	—	—	—	(13)	(13)
Balance at September 30, 2015	\$ 118	\$ —	\$ —	\$ —	\$ (19)	\$ 99
Utilized—cash	(74)	—	—	—	—	(74)
Utilized—noncash	—	—	—	—	(2)	(2)
Balance at September 30, 2016	<u>\$ 44</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (21)</u>	<u>\$ 23</u>

In fiscal 2013, the Company committed to a significant restructuring plan (2013 Plan) and recorded \$903 million of restructuring and impairment costs in the consolidated statements of income. This is the total amount incurred to date and the total amount expected to be incurred for this restructuring plan. The restructuring actions related to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and included workforce reductions, plant closures, and asset and goodwill impairments. Of the restructuring and impairment costs recorded, \$560 million related to the Automotive Experience Interiors segment, \$152 million related to the Automotive Experience Seating segment, \$70 million related to the Building Efficiency Rest of World segment, \$36 million related to the Power Solutions segment, \$35 million related to the Building Efficiency Systems and Service North America segment, \$28 million related to the Building Efficiency Products North America segment, \$17 million related to Corporate and \$5 million related to the Building Efficiency Asia segment. The restructuring actions are expected to be substantially complete in 2016.

Additionally, the Company recorded \$82 million of restructuring costs within discontinued operations, of which \$54 million related to the GWS business and \$28 million related to the Automotive Experience Electronics business in fiscal 2013.

The following table summarizes the changes in the Company's 2013 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Goodwill Impairment	Other	Currency Translation	Total
Original Reserve	\$ 392	\$ 156	\$ 430	\$ 7	\$ —	\$ 985
Utilized—cash	(26)	—	—	—	—	(26)
Utilized—noncash	—	(156)	(430)	(4)	4	(586)
Transfer to liabilities held for sale	(31)	—	—	—	—	(31)
Balance at September 30, 2013	\$ 335	\$ —	\$ —	\$ 3	\$ 4	\$ 342
Utilized—cash	(144)	—	—	(3)	—	(147)
Utilized—noncash	—	—	—	—	(11)	(11)
Transfer from liabilities held for sale	31	—	—	—	—	31
Transfer to liabilities held for sale	(24)	—	—	—	—	(24)
Balance at September 30, 2014	\$ 198	\$ —	\$ —	\$ —	\$ (7)	\$ 191
Utilized—cash	(113)	—	—	—	—	(113)
Utilized—noncash	—	—	—	—	(10)	(10)
Balance at September 30, 2015	\$ 85	\$ —	\$ —	\$ —	\$ (17)	\$ 68
Utilized—cash	(43)	—	—	—	—	(43)
Utilized—noncash	—	—	—	—	(1)	(1)
Balance at September 30, 2016	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (18)</u>	<u>\$ 24</u>

The \$31 million of transfers from liabilities held for sale represent restructuring reserves that were included in liabilities held for sale in the consolidated statements of financial position at September 30, 2013, but were excluded from liabilities held for sale at September 30, 2014 based on transaction negotiations. See Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's assets and liabilities held for sale.

The Company's fiscal 2016, 2015, 2014 and 2013 restructuring plans included workforce reductions of approximately 18,900 employees (11,200 for the Automotive Experience business, 6,700 for the Buildings business, 900 for the Power Solutions business and 100 for Corporate). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee or on a lump sum basis in accordance with individual severance agreements. As of September 30, 2016, approximately 11,800 of the employees have been separated from the Company pursuant to the restructuring plans. In addition, the restructuring plans included thirty plant closures (twenty-two for Automotive Experience and eight for Buildings. As of September 30, 2016, twelve of the thirty plants have been closed.

Refer to Note 17, "Impairment of Long-Lived Assets," of the notes to consolidated financial statements for further information regarding the long-lived asset impairment charges recorded as part of the restructuring actions.

Refer to Note 7, "Goodwill and Other Intangible Assets," of the notes to consolidated financial statements for further information regarding the goodwill impairment charges recorded.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company's liquidity position, lead to impairment charges and/or require additional restructuring of its operations.

## 17. IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable.

The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals.

In the second, third and fourth quarters of fiscal 2016, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its restructuring actions announced in fiscal 2016. As a result, the Company reviewed the long-lived assets for impairment and recorded \$190 million of asset impairment charges within restructuring and impairment costs on the consolidated statements of income, of which \$29 million was recorded in the second quarter, \$51 million was recorded in the third quarter and \$110 million was recorded in the fourth quarter. Of the total impairment charges, \$64 million related to the Power Solutions segment, \$55 million related to Corporate assets, \$55 million related to the Automotive Experience Seating segment, \$8 million related to the Building Efficiency Products North America segment, \$4 million related to the Building Efficiency Asia segment, \$3 million related to the Building Efficiency Rest of World segment and \$1 million related to the Automotive Experience Interiors segment. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairments were measured, depending on the asset, under either an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impaired assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

In the fourth quarter of fiscal 2015, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its announced restructuring actions and the intention to spin-off the Automotive Experience business. As a result, the Company reviewed the long-lived assets for impairment and recorded a \$183 million impairment charge within restructuring and impairment costs on the consolidated statements of income. Of the total impairment charge, \$139 million related to Corporate assets, \$27 million related to the Automotive Experience Seating segment, \$16 million related to the Building Efficiency Rest of World segment and \$1 million related to the Building Efficiency Systems and Service North America segment. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairment was measured, depending on the asset, either under an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impaired assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

In the third and fourth quarters of fiscal 2014, the Company concluded it had triggering events requiring assessment of impairment for certain of its long-lived assets in conjunction with its restructuring actions announced in fiscal 2014. In addition, in the fourth quarter of fiscal 2014, the Company concluded that it had a triggering event requiring assessment of impairment of long-lived assets held by the Building Efficiency Rest of World - Latin America reporting unit due to the impairment of goodwill in the quarter. As a result, the Company reviewed the long-lived assets for impairment and recorded a \$91 million impairment charge within restructuring and impairment costs on the consolidated statements of income, of which \$45 million was recorded in the third quarter and \$46 million in the fourth quarter of fiscal 2014. Of the total impairment charge, \$45 million related to the Automotive Experience Interiors segment, \$34 million related to the Building Efficiency Rest of World segment, \$7 million related to the Automotive Experience Seating segment and \$5 million related to Corporate assets. In addition, the Company recorded \$43 million of asset and investment impairments within discontinued operations in the third quarter of fiscal 2014 related to the divestiture of the Automotive Experience Electronics business. Refer to Note 4, "Discontinued Operations," and Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. The impairment was measured, depending on the asset, either under an income approach utilizing forecasted discounted cash flows or a market approach utilizing an appraisal to determine fair values of the impaired assets. These methods are consistent with the methods the Company employed in prior periods to value other long-lived assets. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, "Fair Value Measurement."

At September 30, 2016, 2015 and 2014, the Company concluded it did not have any other triggering events requiring assessment of impairment of its long-lived assets. Refer to Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements for discussion of the Company's goodwill impairment testing. Refer to Note 7, "Goodwill and Other Intangible Assets," of the notes to consolidated financial statements for further information regarding the goodwill impairment charges recorded in the fourth quarter of fiscal 2014.

## 18. INCOME TAXES

The more significant components of the Company's income tax provision from continuing operations are as follows (in millions):

	Year Ended September 30,		
	2016	2015	2014
Tax expense at federal statutory rate	\$ 555	\$ 753	\$ 671
State income taxes, net of federal benefit	3	(23)	7
Foreign income tax expense at different rates and foreign losses without tax benefits	(190)	(198)	(196)
U.S. tax on foreign income	(354)	(203)	(222)
Reserve and valuation allowance adjustments	—	(99)	34
U.S. credits and incentives	(20)	(12)	(9)
Impact of transactions and business divestitures	2,149	354	71
Restructuring and impairment costs	126	52	75
Other	(31)	(24)	(24)
Income tax provision	<u>\$ 2,238</u>	<u>\$ 600</u>	<u>\$ 407</u>

The U.S. federal statutory tax rate is being used as a comparison since the Company was a U.S. domiciled company in fiscal 2014, 2015 and 11 months of 2016. The effective rate is above the U.S. statutory rate for fiscal 2016 primarily due to the tax consequences surrounding the planned spin-off of the Automotive Experience business and related expenses, the jurisdictional mix of restructuring and impairment costs, and the tax impacts of the merger and integration related costs, partially offset by the benefits of continuing global tax planning initiatives and foreign tax rate differentials. The effective rate is below the U.S. statutory rate for fiscal 2015 primarily due to the benefits of continuing global tax planning initiatives, income in certain non-U.S. jurisdictions with a tax rate lower than the U.S. statutory tax rate and adjustments due to tax audit resolutions, partially offset by the tax consequences of business divestitures, and significant restructuring and impairment costs. The effective rate is below the U.S. statutory rate for fiscal 2014 primarily due to the benefits of continuing global tax planning initiatives and income in certain non-U.S. jurisdictions with a tax rate lower than the U.S. statutory tax rate partially offset by the tax consequences of business divestitures, significant restructuring and impairment costs, and valuation allowance adjustments.

