

# **JOHNSON CONTROLS INTERNATIONAL PLC**

**Annual Report**

**For the Year Ended September 30, 2017**

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**JOHNSON CONTROLS INTERNATIONAL PLC**  
**DIRECTORS' REPORT**  
**For the Financial Year Ended September 30, 2017**

The directors present their report and the audited consolidated financial statements for the financial year ended September 30, 2017, which are set out on pages 54 to 129, and audited parent company financial statements for the financial year ended September 30, 2017, which are set out on pages 130 to 143.

The directors have elected to prepare the consolidated financial statements of Johnson Controls International plc and its subsidiaries (hereinafter referred to as "Johnson Controls" or the "Group") in accordance with Section 279 of the Companies Act 2014 (the "Act"), which provides that a true and fair view of the state of affairs and profit or loss may be given by preparing the financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as defined in Section 279 of the Act, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the Act or of any regulations made thereunder. The directors have elected to apply the amendments to Schedule III Part II of Companies Act 2014, introduced by the Companies (Accounting) Act 2017, which allows the directors to adopt a balance sheet and profit and loss format in a different way than the formats as prescribed by Section B, provided that the information given is at least equivalent to that which would have been required by the use of such format. To ensure comparability, corresponding amounts have been disclosed in the same format.

The directors have elected to prepare the Johnson Controls International plc parent company ("Johnson Controls Ireland" or "Parent Company") financial statements in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Ireland" ("FRS 102"), together with the Companies Act 2014.

#### **DIRECTORS' COMPLIANCE STATEMENT**

The directors acknowledge that they are responsible for securing the Parent Company's compliance with its relevant obligations.

The directors confirm that the Parent Company has:

1. Drawn up a compliance policy statement setting out the Parent Company's policies respecting compliance by the Parent Company with its relevant obligations.
2. Put in place appropriate arrangements or structures that are designed to secure material compliance with the Parent Company's relevant obligations.
3. Conducted a review during the financial year ended September 30, 2017 of the arrangements and structures referred to at 2 above.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Group's assets, liabilities and financial position at the end of the financial year and the profit or loss of the Group for the financial year. Under that law, the directors have prepared the consolidated financial statements in accordance with U.S. accounting standards, as defined by Section 279(1) of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the Companies Act or of any regulations made thereunder and the Parent Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Group's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Group for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Group;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Group to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Act and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in United States dollars and reflect the consolidated operations of the Group. Unless otherwise indicated, references to 2017 and 2016 are to Johnson Control's financial years ending September 30, 2017 (fiscal 2017) and 2016 (fiscal 2016), respectively.

On September 2, 2016, Johnson Controls, Inc. ("JCI Inc.") and Tyco International plc ("Tyco"), a public liability company organized under the laws of Ireland, 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 Group. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for further information. You should read this discussion and analysis along with our consolidated financial statements and related notes thereto as of and for the financial years ended September 30, 2017 and September 30, 2016. Due to the timing of the Merger, the results of operations of Tyco are only reflected in the Group's results of operations for the last month of fiscal 2016, compared to the full financial year of fiscal 2017, which may affect comparability throughout this report.

## **PRINCIPAL ACTIVITIES**

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 Group 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 Group 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 Group was renamed to Johnson Controls, Inc. in 1974. In 1978, the Group acquired Globe-Union, Inc., a Wisconsin-based manufacturer of automotive batteries for both the replacement and original equipment markets. The Group entered the automotive seating industry in 1985 with the acquisition of Michigan-based Hoover Universal, Inc. In 2005, the Group acquired York International, a global supplier of heating, ventilating, air-conditioning ("HVAC") and refrigeration equipment and services. In 2014, the Group acquired Air Distribution Technologies,

Inc. ("ADTi"), one of the largest independent providers of air distribution and ventilation products in North America. On October 1, 2015, the Group formed a joint venture with Hitachi to expand its building related product offerings.

In the fourth quarter of fiscal 2016 JCI Inc. and Tyco completed the Merger as described above. 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 creates opportunities for near-term growth through cross-selling, complementary branch and channel networks, and expanded global reach for established businesses. The new Group benefits 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 Group 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 Group'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. Group 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 Group did not retain any equity interest in Adient plc. Adient's historical financial statements are reflected in the Group's consolidated financial statements as a discontinued operation.