### ***Valuation Allowances***

The Company reviews the realizability of its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Company recorded as part of the acquired liabilities of Tyco \$2.4 billion of valuation allowances. Also in the fourth quarter of fiscal 2016, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that no other material changes were needed to its valuation allowances. Therefore, there was no impact to income tax expense due to valuation allowance changes in the three month period or year ended September 30, 2016.

In the fourth quarter of fiscal 2015, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that certain deferred tax assets primarily within Spain, Germany, and the United Kingdom would not be realized, and it is more likely than not that certain deferred tax assets of Poland and Germany will be realized. The impact of the net valuation allowance provision offset the benefit of valuation allowance releases and, as such, there was no net impact to income tax expense in the three month period ended September 30, 2015.

In the fourth quarter of fiscal 2014, the Company performed an analysis related to the realizability of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that deferred tax assets within Italy would not be realized. Therefore, the Company recorded \$34 million of net valuation allowances as income tax expense in the three month period ended September 30, 2014.

In the first quarter of fiscal 2014, the Company determined that it was more likely than not that the deferred tax asset associated with a capital loss in Mexico would not be utilized. Therefore, the Company recorded a \$21 million valuation allowance as income tax expense.

### ***Uncertain Tax Positions***

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities.

At September 30, 2016, the Company had gross tax effected unrecognized tax benefits of \$1,836 million of which \$1,734 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2016 was approximately \$67 million (net of tax benefit).

At September 30, 2015, the Company had gross tax effected unrecognized tax benefits of \$1,159 million of which \$1,104 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2015 was approximately \$41 million (net of tax benefit).

At September 30, 2014, the Company had gross tax effected unrecognized tax benefits of \$1,607 million of which \$1,457 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2014 was approximately \$106 million (net of tax benefit).

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	Year Ended September 30,		
	2016	2015	2014
Beginning balance, October 1	\$ 1,159	\$ 1,607	\$ 1,302
Additions for tax positions related to the current year	465	329	315
Additions for tax positions of prior years	15	23	31
Reductions for tax positions of prior years	(66)	(118)	(27)
Settlements with taxing authorities	(104)	(541)	(9)
Statute closings	(30)	(18)	(5)
Audit resolutions	—	(123)	—
Acquisition of business	397	—	—
Ending balance, September 30	\$ 1,836	\$ 1,159	\$ 1,607

During fiscal 2015, the Company settled a significant number of tax examinations in Germany, Mexico and the U.S., impacting fiscal years 1998 to fiscal 2012. The settlement of unrecognized tax benefits included cash payments for approximately \$440 million and the loss of various tax attributes. The reduction for tax positions of prior years is substantially related to foreign exchange rates. In the fourth quarter of fiscal 2015, income tax audit resolutions resulted in a net \$99 million benefit to income tax expense.

In the U.S., fiscal years 2010 through 2014 are currently under exam by the Internal Revenue Service ("IRS") and 2008 through 2009 are currently under IRS appeals. Additionally, the Company is currently under exam in the following major foreign jurisdictions:

Tax Jurisdiction	Tax Years Covered
Belgium	2011 - 2014
Brazil	2004 - 2008, 2011 - 2012
Canada	2012 - 2015
France	2010 - 2015
Germany	2007 - 2013
Italy	2006, 2011
Korea	2012 - 2015
Mexico	2009 - 2015
Poland	2015
Spain	2008 - 2014
United Kingdom	2011 - 2014

It is reasonably possible that certain tax examinations, tax appeals and /or tax litigation will conclude within the next twelve months, of which could be up to a \$100 million impact to tax expense.

#### ***Other Tax Matters***

During fiscal 2016, 2015 and 2014, the Company incurred significant charges for restructuring and impairment costs. Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for additional information. A substantial portion of these charges cannot be benefited for tax purposes due to the Company's current tax position in these jurisdictions and the underlying tax basis in the impaired assets, resulting in \$126 million, \$52 million and \$75 million incremental tax expense in fiscal 2016, 2015 and 2014, respectively.

During the fourth quarter of fiscal 2016, the Company completed its merger with Tyco. As a result of that transaction, the Company incurred incremental tax expense of \$137 million. In preparation for the spin-off of the Automotive Experience business in the first quarter of fiscal 2017, the Company incurred incremental tax expense of \$121 million in fiscal 2016. The Company also completed substantial business reorganizations which resulted in total tax charges of \$1,891 million in fiscal 2016. Included in this amount is the tax charge provided for in the third quarter of fiscal 2016 of \$85 million for changes in entity tax status and the charge provided for in the second quarter of fiscal 2016 of \$780 million for income tax expense on foreign undistributed earnings of certain non-U.S. subsidiaries.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Company recorded as part of the acquired liabilities of Tyco \$290 million of post sale contingent tax indemnification liabilities within other noncurrent liabilities in the consolidated statements of financial position. The liabilities are recorded at fair value and relate to certain tax related matters borne by the buyer of previously divested subsidiaries of Tyco which Tyco has indemnified certain parties and the amounts are probable of being paid. Of the \$290 million recorded as of September 30, 2016, \$255 million is related to prior divested businesses and the remainder relates to Tyco's tax sharing agreements from its 2007 and 2012 spin-off transactions. These are certain guarantees or indemnifications extended among Tyco, Medtronic, TE Connectivity, ADT and Pentair in accordance with the terms of the 2007 and 2012 separation and tax sharing agreements.

In the fourth quarter of fiscal 2015, the Company completed its global automotive interiors joint venture with Yanfeng Automotive Trim Systems. Refer to Note 3, "Acquisitions and Divestitures," of the notes to consolidated financial statements for additional information. In connection with the divestiture of the Interiors business, the Company recorded a pre-tax gain on divestiture of \$145 million, \$38 million net of tax. The tax impact of the gain is due to the jurisdictional mix of gains and losses on the divestiture, which resulted in non-benefited expenses in certain countries and taxable gains in other countries. In addition, in the third and fourth quarters of fiscal 2015, the Company provided income tax expense for repatriation of cash and other tax reserves associated with the Automotive Experience Interiors joint venture transaction, which resulted in a tax charge of \$75 million and \$223 million, respectively.

During the fourth quarter of fiscal 2014, the Company recorded a discrete tax benefit of \$51 million due to change in entity status.

In the third quarter of fiscal 2014, the Company disposed of its Automotive Experience Interiors headliner and sun visor product lines. Refer to Note 3, "Acquisitions and Divestitures," of the notes to consolidated financial statements for additional information. As a result, the Company recorded a pre-tax loss on divestiture of \$95 million and income tax expense of \$38 million. The income tax expense is due to the jurisdictional mix of gains and losses on the sale, which resulted in non-benefited losses in certain countries and taxable gains in other countries.

#### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

After the fourth quarter of fiscal 2016, on October 13, 2016, the U.S. Treasury and the IRS released final and temporary Section 385 regulations. These regulations address whether certain instruments between related parties are treated as debt or equity. The Company does not expect that the regulations will have a material impact on its consolidated financial statements.

The "look-through rule," under subpart F of the U.S. Internal Revenue Code, expired for the Company on September 30, 2015. The "look-through rule" had provided an exception to the U.S. taxation of certain income generated by foreign subsidiaries. The rule was extended in December 2015 retroactive to the beginning of the Company's 2016 fiscal year. The retroactive extension was signed into legislation and was made permanent through the Company's 2020 fiscal year.

In the second quarter of fiscal 2015, tax legislation was adopted in Japan which reduced its statutory income tax rate. As a result of the law change, the Company recorded income tax expense of \$17 million in the second quarter of fiscal 2015.

As a result of changes to Mexican tax law in the first quarter of fiscal 2014, the Company recorded a benefit to income tax expense of \$25 million.

During the fiscal years ended 2016, 2015 and 2014, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Company's consolidated financial statements.

#### ***Continuing Operations***

Components of the provision for income taxes on continuing operations were as follows (in millions):

	Year Ended September 30,		
	2016	2015	2014
<b>Current</b>			
Federal	\$ 1,975	\$ (477)	\$ 109
State	101	(21)	15
Foreign	1,403	906	585
	<u>3,479</u>	<u>408</u>	<u>709</u>
<b>Deferred</b>			
Federal	(523)	201	(175)
State	(51)	(31)	(6)
Foreign	(667)	22	(121)
	<u>(1,241)</u>	<u>192</u>	<u>(302)</u>
<b>Income tax provision</b>	<b>\$ 2,238</b>	<b>\$ 600</b>	<b>\$ 407</b>

Consolidated U.S. income from continuing operations before income taxes and noncontrolling interests for the fiscal years ended September 30, 2016, 2015 and 2014 was income of \$1,155 million, \$1,051 million and \$1,370 million, respectively. Consolidated foreign income from continuing operations before income taxes and noncontrolling interests for the fiscal years ended September 30, 2016, 2015 and 2014 was income of \$431 million, \$1,100 million and \$546 million, respectively.

Income taxes paid for the fiscal years ended September 30, 2016, 2015 and 2014 were \$1,388 million, \$1,163 million and \$782 million, respectively. At September 30, 2016 and 2015, the Company recorded within the consolidated statements of financial position in other current liabilities approximately \$1,538 million and \$337 million, respectively, of accrued income tax liabilities.

The Company has not provided U.S. or non-U.S. income taxes on approximately \$5.5 billion of outside basis differences of Johnson Controls, Inc. consolidated subsidiaries of the Company. The reduction of the outside basis differences via the sale or liquidation of these consolidated subsidiaries and/or distributions could create taxable income. The Company has also not provided U.S. or

non-U.S. income taxes on additional outside basis differences relating to the Tyco Merger. The Company is currently finalizing the purchase price allocation by legal entity to the assets acquired and liabilities assumed which will be used to calculate the outside basis differences of certain of its consolidated subsidiaries of the Company. This purchase price allocation, by legal entity, will be completed within the measurement period in fiscal 2017. The Company's intent is to reduce the outside basis differences only when it would be tax efficient. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on the outside basis differences.

In fiscal 2016, the Company did provide U.S. income tax expense related to the restructuring and repatriation of cash for certain non-U.S. subsidiaries in connection with the Automotive Experience planned spin-off. The Company needs to complete the final steps of Automotive Experience restructuring and, as a result, the Company provided deferred taxes of \$24 million for the U.S. income tax expense on outside basis differences that will reverse upon the completion of the restructuring. Refer to "Capitalization" within the "Liquidity and Capital Resources" section of Item 7 for discussion of domestic and foreign cash projections.

Deferred taxes were classified in the consolidated statements of financial position as follows (in millions):

	September 30,	
	2016	2015
Other noncurrent assets	2,905	1,873
Other noncurrent liabilities	(1,597)	(391)
Net deferred tax asset	\$ 1,308	\$ 1,482

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities included (in millions):

	September 30,	
	2016	2015
Deferred tax assets		
Accrued expenses and reserves	\$ 1,404	\$ 210
Employee and retiree benefits	515	270
Net operating loss and other credit carryforwards	4,668	2,471
Research and development	94	64
Joint ventures and partnerships	279	231
Other	35	16
	6,995	3,262
Valuation allowances	(3,564)	(1,256)
	3,431	2,006
Deferred tax liabilities		
Property, plant and equipment	113	124
Intangible assets	2,010	400
	2,123	524
Net deferred tax asset	\$ 1,308	\$ 1,482

At September 30, 2016, the Company had available net operating loss carryforwards of approximately \$15.3 billion, of which \$4.6 billion will expire at various dates between 2017 and 2036, and the remainder has an indefinite carryforward period. The Company had available U.S. foreign tax credit carryforwards at September 30, 2016 of \$80 million, which will expire at various dates between 2020 and 2024. The valuation allowance, generally, is for loss carryforwards for which realization is uncertain because it is unlikely that the losses will be realized given the lack of sustained profitability and/or limited carryforward periods in certain countries.

As of September 30, 2016, deferred tax assets of approximately \$180 million relate to certain operating loss carryforwards resulting from the exercise of employee stock options and restricted stock vestings, the tax benefit of which, when recognized, will be accounted for as a credit to additional paid-in capital rather than a reduction of income tax provision. Such amount has been presented within the tax loss and carryforwards line in the table above.

## 19. SEGMENT INFORMATION

ASC 280, "Segment Reporting," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in ASC 280, the Company has determined that it has eight reportable segments for financial reporting purposes. The Company's eight reportable segments are presented in the context of its three primary businesses - Buildings, Automotive Experience and Power Solutions.

### **Buildings**

#### *Building Efficiency*

Building Efficiency designs, produces, markets and installs HVAC and control systems that monitor, automate and integrate critical building segment equipment and conditions including HVAC, fire-safety and security in commercial buildings and in various industrial applications.

- Systems and Service North America provides products and services to non-residential building and industrial applications in the North American marketplace. The products and services include HVAC and controls systems, energy efficiency solutions and technical services, including inspection, scheduled maintenance, and repair and replacement of mechanical and control systems.
- Products North America designs and produces heating and air conditioning solutions for residential and light commercial applications, and also markets products and refrigeration systems to the replacement and new construction markets in the North American marketplace. Products North America also includes HVAC products installed for Navy and Marine customers globally.
- Asia provides HVAC, controls and refrigeration systems and technical services to the Asian marketplace. Asia also includes the Johnson Controls-Hitachi Air Conditioning joint venture, which was formed October 1, 2015.
- Rest of World provides HVAC, controls and refrigeration systems and technical services to markets in Europe, the Middle East and Latin America.

#### *Tyco*

Tyco designs, sells, installs, services and monitors integrated electronic security systems and integrated fire detection and suppression systems for commercial, industrial, retail, small business, institutional and governmental customers. The Tyco business also designs, manufactures and sells fire protection, security and life safety products, including intrusion security, anti-theft devices, breathing apparatus and access control and video management systems, for commercial, industrial, retail, residential, small business, institutional and governmental customers worldwide.

### **Automotive Experience**

Automotive Experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport utility/crossover vehicles.

- Seating produces automotive seat metal structures and mechanisms, foam, trim, fabric and complete seat systems.
- Interiors produces instrument panels, floor consoles and door panels.

### **Power Solutions**

Power Solutions services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise.

Management evaluates the performance of the segments based primarily on segment EBIT, which represents income from continuing operations before income taxes and noncontrolling interests excluding net financing charges, significant restructuring and impairment costs, and net mark-to-market adjustments on pension and postretirement plans. General corporate and other overhead expenses are allocated to the reportable segments in determining segment EBIT.

Financial information relating to the Company's reportable segments is as follows (in millions):

	Year Ended September 30,		
	2016	2015	2014
<b><u>Net Sales</u></b>			
Buildings			
Building Efficiency			
Systems and Service North America	\$ 4,292	\$ 4,184	\$ 4,098
Products North America	2,488	2,450	1,807
Asia	4,830	1,985	2,077
Rest of World	1,766	1,891	2,103
	<u>13,376</u>	<u>10,510</u>	<u>10,085</u>
Tyco	808	—	—
	<u>14,184</u>	<u>10,510</u>	<u>10,085</u>
Automotive Experience			
Seating	16,355	16,539	17,531
Interiors	482	3,540	4,501
	<u>16,837</u>	<u>20,079</u>	<u>22,032</u>
Power Solutions	6,653	6,590	6,632
Total net sales	<u>\$ 37,674</u>	<u>\$ 37,179</u>	<u>\$ 38,749</u>
Year Ended September 30,			
	2016	2015	2014
<b><u>Segment EBIT</u></b>			
Buildings			
Building Efficiency			
Systems and Service North America (1)	\$ 412	\$ 375	\$ 354
Products North America (2)	173	306	238
Asia (3)	431	191	270
Rest of World (4)	20	51	(45)
	<u>1,036</u>	<u>923</u>	<u>817</u>
Tyco (5)	(17)	—	—
	<u>1,019</u>	<u>923</u>	<u>817</u>
Automotive Experience			
Seating (6)	676	928	853
Interiors (7)	75	254	(1)
	<u>751</u>	<u>1,182</u>	<u>852</u>
Power Solutions (8)	1,253	1,153	1,052
Total segment EBIT	<u>\$ 3,023</u>	<u>\$ 3,258</u>	<u>\$ 2,721</u>
Net financing charges			
	(314)	(288)	(244)
Restructuring and impairment costs	(620)	(397)	(324)
Net mark-to-market adjustments on pension and postretirement plans	(503)	(422)	(237)
Income from continuing operations before income taxes	<u>\$ 1,586</u>	<u>\$ 2,151</u>	<u>\$ 1,916</u>

September 30,

	2016	2015	2014
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Assets

Buildings

Building Efficiency

Systems and Service North America	\$ 2,338	\$ 2,332	\$ 2,341
Products North America	4,236	4,193	4,157
Asia	3,668	1,387	1,418
Rest of World	1,416	1,471	1,642
	<hr/> 11,658	<hr/> 9,383	<hr/> 9,558
Tyco (9)	28,097	—	—
	<hr/> 39,755	<hr/> 9,383	<hr/> 9,558

Automotive Experience

Seating	8,888	8,611	8,969
Interiors (9)	1,264	1,265	321
	<hr/> 10,152	<hr/> 9,876	<hr/> 9,290
Power Solutions	6,859	6,590	6,888
Assets held for sale	174	55	2,787
Unallocated	6,313	3,718	4,289
Total	\$ 63,253	\$ 29,622	\$ 32,812

Year Ended September 30,

	2016	2015	2014
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Depreciation/Amortization

Buildings

Building Efficiency

Systems and Service North America	\$ 38	\$ 32	\$ 32
Products North America	116	119	79
Asia	107	27	24
Rest of World	19	19	25
	<hr/> 280	<hr/> 197	<hr/> 160
Tyco	53	—	—
	<hr/> 333	<hr/> 197	<hr/> 160

Automotive Experience

Seating	355	345	328
Interiors	13	21	128
	<hr/> 368	<hr/> 366	<hr/> 456
Power Solutions	252	297	315
Discontinued Operations	—	—	24
Total	\$ 953	\$ 860	\$ 955

	Year Ended September 30,		
	2016	2015	2014
<b><u>Capital Expenditures</u></b>			
Buildings			
Building Efficiency			
Systems and Service North America	\$ 15	\$ 22	\$ 27
Products North America	217	160	123
Global Workplace Solutions	—	16	16
Asia	119	32	39
Rest of World	25	38	34
	<u>376</u>	<u>268</u>	<u>239</u>
Tyco	22	—	—
	<u>398</u>	<u>268</u>	<u>239</u>
Automotive Experience			
Seating	444	437	420
Interiors	3	121	181
Electronics	—	—	31
	<u>447</u>	<u>558</u>	<u>632</u>
Power Solutions	404	309	328
Total	\$ 1,249	\$ 1,135	\$ 1,199