The Building Technologies & Solutions ("Buildings") business is a global market leader in engineering, developing, manufacturing and installing building products and systems around the world, including HVAC equipment, HVAC controls, energy-management systems, security systems, fire detection systems and fire suppression solutions. The Buildings business further serves customers by providing technical services (in the HVAC, security and fire-protection space), energy-management consulting and data-driven solutions via its recently launch data-enabled business. Finally, the Group is a North American market leader in residential air conditioning and heating systems and a global market leader in industrial refrigeration products.

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 Group serves both automotive original equipment manufacturers ("OEMs") and the general vehicle battery aftermarket. The Group also supplies advanced battery technologies to power start-stop, hybrid and electric vehicles.

## **Financial Information About Business Segments**

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 Group has determined, effective with the segment reorganization described below, that it has five reportable segments for financial reporting purposes. The Group's five reportable segments are presented in the context of its two primary businesses - Building Technologies & Solutions 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 Group's businesses, the four Building Technologies & Solutions reportable segments are presented together due to their similar customers and the similar nature of their products, production processes and distribution channels.

Effective July 1, 2017, the Group reorganized the reportable segments within its Building Technologies & Solutions business to align with its new management reporting structure and business activities. Prior to this reorganization, Building Technologies & Solutions was comprised of five reportable segments for financial reporting purposes: Systems and Service North America, Products North America, Asia, Rest of World and Tyco. As a result of this change, Building Technologies & Solutions is now comprised of four reportable segments for financial reporting purposes: Building Solutions North America, Building Solutions EMEA/LA, Building Solutions Asia Pacific and Global Products. Refer to Note 7, "Goodwill and Other Intangible Assets," and Note 19, "Segment Information," of the notes to consolidated financial statements for further information.

## **Products/Systems and Services**

### ***Building Technologies & Solutions***

Building Technologies & Solutions sells its integrated control systems, security systems, fire-detection systems, equipment and services primarily through the Group's extensive global network of sales and service offices, with operations in approximately 60 countries. Significant sales are also generated through global third-party channels, such as distributors of air-conditioning, security, fire-detection and commercial HVAC systems. The Group's large base of current customers leads to significant repeat business for the retrofit and replacement markets. In addition, the new commercial construction market is also important. Trusted Buildings

brands, such as YORK®, Hitachi Air Conditioning, *Metasys*®, Ansul, *Ruskin*®, Titus®, Frick®, PENN®, Sabroe®, Simplex® and Grinnell® give the Group the most diverse portfolio in the building technology industry.

In fiscal 2017, approximately 27% of its sales originated from its service offerings. In fiscal 2017, Building Technologies & Solutions accounted for 76% of the Group's consolidated net sales.

### ***Power Solutions***

Power Solutions services both automotive OEMs and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Group is the largest producer of lead-acid automotive batteries in the world, producing and distributing approximately 154 million lead-acid batteries annually in approximately 68 wholly- and majority-owned manufacturing or assembly plants, distribution centers and sales offices in 17 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 76% of unit sales worldwide in fiscal 2017 were to the automotive replacement market, with the remaining sales to the OEM market.

Power Solutions accounted for 24% of the Group's fiscal 2017 consolidated net sales. Batteries and key components are manufactured at wholly- and majority-owned plants in North America, South America, Asia and Europe.

### **Competition**

#### ***Building Technologies & Solutions***

The Building Technologies & Solutions 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, security, fire-detection, fire suppression 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. and Gree Electric Appliances, Inc. In addition to HVAC equipment, Building Technologies & Solutions 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 Group.

### ***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 and Wal-Mart stores. Automotive batteries are sold throughout the world under private labels and under the Group'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 Group's backlog relating to the Building Technologies & Solutions business is applicable to its sales of systems and services. At September 30, 2017, the backlog was \$8.5 billion. The majority of the backlog relates to fiscal 2018. At September 30, 2016, the backlog was \$8.2 billion. 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 fluorochemicals used in our fire suppression agents, were readily available during fiscal 2017, and the Group expects such availability to continue. In fiscal 2018, commodity prices could fluctuate throughout the year and could significantly affect the results of operations.

## **Intellectual Property**

Generally, the Group 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 Group 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 Group 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 Group, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Group'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 Group are sold. The Group, from time to time, becomes involved in trademark licensing transactions.

Most works of authorship produced for the Group, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Group'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 Group'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 Group-related materials have been released into the environment.

The Group 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 Group'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 Group is committed to protecting its workers and the environment against the risks associated with these substances.