- (1) Building Efficiency - Systems and Service North America segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$2 million, \$3 million and \$12 million, respectively, of restructuring and impairment costs.
- (2) Building Efficiency - Products North America segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$9 million, \$11 million and \$7 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016, 2015 and 2014, Products North America segment EBIT includes \$10 million, \$9 million and \$7 million, respectively, of equity income.
- (3) Building Efficiency - Asia segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$26 million, \$11 million and \$4 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016 and 2014, Asia segment EBIT includes \$100 million and \$21 million, respectively, of equity income.
- (4) Building Efficiency - Rest of World segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$16 million, \$13 million and \$119 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016, 2015 and 2014, Rest of World segment EBIT includes \$15 million, \$14 million and \$7 million, respectively, of equity income.
- (5) Tyco segment EBIT for the year ended September 30, 2016 excludes \$85 million of restructuring and impairment costs. For the year ended September 30, 2016, Tyco segment EBIT includes \$1 million of equity income.
- (6) Automotive Experience - Seating segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$284 million, \$182 million and \$29 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016, 2015 and 2014, Seating segment EBIT includes \$289 million, \$264 million and \$250 million, respectively, of equity income.
- (7) Automotive Experience - Interiors segment EBIT for the years ended September 30, 2016 and 2014 excludes \$17 million and \$130 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016, 2015 and 2014, Interiors segment EBIT includes \$68 million, \$31 million and \$35 million, respectively, of equity income.
- (8) Power Solutions segment EBIT for the years ended September 30, 2016, 2015 and 2014 excludes \$66 million, \$11 million and \$16 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2016, 2015 and 2014, Power Solutions segment EBIT includes \$48 million, \$57 million and \$75 million, respectively, of equity income.

(9) Current year and prior year amounts exclude assets held for sale. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Company's disposal groups classified as held for sale.

The Company has significant sales to the automotive industry. In fiscal years 2016, 2015 and 2014, no customer exceeded 10% of consolidated net sales.

### ***Geographic Segments***

Financial information relating to the Company's operations by geographic area is as follows (in millions):

	Year Ended September 30,		
	2016	2015	2014
<b><u>Net Sales</u></b>			
United States	\$ 16,214	\$ 16,841	\$ 16,596
Germany	3,331	3,375	3,853
Japan	2,262	753	1,064
Mexico	1,637	1,933	2,001
Other European countries	6,860	7,320	8,913
Other foreign	7,370	6,957	6,322
<b>Total</b>	<b>\$ 37,674</b>	<b>\$ 37,179</b>	<b>\$ 38,749</b>
<b><u>Long-Lived Assets (Year-end)</u></b>			
United States	\$ 3,500	\$ 2,681	\$ 2,762
Germany	650	680	910
Japan	253	74	77
Mexico	708	594	567
Other European countries	1,284	1,006	1,064
Other foreign	1,477	835	934
<b>Total</b>	<b>\$ 7,872</b>	<b>\$ 5,870</b>	<b>\$ 6,314</b>

Net sales attributed to geographic locations are based on the location of the assets producing the sales. Long-lived assets by geographic location consist of net property, plant and equipment.

### **20. NONCONSOLIDATED PARTIALLY-OWNED AFFILIATES**

Investments in the net assets of nonconsolidated partially-owned affiliates are stated in the "Investments in partially-owned affiliates" line in the consolidated statements of financial position as of September 30, 2016 and 2015. Equity in the net income of nonconsolidated partially-owned affiliates is stated in the "Equity income" line in the consolidated statements of income for the years ended September 30, 2016, 2015 and 2014.

The following table presents summarized financial data for the Company's nonconsolidated partially-owned affiliates. The amounts included in the table below represent 100% of the results of operations of such nonconsolidated partially-owned affiliates accounted for under the equity method.

Summarized balance sheet data as of September 30 is as follows (in millions):

	2016	2015
Current assets	\$ 9,117	\$ 7,083
Noncurrent assets	4,164	3,294
<b>Total assets</b>	<b>\$ 13,281</b>	<b>\$ 10,377</b>
Current liabilities	\$ 7,689	\$ 6,268
Noncurrent liabilities	754	604
Noncontrolling interests	78	20
Shareholders' equity	4,760	3,485
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,281</b>	<b>\$ 10,377</b>

Summarized income statement data for the years ended September 30 is as follows (in millions):

	2016	2015	2014
Net sales	\$ 21,456	\$ 12,922	\$ 10,820
Gross profit	3,119	1,911	1,638
Net income	1,569	890	790
Income attributable to noncontrolling interests	26	10	3
Net income attributable to the entity	1,543	880	787

## 21. GUARANTEES

Certain of the Company's subsidiaries at the business segment level have guaranteed the performance of third-parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from the current fiscal year through the completion of such transactions and would typically be triggered in the event of nonperformance. Performance under the guarantees, if required, would not have a material effect on the Company's financial position, results of operations or cash flows.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Company recorded as part of the acquired liabilities of Tyco \$290 million of post sale contingent tax indemnification liabilities within other noncurrent liabilities in the consolidated statements of financial position. The liabilities are recorded at fair value and relate to certain tax related matters borne by the buyer of previously divested subsidiaries of Tyco which Tyco has indemnified certain parties and the amounts are probable of being paid. Of the \$290 million recorded as of September 30, 2016, \$255 million is related to prior divested businesses and the remainder relates to Tyco's tax sharing agreements from its 2007 and 2012 spin-off transactions. These are certain guarantees or indemnifications extended among Tyco, Medtronic, TE Connectivity, ADT and Pentair in accordance with the terms of the 2007 and 2012 separation and tax sharing agreements.

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates and other known factors. Based on analysis of return rates and other factors, the Company's warranty provisions are adjusted as necessary. The Company monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates.

The Company's product warranty liability is recorded in the consolidated statements of financial position in other current liabilities if the warranty is less than one year and in other noncurrent liabilities if the warranty extends longer than one year.

The changes in the carrying amount of the Company's total product warranty liability, including extended warranties for which deferred revenue is recorded, for the fiscal years ended September 30, 2016 and 2015 were as follows (in millions):

	Year Ended September 30,	
	2016	2015
Balance at beginning of period	\$ 300	\$ 319
Accruals for warranties issued during the period	324	280
Accruals from acquisitions and divestitures	83	—
Accruals related to pre-existing warranties (including changes in estimates)	(13)	(11)
Settlements made (in cash or in kind) during the period	(301)	(282)
Currency translation	3	(6)
Balance at end of period	<u><u>\$ 396</u></u>	<u><u>\$ 300</u></u>

## 22. TYCO INTERNATIONAL FINANCE S.A.

Tyco International Finance S.A. ("TIFSA"), a 100% owned subsidiary of the Company, has public debt securities outstanding which are fully and unconditionally guaranteed by Johnson Controls and by Tyco Fire & Security Finance S.C.A. ("TIFSCA"), a wholly owned subsidiary of the Company and parent company TIFSA. The following tables present condensed consolidating financial information for Johnson Controls, TIFSCA, TIFSA and all other subsidiaries. Condensed financial information for the Company, TIFSCA and TIFSA on a stand-alone basis is presented using the equity method of accounting for subsidiaries.

The TIFSA public debt securities were assumed as part of the Tyco acquisition. Therefore, no consolidating financial information for the years ended September 30, 2015 and September 30, 2014 is presented related to the guarantee of the TIFSA public debt securities. Additional information regarding TIFSA and TIFSCA for the fiscal year ended September 25, 2015 and the period ended June 24, 2016 can be found in Tyco's Annual Report on Form 10-K filed with the SEC on November 13, 2015 (as recast in part in Tyco's Current Report on Form 8-K filed with the SEC on March 11, 2016) and Tyco's Quarterly report on Form 10-Q filed with the SEC on July 29, 2016, respectively.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Year Ended September 30, 2016**  
**( $\$$  in millions)**

	<b>Johnson Controls International plc</b>	<b>Tyco Fire &amp; Security Finance SCA</b>	<b>Tyco International Finance S.A.</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
Net sales	$\$$ —	$\$$ —	$\$$ —	$\$$ 37,674	$\$$ —	$\$$ 37,674
Cost of sales	—	—	—	30,360	—	30,360
Gross profit	—	—	—	7,314	—	7,314
Selling, general and administrative expenses	(2)	(2)	(1)	(5,320)	—	(5,325)
Restructuring and impairment costs	—	—	—	(620)	—	(620)
Net financing charges	—	—	(6)	(308)	—	(314)
Equity income (loss)	(894)	(1,527)	(313)	531	2,734	531
Intercompany interest and fees	28	—	7	(35)	—	—
Income (loss) from continuing operations before income taxes	(868)	(1,529)	(313)	1,562	2,734	1,586
Income tax provision	—	—	—	2,238	—	2,238
Income (loss) from continuing operations	(868)	(1,529)	(313)	(676)	2,734	(652)
Net income (loss)	<u>(868)</u>	<u>(1,529)</u>	<u>(313)</u>	<u>(676)</u>	<u>2,734</u>	<u>(652)</u>
Income from continuing operations attributable to noncontrolling interests	—	—	—	216	—	216
Net income (loss) attributable to Johnson Controls	<u><math>\\$</math> (868)</u>	<u><math>\\$</math> (1,529)</u>	<u><math>\\$</math> (313)</u>	<u><math>\\$</math> (892)</u>	<u><math>\\$</math> 2,734</u>	<u><math>\\$</math> (868)</u>

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME**  
**For the Year Ended September 30, 2016**

(in millions)	<b>Johnson Controls International plc</b>	<b>Tyco Fire &amp; Security Finance SCA</b>	<b>Tyco International Finance S.A.</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Net Income (loss)</b>	\$ (868)	\$ (1,529)	\$ (313)	\$ (676)	\$ 2,734	\$ (652)
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustments	(105)	—	—	(83)	94	(94)
Realized and unrealized gains on derivatives	11	—	—	7	(9)	9
Realized and unrealized losses on marketable common stock	(1)	—	—	(1)	1	(1)
Pension and postretirement plans	(1)	—	—	(1)	1	(1)
Other comprehensive loss	<u>(96)</u>	<u>—</u>	<u>—</u>	<u>(78)</u>	<u>87</u>	<u>(87)</u>
Total comprehensive loss	<u>(964)</u>	<u>(1,529)</u>	<u>(313)</u>	<u>(754)</u>	<u>2,821</u>	<u>(739)</u>
Comprehensive income attributable to noncontrolling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>225</u>	<u>—</u>	<u>225</u>
Comprehensive loss attributable to Johnson Controls	<u><u>\$ (964)</u></u>	<u><u>\$ (1,529)</u></u>	<u><u>\$ (313)</u></u>	<u><u>\$ (979)</u></u>	<u><u>\$ 2,821</u></u>	<u><u>\$ (964)</u></u>

**CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**For the Year Ended September 30, 2016**

(in millions)	<b>Johnson Controls International plc</b>	<b>Tyco Fire &amp; Security Finance SCA</b>	<b>Tyco International Finance S.A.</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 11	\$ —	\$ 244	\$ 429	\$ —	\$ 684
Cash in escrow related to Adient debt	—	—	—	2,034	—	2,034
Accounts receivable, net	—	—	—	8,018	—	8,018
Inventories	—	—	—	3,560	—	3,560
Intercompany receivables	16	—	2	6,188	(6,206)	—
Assets held for sale	—	—	—	174	—	174
Other current assets	6	—	1	2,632	—	2,639
Current assets	<u>\$ 33</u>	<u>\$ —</u>	<u>\$ 247</u>	<u>\$ 23,035</u>	<u>\$ (6,206)</u>	<u>\$ 17,109</u>
Property, plant and equipment - net	—	—	—	7,872	—	7,872
Goodwill	—	—	274	23,135	—	23,409
Other intangible assets - net	—	—	—	7,653	—	7,653
Investments in partially-owned affiliates	—	—	—	2,735	—	2,735
Investments in affiliates	12,460	31,405	27,906	—	(71,771)	—
Intercompany loans receivable	18,680	—	13,336	15,631	(47,647)	—
Other noncurrent assets	—	—	—	4,475	—	4,475
Total assets	<u>\$ 31,173</u>	<u>\$ 31,405</u>	<u>\$ 41,763</u>	<u>\$ 84,536</u>	<u>\$ (125,624)</u>	<u>\$ 63,253</u>
<b>Liabilities and Equity</b>						
Short-term debt	\$ —	\$ —	\$ 1,119	\$ —	\$ 1,119	\$ 1,119
Current portion of long-term debt	—	—	—	628	—	628
Accounts payable	1	—	—	6,763	—	6,764
Accrued compensation and benefits	—	—	—	1,763	—	1,763
Liabilities held for sale	—	—	—	28	—	28
Intercompany payables	3,873	—	2,315	18	(6,206)	—
Other current liabilities	3	2	32	5,954	—	5,991
Current liabilities	<u>3,877</u>	<u>2</u>	<u>2,347</u>	<u>16,273</u>	<u>(6,206)</u>	<u>16,293</u>
Long-term debt	—	—	2,413	12,193	—	14,606
Pension and postretirement benefits	—	—	—	1,738	—	1,738
Intercompany loans payable	3,178	18,680	12,453	13,336	(47,647)	—
Other noncurrent liabilities	—	—	22	5,270	—	5,292
Long-term liabilities	<u>3,178</u>	<u>18,680</u>	<u>14,888</u>	<u>32,537</u>	<u>(47,647)</u>	<u>21,636</u>
Redeemable noncontrolling interest	—	—	—	234	—	234
Ordinary shares	9	—	—	—	—	9
Ordinary shares held in treasury	(20)	—	—	—	—	(20)
Other shareholders' equity	24,129	12,723	24,528	34,520	(71,771)	24,129
Shareholders' equity attributable to Johnson Controls	24,118	12,723	24,528	34,520	(71,771)	24,118
Nonredeemable noncontrolling interest	—	—	—	972	—	972
Total equity	<u>24,118</u>	<u>12,723</u>	<u>24,528</u>	<u>35,492</u>	<u>(71,771)</u>	<u>25,090</u>
Total liabilities, redeemable noncontrolling interest and equity	<u>\$ 31,173</u>	<u>\$ 31,405</u>	<u>\$ 41,763</u>	<u>\$ 84,536</u>	<u>\$ (125,624)</u>	<u>\$ 63,253</u>

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Year Ended September 30, 2016**

(in millions)	<b>Johnson Controls International plc</b>	<b>Tyco Fire &amp; Security Finance SCA</b>	<b>Tyco International Finance S.A.</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Operating Activities</b>						
Net cash provided by operating activities	\$ 11	\$ —	\$ 639	\$ 1,245	\$ —	\$ 1,895
<b>Investing Activities</b>						
Capital expenditures	—	—	—	(1,249)	—	(1,249)
Sale of property, plant and equipment	—	—	—	32	—	32
Acquisition of business, net of cash acquired	—	—	—	353	—	353
Business divestitures	—	—	—	32	—	32
Changes in long-term investments	—	—	57	(105)	—	(48)
Net change in intercompany loans	—	—	10	—	(10)	—
Other	—	—	—	(7)	—	(7)
Net cash provided (used) by investing activities	—	—	67	(944)	(10)	(887)
<b>Financing Activities</b>						
Increase (decrease) in short-term debt - net	—	—	(462)	1,018	—	556
Increase in long-term debt	—	—	—	1,501	—	1,501
Repayment of long-term debt	—	—	—	(1,299)	—	(1,299)
Debt financing costs	—	—	—	(45)	—	(45)
Stock repurchases	—	—	—	(501)	—	(501)
Payment of cash dividends	—	—	—	(915)	—	(915)
Proceeds from the exercise of stock options	3	—	—	67	—	70
Net intercompany loan borrowings (repayments)	—	—	—	(10)	10	—
Cash paid to acquire a noncontrolling interest	—	—	—	(2)	—	(2)
Dividends paid to noncontrolling interests	—	—	—	(306)	—	(306)
Other	(3)	—	—	11	—	8
Net cash provided (used) in financing activities	—	—	(462)	(481)	10	(933)
Effect of currency translation on cash	—	—	—	12	—	12
<b>Increase (decrease) in cash and cash equivalents</b>	<b>11</b>	<b>—</b>	<b>244</b>	<b>(168)</b>	<b>—</b>	<b>87</b>
Cash and cash equivalents at beginning of period	—	—	—	597	—	597
Cash and cash equivalents at end of period	<b>\$ 11</b>	<b>\$ —</b>	<b>\$ 244</b>	<b>\$ 429</b>	<b>\$ —</b>	<b>\$ 684</b>

## 23. COMMITMENTS AND CONTINGENCIES

### *Environmental Matters*

The Company accrues for potential environmental liabilities when it is probable a liability has been incurred and the amount of the liability is reasonably estimable. As of September 30, 2016, reserves for environmental liabilities totaled \$55 million, of which \$15 million was recorded within other current liabilities and \$40 million was recorded within other noncurrent liabilities in the consolidated statements of financial position. Reserves for environmental liabilities totaled \$23 million at September 30, 2015. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company does not currently believe that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the Power Solutions and Buildings businesses. At September 30, 2016 and 2015, the Company recorded conditional asset retirement obligations of \$74 million and \$59 million, respectively.

### *Asbestos Matters*

The Company and certain of its subsidiaries, along with numerous other third parties, are named as defendants in personal injury lawsuits based on alleged exposure to asbestos containing materials. These cases have typically involved product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were used with asbestos containing components.

As of September 30, 2016, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position is \$148 million. The net liability within the consolidated statements of financial position is comprised of a liability for pending and future claims and related defense costs of \$548 million, of which \$35 million is recorded in other current liabilities and \$513 million is recorded in other noncurrent liabilities. The Company also maintains separate cash, investments and receivables related to insurance recoveries within the consolidated statements of financial position of \$400 million, of which \$41 million is recorded in other current assets, and \$359 million is recorded in other noncurrent assets. Assets include \$16 million of cash and \$264 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Company records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at September 30, 2016 is \$120 million. The Company believes that the asbestos related liabilities and insurance related receivables recorded as of September 30, 2016 are appropriate. As of September 30, 2015, the Company's estimated asbestos related net liability recorded on a discounted basis within the Company's consolidated statements of financial position is comprised of a liability for pending and future claims and related defense costs of \$136 million and is primarily recorded in other noncurrent liabilities. There were no assets recorded related to the Company's asbestos obligations at September 30, 2015. The assets recorded in fiscal 2016 were as a result of assets acquired as part of the Tyco Merger.