The Group'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 Group-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 Note 22, "Commitments and Contingencies," of this report for a discussion of the Group's potential environmental liabilities.

## **Environmental Capital Expenditures**

The Group'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 2017 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 Group's financial results or competitive position in any one year.

## **Government Regulation and Supervision**

The Group's operations are subject to numerous federal, state and local laws and regulations, both within and outside the U.S., 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 Group operates have licensing laws directed specifically toward the alarm and fire suppression industries. The Group'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 U.S. are regulated by the federal and state governments. In addition, government regulation of fire safety codes can impact the Group's fire businesses. These and other laws and regulations impact the manner in which the Group conducts its business, and changes in legislation or government policies can affect the Group's worldwide operations, both favorably and unfavorably. For a more detailed description of the various laws and regulations that affect the Group's business, refer to the "Principal Risks and Uncertainties" section.

## **Employees**

As of September 30, 2017, the Group employed approximately 121,000 people worldwide, of which approximately 44,000 were employed in the United States and approximately 77,000 were outside the United States. Approximately 25,000 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 Technologies & Solutions 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 Building Technologies & Solutions 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, "Basis of Presentation and Summary of Significant Accounting Policies," of the notes to consolidated financial statements for research and development expenditures.

## **Retrospective Changes**

Certain amounts as of September 30, 2016 have been revised to conform to the current year's presentation.

Effective July 1, 2017, the Group reorganized the reportable segments within its Building Technologies & Solutions business to align with its new management reporting structure and business activities. Prior to this reorganization, Building Technologies & Solutions was comprised of five reportable segments for financial reporting purposes: Systems and Service North America, Products North America, Asia, Rest of World and Tyco. As a result of this change, Building Technologies & Solutions is now comprised of four reportable segments for financial reporting purposes: Building Solutions North America, Building Solutions EMEA/LA, Building Solutions Asia Pacific and Global Products. Refer to Note 7, "Goodwill and Other Intangible Assets," and Note 19, "Segment Information," of the notes to consolidated financial statements for further information. The net sales and cost of sales split of products and systems versus services on the consolidated statement of income has also been revised for the Building Technologies & Solutions reorganization.

During the first quarter of fiscal 2017, the Group determined that its Automotive Experience business ("Adient") met the criteria to be classified as a discontinued operation, which required retrospective application to financial information for all periods presented. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Group's discontinued operations.

In the first quarter of fiscal 2017, the Group began evaluating the performance of its business segments primarily on segment earnings before interest, taxes and amortization ("EBITA"), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, significant restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans. Historical information has been revised to present the comparable periods on a consistent basis.

In April 2015, the FASB issued Accounting Standards Update ("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. During the quarter ended December 31, 2016, the Group adopted ASU No. 2015-03 and applied the change retrospectively to all periods presented. This change did not have an impact to any period presented on the consolidated statement of income. The



financial statement impact of this change for the period ending September 30, 2016 was a decrease to noncurrent assets held for sale of \$44 million, a decrease to noncurrent liabilities held for sale of \$44 million, a decrease to other noncurrent assets of \$30 million and a decrease to long-term debt of \$30 million.

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 was effective retrospectively for the Group for the quarter ending December 31, 2016. The adoption of this guidance did not have an impact on the Group's consolidated financial statements, but did impact pension asset disclosures.

## **CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION**

Unless otherwise indicated, references to "Johnson Controls," the "Group," "we," "our" and "us" in this Annual Report refer to Johnson Controls International plc and its consolidated subsidiaries.

The Group 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 Johnson Controls' 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, 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 "Principal Risks and Uncertainties." The forward-looking statements included in this document are only made 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.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **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 significantly raise the cost of new debt for our customers. 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 24% of the total sales of the Power Solutions business in fiscal 2017. 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. In cases where commodity price risk cannot be naturally offset or hedged through supply based fixed price contracts, we use commodity hedge contracts to minimize overall price risk associated with our anticipated commodity purchases. 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. Additionally, to the extent we do not or are unable to hedge certain commodities and the commodity prices substantially increase, such increases will have an adverse effect on our results of operations.

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.