The Company's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Company's historical claim experience, and estimates of the number and resolution cost of potential future claims that may be filed and is discounted to present value from 2069 (which is the Company's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Company affiliates). Asbestos related defense costs are included in the asbestos liability. The Company's legal strategy for resolving claims also impacts these estimates. The Company considers various trends and developments in evaluating the period of time (the look-back period) over which historical claim and settlement experience is used to estimate and value claims reasonably projected to be made through 2069. Annually, the Company assesses the sufficiency of its estimated liability for pending and future claims and defense costs by evaluating actual experience regarding claims filed, settled and dismissed, and amounts paid in settlements. In addition to claims and settlement experience, the Company considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Company's defense strategy. The Company also evaluates the recoverability of its insurance receivable on an annual basis. The Company evaluates all of these factors and determines whether a change in the estimate of its liability for pending and future claims and defense costs or insurance receivable is warranted.

The amounts recorded by the Company for asbestos-related liabilities and insurance-related assets are based on the Company's strategies for resolving its asbestos claims, currently available information, and a number of estimates and assumptions. Key variables and assumptions include the number and type of new claims that are filed each year, the average cost of resolution of claims, the identity of defendants, the resolution of coverage issues with insurance carriers, amount of insurance, and the solvency risk with respect to the Company's insurance carriers. Many of these factors are closely linked, such that a change in one variable or assumption will impact one or more of the others, and no single variable or assumption predominately influences the determination of the Company's asbestos-related liabilities and insurance-related assets. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the later portion of the projection period. Other factors that may affect the Company's liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Company's calculations vary significantly from actual results.

#### *Insurable Liabilities*

The Company records liabilities for its workers' compensation, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated by utilizing actuarial valuations based upon historical claims experience. At September 30, 2016 and 2015, the insurable liabilities totaled \$473 million and \$194 million, respectively, of which \$70 million and \$28 million was recorded within other current liabilities, \$36 million and \$25 million was recorded within accrued compensation and benefits, and \$367 million and \$141 million was recorded within other noncurrent liabilities in the consolidated statements of financial position, respectively. The Company records receivables from third party insurers when recovery has been determined to be probable. The Company maintains captive insurance companies to manage certain of its insurable liabilities.

The Company is involved in various lawsuits, claims and proceedings incident to the operation of its businesses, including those pertaining to product liability, environmental, safety and health, intellectual property, employment, commercial and contractual matters, and various other casualty matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, it is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

#### **24. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company enters into transactions with related parties, such as equity affiliates. Such transactions consist of facility management services, the sale or purchase of goods and other arrangements.

The net sales to and purchases from related parties included in the consolidated statements of income were \$1.3 billion and \$0.5 billion, respectively, for fiscal 2016; \$1.3 billion and \$0.4 billion, respectively, for fiscal 2015; and \$1.2 billion and \$0.4 billion, respectively, for fiscal 2014.

The following table sets forth the amount of accounts receivable due from and payable to related parties in the consolidated statements of financial position (in millions):

	September 30,	
	2016	2015
Receivable from related parties	\$ 239	\$ 389
Payable to related parties	92	285

The Company has also provided financial support to certain of its VIE's, see Note 1, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements for additional information.

## 25. SUBSEQUENT EVENT

On October 31, 2016, the Company completed the spin-off of its Automotive Experience business by way of the transfer of the Automotive Experience Business from Johnson Controls to Adient plc and the issuance of ordinary shares of Adient directly to holders of Johnson Controls ordinary shares on a pro rata basis. Prior to the open of business on October 31, 2016, each of the Company's shareholders received one ordinary share of Adient plc for every 10 ordinary shares of Johnson Controls held as of the close of business on October 19, 2016, the record date for the distribution. Company shareholders received cash in lieu of fractional shares of Adient, if any. Following the separation and distribution, Adient plc is now an independent public company trading on the New York Stock Exchange (NYSE) under the symbol "ADNT." The Company did not retain any equity interest in Adient plc. Beginning in the first quarter of fiscal 2017, Adient's historical financial results will be reflected in the Company's consolidated financial statements as a discontinued operation.

### JOHNSON CONTROLS, INC. AND SUBSIDIARIES SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (In millions)

Year Ended September 30,	2016	2015	2014
<u>Accounts Receivable - Allowance for Doubtful Accounts</u>			
Balance at beginning of period	\$ 82	\$ 72	\$ 68
Provision charged to costs and expenses	62	41	50
Reserve adjustments	(16)	(15)	(22)
Accounts charged off	(26)	(16)	(19)
Acquisition of businesses	92	1	1
Currency translation	—	(1)	(1)
Transfers to held for sale	—	—	(5)
Balance at end of period	<u>\$ 194</u>	<u>\$ 82</u>	<u>\$ 72</u>
<u>Deferred Tax Assets - Valuation Allowance</u>			
Balance at beginning of period	\$ 1,256	\$ 1,285	\$ 1,172
Allowance provision for new operating and other loss carryforwards	121	23	121
Allowance provision benefits	(272)	(52)	(8)
Acquisition of businesses	2,459	—	—
Balance at end of period	<u>\$ 3,564</u>	<u>\$ 1,256</u>	<u>\$ 1,285</u>

### ITEM 9      CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A      CONTROLS AND PROCEDURES

#### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluations, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that, as of September 30, 2016, the Company's internal control over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and the effectiveness of internal control over financial reporting as of September 30, 2016 as stated in its report which is included in Item 8 of this Form 10-K and is incorporated by reference herein.

Management has excluded the operations of the Tyco business from its assessment of internal control over financial reporting as of September 30, 2016 given that the acquisition date of Tyco was September 2, 2016. Tyco's combined total assets and total revenues excluded from our assessment represent approximately 44% and less than 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2016.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 9B OTHER INFORMATION**

None.

### **PART III**

The information required by Part III, Items 10, 11, 13 and 14, and certain of the information required by Item 12, is incorporated herein by reference to the Company's Proxy Statement for its 2017 Annual Meeting of Shareholders (which we refer to as the fiscal 2016 Proxy Statement), dated and to be filed with the SEC on or about January 20, 2017, as follows:

### **ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference to the sections entitled "Q: Where can I find Corporate Governance materials for Johnson Controls?," "Proposal One: Election of Directors," "Corporate Governance," "Board and Committee Membership," "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the fiscal 2016 Proxy Statement. Required information on executive officers of the Company appears at Part I, Item 4 of this report.

### **ITEM 11 EXECUTIVE COMPENSATION**

Incorporated by reference to the sections entitled "Corporate Governance," "Board and Committee Membership," "Compensation Committee Report," "Compensation Discussion and Analysis," "Director Compensation during Fiscal Year 2016," "Potential Payments and Benefits Upon Termination or Change of Control," and "Johnson Controls Share Ownership" of the fiscal 2016 Proxy Statement.

### **ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference to the section entitled "Johnson Controls Share Ownership" of the fiscal 2016 Proxy Statement.

The following table provides information about the Company's equity compensation plans as of September 30, 2016:

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders	22,332,233	\$ 32.07	46,471,348
Equity compensation plans not approved by shareholders	—	—	—
<b>Total</b>	<b>22,332,233</b>	<b>\$ 32.07</b>	<b>46,471,348</b>

**ITEM 13        CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated by reference to the section entitled "Corporate Governance" of the fiscal 2016 Proxy Statement.

**ITEM 14        PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated by reference to the section entitled "Audit Committee Report" of the fiscal 2016 Proxy Statement.

## PART IV

### ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Page in  
Form 10-K

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm	66
Consolidated Statements of Income for the years ended September 30, 2016, 2015 and 2014	68
Consolidated Statements of Comprehensive Income (Loss) for the years ended September 30, 2016, 2015 and 2014	69
Consolidated Statements of Financial Position at September 30, 2016 and 2015	70
Consolidated Statements of Cash Flows for the years ended September 30, 2016, 2015 and 2014	71
Consolidated Statements of Shareholders' Equity for the years ended September 30, 2016, 2015 and 2014	72
Notes to Consolidated Financial Statements	73

(2) Financial Statement Schedule

For the years ended September 30, 2016, 2015 and 2014:

Schedule II - Valuation and Qualifying Accounts	142
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(3) Exhibits

Reference is made to the separate exhibit index contained on pages 147 through 152 filed herewith.

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less-owned companies have been omitted because the proportionate share of their profit before income taxes and total assets are individually less than 20% of the respective consolidated amounts, and investments in such companies are less than 20% of consolidated total assets. Refer to Note 20, "Non-Consolidated Partially-Owned Affiliates" of the notes to consolidated financial statements for the summarized financial data for the Company's nonconsolidated partially-owned affiliates.