**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 Group 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 Group. 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. 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 anti-trust, 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 similar foreign laws, codes, standards 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. For example, we were subject to investigation by the European Commission related to European lead recyclers' procurement practices from 2012 to 2017. Although we were not fined in connection with such investigation, competition or other regulatory investigations can continue for several years, be costly to defend and can result in substantial fines. 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, anti-trust, 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, or if we are subject to allegations of any such violations, 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. In addition, we could be subject to commercial impacts such as lost revenue from customers who decline to do business with us as a result of such compliance matters, or we could be 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 Group'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 Group 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 statement 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 Group 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 statement 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 Group'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 Group'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 Group'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 or when a remeasurement event occurs. 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" section.

**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 additional taxes 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 statement of financial position and our income tax provision in our consolidated statement 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.

**Future changes in U.S. tax law could adversely affect us or our affiliates.**

On December 22, 2017, the U.S. President signed into law a sweeping tax reform bill popularly known as the “Tax Cuts and Jobs Act” (the “TCJA”). The effects of the TCJA are not yet entirely clear and will depend on, among other things, additional regulatory and administrative guidance, as well as any statutory technical corrections that are subsequently enacted. While the TCJA reduces the statutory U.S. federal income tax rate generally applicable to U.S. corporations, the TCJA could nevertheless have a significant adverse effect on the U.S. federal income taxation of our and our affiliates’ operations, including by limiting or eliminating various deductions or credits (including interest expense deductions and deductions relating to employee compensation), imposing taxes with respect to certain earnings of non-U.S. entities on a current basis, changing the timing of the recognition of income or its character and imposing additional corporate taxes under certain circumstances to combat perceived base erosion issues, among other changes.

The TCJA, or any related, similar or amended legislation or other changes in U.S. federal income tax laws, could adversely affect the U.S. federal income taxation of our and our affiliates’ ongoing operations and may also adversely affect the integration efforts relating to, and potential synergies from, past strategic transactions. Any such changes and related consequences could have a material adverse impact on our financial results.

**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. We have also been named as a defendant in a number of actions where third party use of our products has allegedly resulted in contamination to groundwater and drinking water supplies. Plaintiffs in these cases are generally seeking damages for personal injuries, medical monitoring and diminution in property values, and are also seeking punitive damages and injunctive relief to address remediation of the alleged contamination. 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. See Note 22 “Commitments and Contingencies” of this report for a further discussion of these matters.

**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 Group'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 or integrate existing 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 Group 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 significant 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, 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 121,000 people worldwide. Approximately 20% 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 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.**

We own 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 Buildings business.**

Any of the following could materially and adversely impact the results of operations of our Buildings 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 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. 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 Group'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.

**Divestitures of some of our businesses or product lines may materially adversely affect our financial condition, results of operations or cash flows.**

We continually evaluate the performance and strategic fit of all of our businesses and may sell businesses or product lines. For example, on October 31, 2016, we completed the spin-off of our Automotive Experience business and in the second quarter of fiscal 2017 we announced that we had signed a definitive agreement to sell our Scott Safety business, which closed on October 4, 2017. Divestitures involve risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management's attention from other business concerns, the disruption of our business, the potential loss of key employees and the retention of uncertain environmental or other contingent liabilities related to the divested business. In addition, divestitures may result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations. We cannot assure you that we will be successful in managing these or any other significant risks that we encounter in divesting a business or product line, and any divestiture we undertake could materially and adversely affect our business, financial condition, results of operations and cash flows, and may also result in a diversion of management attention, operational difficulties and losses.

**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 the 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 January 13, 2017, the U.S. Treasury and the IRS finalized certain Treasury regulations issued under Section 7874 and revised certain related temporary regulations (the "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 regulations disregard, for purposes of determining this ownership percentage, (1) any "non-ordinary course distributions" (within the meaning of the 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 regulations, we believe that the Section 7874 ownership percentage of former Johnson Controls, Inc. shareholders in us was less than 60%. However, these 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 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 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.

Certain 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, certain 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. 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.