#### Other Matters

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statement on Post-Effective Amendment Form S-8 to Form S-4 No. 333-210588 and Registration Statements on Form S-8 Nos. 333-213508, 333-200320, 333-185004, 333-107489, 333-113943 and 333-200314-02.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## SIGNATURES

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

JOHNSON CONTROLS INTERNATIONAL PLC

By /s/ Brian J. Stief

Brian J. Stief

Executive Vice President and  
Chief Financial Officer

Date: November 23, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of November 23, 2016, by the following persons on behalf of the registrant and in the capacities indicated:

/s/ Alex A. Molinaroli

Alex A. Molinaroli  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ Brian J. Stief

Brian J. Stief  
Executive Vice President and  
Chief Financial Officer (Principal Financial Officer)

/s/ Suzanne M. Vincent

Suzanne M. Vincent  
Vice President and Corporate Controller  
(Principal Accounting Officer)

/s/ David P. Abney

David P. Abney  
Director

/s/ Natalie A. Black

Natalie A. Black  
Director

/s/ Mike Daniels

Mike Daniels  
Director

/s/ Brian Duppereault

Brian Duppereault  
Director

/s/ Jeffrey A. Joerres

Jeffrey A. Joerres  
Director

/s/ Alex A. Molinaroli

Alex A. Molinaroli  
Director

/s/ George R. Oliver

George R. Oliver  
Director

/s/ Jürgen Tinggren

Jürgen Tinggren  
Director

/s/ Juan Pablo del Valle Perochena

Juan Pablo del Valle Perochena  
Director

/s/ Mark P. Vergnano

Mark P. Vergnano  
Director

/s/ David Yost

David Yost  
Director

**Johnson Controls International plc**  
**Index to Exhibits**

<b>Exhibit</b>	<b>Title</b>
2.1	Separation and Distribution Agreement, dated as of September 8, 2016, by and between Johnson Controls International plc and Adient Limited (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed September 9, 2016)
2.2	Agreement and Plan of Merger by and among Johnson Controls, Inc., Johnson Controls International plc (formerly Tyco International plc) and Jagara Merger Sub LLC, dated as of January 24, 2016 (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed January 27, 2016)
2.3	Merger Agreement, dated as of March 30, 2014, between Tyco International Ltd., and Johnson Controls International plc (formerly Tyco International plc) (Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on June 4, 2014)
3.1	Memorandum and Articles of Association of Johnson Controls International plc, as amended by special resolution dated September 8, 2014 and as amended by special resolution dated August 17, 2016 (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on September 6, 2016)
4.1	Assumption and Accession Agreement, dated as of November 17, 2014, by Johnson Controls International plc (formerly Tyco International plc) (incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed on November 17, 2014)
4.2	Indenture, dated as of January 9, 2009, by and among Tyco International Finance S.A., as issuer, Johnson Controls International plc (formerly Tyco International Ltd.), as guarantor, and Deutsche Bank Trust Company Americas, as trustee (Incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on January 9, 2009)
4.3	Fourth Supplemental Indenture, dated as of January 12, 2011, by and among Tyco International Finance S.A., as issuer, Johnson Controls International plc (formerly Tyco International Ltd.), as guarantor, and Deutsche Bank Trust Company Americas, as trustee relating to the issuer's 3.75% notes due 2018 (Incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on January 12, 2011)
4.4	Fifth Supplemental Indenture, dated as of January 12, 2011, by and among Tyco International Finance S.A., as issuer, Johnson Controls International plc (formerly Tyco International Ltd.), as guarantor, and Deutsche Bank Trust Company Americas, as trustee relating to the issuer's 4.625% notes due 2023 (Incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on January 12, 2011)
4.5	Supplemental Indenture 2014-1 to the 2009 Indenture, dated as of November 17, 2014, among Johnson Controls International plc (formerly Tyco International Ltd.), Tyco International Finance S.A., Tyco Fire & Security Finance S.C.A. and Deutsche Bank Trust Company Americas (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on November 17, 2014)
4.6	Indenture, dated as of February 25, 2015 (the "2015 Indenture"), among Tyco International Finance S.A., Johnson Controls International plc (formerly Tyco International plc), Tyco Fire & Security Finance S.C.A., and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on February 25, 2015)
4.7	First Supplemental Indenture to the 2015 Indenture, dated as of February 25, 2015, among Tyco International Finance S.A., Johnson Controls International plc (formerly Tyco International plc), Tyco Fire & Security Finance S.C.A., Deutsche Bank Trust Company Americas as trustee and as paying agent and Deutsche Bank Luxembourg S.A., as security registrar, transfer agent and authenticating agent relating to the issuer's 1.375% Euro notes due 2025 (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed on February 25, 2015)
4.8	Second Supplemental Indenture to the 2015 Indenture, dated as of September 14, 2015, among Tyco International Finance S.A., Johnson Controls International plc (formerly Tyco International plc), Tyco Fire & Security Finance S.C.A., Deutsche Bank Trust Company Americas, as trustee related to the issuer's 3.9% notes due 2026 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on September 14, 2015)

**Johnson Controls International plc**  
**Index to Exhibits**

<b>Exhibit</b>	<b>Title</b>
4.9	Third Supplemental Indenture, dated as of September 14, 2015, among Tyco International Finance S.A., Johnson Controls International plc (formerly Tyco International plc), Tyco Fire & Security Finance S.C.A., Deutsche Bank Trust Company Americas, as trustee relating to the issuer's 5.125% notes due 2045 (incorporated by reference to Exhibit 4.2 to the registrant's current report on Form 8-K filed on September 14, 2015)
4.10	Miscellaneous long-term debt agreements and financing leases with banks and other creditors and debenture indentures.*
4.11	Miscellaneous industrial development bond long-term debt issues and related loan agreements and leases.*
4.12	Senior indenture, dated January 17, 2006, between Johnson Controls, Inc. and U.S. Bank National Association, as successor trustee to JP Morgan Chase Bank, National Association (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc. Registration Statement on Form S-3 filed on February 24, 2009) (Commission File No. 1-5097)
4.13	Supplemental Indenture No. 2, dated March 1, 2012, between Johnson Controls, Inc. and U.S. Bank National Association, as Trustee, relating to Johnson Controls, Inc.'s 2.355% Senior Notes due 2017 (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed March 1, 2012) (Commission File No. 1-5097)
4.14	Officer's Certificate, dated January 17, 2006, creating the 5.250% Fixed Rate Notes due 2011 (retired; no longer outstanding), the 5.500% Fixed Rate Notes due 2016 (retired; no longer outstanding), and the 6.000% Fixed Rate Notes due 2036 (incorporated by reference to Exhibit 4.2 to Johnson Controls, Inc. Form 8-K dated January 9, 2006) (Commission File No. 1-5097)
4.15	Officers' Certificate, dated December 2, 2011, establishing Johnson Controls, Inc.'s 2.600% Senior Notes due 2016, 3.750% Senior Notes due 2021 and 5.250% Senior Notes due 2041 (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed December 2, 2011) (Commission File No. 1-5097)
4.16	Officers' Certificate, dated March 9, 2010 creating Johnson Controls, Inc.'s 5.000% Senior Notes due 2020 (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed March 10, 2010) (Commission File No. 1-5097)
4.17	Officers' Certificate, dated June 13, 2014, establishing Johnson Controls, Inc.'s 1.400% Senior Notes due 2017, 3.625% Senior Notes due 2024, 4.625% Senior Notes due 2044 and 4.950% Senior Notes due 2064 (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed June 13, 2014) (Commission File No. 1-5097)
4.18	Officers' Certificate, dated February 4, 2011, establishing Johnson Controls, Inc.'s Floating Rate Notes due 2014 (retired; no longer outstanding), 1.75% Senior Notes due 2014 (retired; no longer outstanding), 4.25% Senior Notes due 2021 and 5.70% Senior Notes due 2041 (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed February 7, 2011) (Commission File No. 1-5097)
10.1	Term Loan Credit Agreement, dated as of March 10, 2016, among Tyco International Holding S.à r.l., each of the initial lenders named therein, Citibank, N.A., as administrative agent, Citigroup Global Markets Inc., Merrill, Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and JPMorgan Chase Bank N.A. as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed March 6, 2016)
10.2	Multi-Year Senior Unsecured Credit Agreement, dated as of March 10, 2016, among Tyco International Holding S.à r.l., each of the initial lenders named therein, Citibank, N.A., as administrative agent, and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank plc, Wells Fargo Securities, LLC and JPMorgan Chase Bank, N.A. as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed March 6, 2016)

**Johnson Controls International plc**  
**Index to Exhibits**

<b>Exhibit</b>	<b>Title</b>
10.3	Credit Agreement, dated as of March 10, 2016, among Johnson Controls, Inc., the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 4.2 to Johnson Controls, Inc.'s Current Report on Form 8-K filed March 6, 2016) (Commission File No. 1-5097)
10.4	Transition Services Agreement, dated as of September 8, 2016, by and between Johnson Controls International plc and Adient Limited (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 9, 2016)
10.5	Tax Matters Agreement, dated as of September 8, 2016, by and between Johnson Controls International plc and Adient Limited (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on September 9, 2016)
10.6	Employee Matters Agreement, dated as of September 8, 2016, by and between Johnson Controls International plc and Adient Limited (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on September 9, 2016)
10.7	Transitional Trademark License Agreement, dated as of September 8, 2016, by and between Johnson Controls International plc and Adient Limited (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on September 9, 2016)
10.8	Tax Sharing Agreement, dated September 28, 2012 by and among Pentair Ltd., Johnson Controls International plc (formerly Tyco International Ltd.), Tyco International Finance S.A. and The ADT Corporation (Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 1, 2012).
10.9	Non-Income Tax Sharing Agreement dated September 28, 2012 by and among Johnson Controls International plc (formerly Tyco International Ltd.), Tyco International Finance S.A. and The ADT Corporation (Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on October 1, 2012).
10.10	Trademark Agreement, dated as of September 25, 2012, by and among ADT Services GmbH, ADT US Holdings, Inc., Johnson Controls International plc (formerly Tyco International Ltd.) and The ADT Corporation (Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on October 1, 2012)
10.11	Form of Deed of Indemnification between Johnson Controls International plc (formerly Tyco International plc) and certain of its directors and officers (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on September 6, 2016)
10.12	Form of Indemnification Agreement between Tyco Fire & Security (US) Management, Inc. and certain directors and officers of Johnson Controls International plc (incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on September 6, 2016)
10.13	Tyco International plc 2004 Share and Incentive Plan (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on November 17, 2014) **
10.14	Johnson Controls International plc 2012 Share and Incentive Plan, amended and restated as of September 2, 2016 (incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on September 9, 2016) **
10.15	Johnson Controls International plc 2000 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on September 6, 2016) **
10.16	Johnson Controls International plc 2007 Stock Option Plan (incorporated by reference to Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on September 6, 2016) **

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<b>Exhibit</b>	<b>Title</b>
10.17	Johnson Controls International plc Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on September 6, 2016) **
10.18	Tyco International Change in Control Severance Plan for Certain U.S. Officers and Executives (incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on November 17, 2014) **
10.19	Johnson Controls International plc Severance and Change in Control Policy for Officers, effective as of September 2, 2016 (filed herewith) **
10.20	Johnson Controls International plc Executive Deferred Compensation Plan, as amended and restated effective September 2, 2016 (filed herewith) **
10.21	Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors, as amended and restated effective January 5, 2016 (incorporated by reference to Exhibit 10.3 to Johnson Controls, Inc.'s Quarterly Report on Form 10-Q filed on February 2, 2016) (Commission File No. 1-5097) **
10.22	Johnson Controls International plc Retirement Restoration Plan, as amended and restated effective September 2, 2016 (filed herewith) **
10.23	Tyco Supplemental Savings and Retirement Plan (incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on November 17, 2014) **
10.24	Johnson Controls International plc Executive Compensation Incentive Recoupment Policy effective September 2, 2016 (filed herewith) **
10.25	Amended and Restated Executive Employment Agreement, dated as of January 24, 2016, by and between Johnson Controls, Inc. and Alex A. Molinaroli (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc.'s Current Report on Form 8-K filed on January 27, 2016) (Commission File No. 1-5097) **
10.26	Amended and Restated Change of Control Executive Employment Agreement, dated as of January 24, 2016, by and between Johnson Controls, Inc. and Alex A. Molinaroli (incorporated by reference to Exhibit 10.2 to Johnson Controls, Inc.'s Current Report on Form 8-K filed on January 27, 2016) (Commission File No. 1-5097) **
10.27	Amendment to the Amended and Restated Change of Control Executive Employment Agreement, dated as of April 1, 2016, by and between Johnson Controls, Inc. and Alex Molinaroli (incorporated by reference to Exhibit 10.4 to Johnson Controls, Inc.'s Current Report on Form 8-K filed on April 29, 2016) (Commission File No. 1-5097) **
10.28	Amended and Restated Executive Employment Agreement, dated as of January 24, 2016, by and between Johnson Controls International plc (formerly Tyco International plc) and George Oliver (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on January 27, 2016) **
10.29	Employment Offer Letter, dated as of September 1, 2016, between Johnson Controls International plc (formerly Tyco International plc) and Judith Reinsdorf (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 6, 2016) **
10.30	Global Assignment Letter between Johnson Controls, Inc. and Trent Nevill dated as of April 1, 2016 (incorporated by reference to Exhibit 10.4 to Johnson Controls, Inc.'s Current Report on Form 8-K filed on April 29, 2016) (Commission File No. 1-5097) **
10.31	Form of employment agreement, including form of change in control agreement, between Johnson Controls, Inc. and Messrs. Stief, Jackson, Walicki, Nevill and Davis, as amended and restated July 28, 2010 (incorporated by reference to Exhibit 10.Y to Johnson Controls, Inc.'s Quarterly Report on Form 10-Q filed on August 3, 2010) (Commission File No. 1-5097) **

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<b>Exhibit</b>	<b>Title</b>
10.32	Form of letter agreement amending certain provisions of the employment agreement between Johnson Controls, Inc. and Messrs. Stief, Jackson, Walicki, Nevill and Davis (filed herewith) **
10.33	Form of terms and conditions for Option / SAR Awards, Restricted Stock / Unit Awards, Performance Share Awards under the Johnson Controls International plc 2012 Share and Incentive Plan for periods commencing on September 2, 2016 (filed herewith) **
10.34	Form of terms and conditions for Option Awards, Restricted Unit Awards, Performance Share Awards under the 2012 Share and Incentive Plan for fiscal 2016 (Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on October 13, 2015) **
10.35	Form of terms and conditions for Option Awards, Restricted Unit Awards, Performance Share Awards under the 2012 Stock and Incentive Plan for fiscal 2015 (Incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K for the fiscal year ended September 26, 2014 filed on November 14, 2014) **
10.36	Form of terms and conditions for Option Awards, Restricted Unit Awards, Performance Share Awards under the 2012 Stock and Incentive Plan for fiscal 2014 (Incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed on for the year ended September 27, 2013 filed on November 14, 2013) **
10.37	Form of terms and conditions for Restricted Stock Unit Awards for Directors under the 2012 Stock and Incentive Plan (Incorporated by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K for the year ended September 28, 2012 filed on November 16, 2012) **
10.38	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended effective September 20, 2011 (incorporated by reference to Exhibit 10.L to Johnson Controls, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2011 filed on November 22, 2011) (Commission File No. 1-5097) **
10.39	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended September 16, 2006, as in effect commencing October 2, 2006 (incorporated by reference to Exhibit 10.CC to Johnson Controls, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2006 filed on December 5, 2006) (Commission File No. 1-5097) **
10.40	Form of stock option or stock appreciation right award agreement for Johnson Controls, Inc. 2007 Stock Option Plan effective September 20, 2011 (incorporated by reference to Exhibit 10.V to Johnson Controls, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2011 filed on November 22, 2011) (Commission File No. 1-5097) **
10.41	Form of performance share unit agreement for Johnson Controls, Inc. 2012 Omnibus Incentive Plan for recipients who have not announced an intention to retire (incorporated by reference to Exhibit 10.1(a) to Johnson Controls, Inc.'s Current Report on Form 8-K filed November 21, 2013) (Commission File No. 1-5097) **
10.42	Form of performance share unit agreement for Johnson Controls, Inc. 2012 Omnibus Incentive Plan for recipients who have announced an intention to retire (incorporated by reference to Exhibit 10.1(d) to Johnson Controls, Inc.'s Current Report on Form 8-K filed November 21, 2013) (Commission File No. 1-5097) **
10.43	Form of restricted stock/restricted stock unit agreement for Johnson Controls, Inc. 2012 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1(b) to Johnson Controls, Inc.'s Current Report on Form 8-K filed November 21, 2013) (Commission File No. 1-5097) **
10.44	Form of restricted stock/restricted stock unit agreement for Johnson Controls, Inc. 2012 Omnibus Incentive Plan reflecting pro rata vesting on retirement, filed herewith (incorporated by reference to Exhibit 10.CC to Johnson Controls, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2014 filed on November 18, 2015) (Commission File No. 1-5097) **

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10.45 Form of option/stock appreciation right agreement for Johnson Controls, Inc. 2012 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1(c) to Johnson Controls, Inc.'s Current Report on Form 8-K filed November 21, 2013) (Commission File No. 1-5097) \*\*

12.1 Computation of ratio of earnings to fixed charges for the years ended September 30, 2016, 2015, 2014, 2013 and 2012, filed herewith.

18.1 Preferability Letter on Change in Accounting Principle (filed herewith)

21.1 Subsidiaries of Johnson Controls International plc (filed herewith)

23.1 Consent of Independent Public Accounting Firm (filed herewith)

31.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

101 Financial statements from the Annual Report on Form 10-K of Johnson Controls International plc for the fiscal year ended September 30, 2016 formatted in XBRL: (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flow, (v) the Consolidated Statements of Shareholders' Equity Attributable to Johnson Controls, Inc. and (vi) Notes to Consolidated Financial Statements (filed herewith)

\* These instruments are not being filed as exhibits herewith because none of the long-term debt instruments authorizes the issuance of debt in excess of 10% of the total assets of Johnson Controls, Inc. and its subsidiaries on a consolidated basis. Johnson Controls, Inc. agrees to furnish a copy of each agreement to the Securities and Exchange Commission upon request.

\*\* Management contract or compensatory plan.