Any legislative and/or other proposals 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, could limit or eliminate various other deductions or credits, could impose taxes on certain cross-border payments or transfers, could impose taxes on certain earnings of non-U.S. entities on a current basis, could change the timing of the recognition of income or its character, could limit asset basis under certain circumstances, could impose additional corporate taxes under certain circumstances to combat perceived base erosion issues, and could limit deductions relating to employee compensation, among other changes that could cause us or our affiliates to be subject to additional U.S. federal income taxes. Any such proposals, regulations and any other relevant provisions could change on a prospective or retroactive basis and could have a significant adverse effect on us and our affiliates. It is presently uncertain whether legislative reform relating to the U.S. federal income taxation of corporations and other business entities, including the reforms described above, will be enacted into law and in what form. Any such changes 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 business 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 Adient spin-off.**

In connection with the spin-off of Adient, 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 spin-off. 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, impose additional taxes on payments made by our U.S. subsidiaries to non-U.S. affiliates, 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 revised U.S. model income tax convention (the "new 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 paid by us may be subject to Irish dividend withholding tax.**

In certain circumstances, as an Irish tax resident company, we will be required to deduct Irish dividend withholding tax (currently at the rate of 20%) from dividends paid to our shareholders. Shareholders that are resident in the U.S., European Union countries (other than Ireland) or other countries with which Ireland has signed a tax treaty (whether the treaty has been ratified or not) generally should not be subject to Irish withholding tax so long as the shareholder has provided its broker, for onward transmission to our qualifying intermediary or other designated agent (in the case of shares held beneficially), or us or our transfer agent (in the case of shares held directly), with all the necessary documentation by the appropriate due date prior to payment of the dividend. However, some shareholders may be subject to withholding tax, which could adversely affect the price of our ordinary shares.

**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.

**KEY PERFORMANCE INDICATORS**

The following analysis of the consolidated results of operations relates to continuing operations unless otherwise noted.

**Net Sales**

(in millions)	Year Ended September 30,		Change
	2017	2016	
Net sales	\$ 30,172	\$ 20,837	45%

The increase in consolidated net sales was due to higher sales in the Building Technologies & Solutions business (\$8,647 million) and Power Solutions business (\$667 million), and the favorable impact of foreign currency translation (\$21 million). Increased sales resulted from the Tyco Merger, as well as higher volumes in the Global Products segment, the impact of higher lead costs on pricing, and favorable pricing and product mix in the Power Solutions business. Excluding the impact of the Tyco Merger and foreign currency translation, consolidated net sales increased 4% as compared to the prior year. Refer to the "Segment Analysis" section below for a discussion of net sales by segment.



## Cost of Sales / Gross Profit

(in millions)	Year Ended September 30,		Change
	2017	2016	
Cost of sales	\$ 20,833	\$ 15,183	37%
Gross profit	9,339	5,654	65%
% of sales	31.0%	27.1%	

Cost of sales increased in fiscal 2017 as compared to fiscal 2016, with gross profit as a percentage of sales increasing by 390 basis points. Gross profit in the Building Technologies & Solutions business included the incremental gross profit related to the Tyco Merger, and higher volumes in the Global Products segment. Gross profit in the Power Solutions business was favorably impacted by favorable pricing and product mix net of lead cost increases and higher volumes, 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 \$169 million (\$72 million gain in fiscal 2017 compared to a \$97 million charge in fiscal 2016) primarily due to an increase in year-over-year discount rates and favorable U.S. investment returns versus expectations in the current year. Foreign currency translation had an unfavorable impact on cost of sales of approximately \$21 million. Refer to the "Segment Analysis" section below for a discussion of segment earnings before interest, taxes and amortization ("EBITA") by segment.

## Selling, General and Administrative Expenses

(in millions)	Year Ended September 30,		Change
	2017	2016	
Selling, general and administrative expenses	\$ 6,158	\$ 4,190	47%
% of sales	20.4%	20.1%	

Selling, general and administrative expenses ("SG&A") increased by \$1,968 million year over year, and SG&A as a percentage of sales increased by 30 basis points. The Building Technologies & Solutions business SG&A increased primarily due to incremental SG&A related to the Tyco Merger, partially offset by productivity savings and cost synergies. Foreign currency translation had an unfavorable impact on SG&A of \$5 million. The net unfavorable year-over-year impact on SG&A resulting from transaction, integration and separation costs was \$149 million. The net mark-to-market adjustments on pension and postretirement plans had a net favorable year-over-year impact on SG&A of \$644 million (\$348 million gain in fiscal 2017 compared to a \$296 million charge in fiscal 2016) primarily due to an increase in year-over-year discount rates and favorable U.S. investment returns versus expectations in the current year. Refer to the "Segment Analysis" section below for a discussion of segment EBITA by segment.

## Restructuring and Impairment Costs

(in millions)	Year Ended September 30,		Change
	2017	2016	
Restructuring and impairment costs	\$ 367	\$ 288	27%

Refer to Note 16, "Significant Restructuring and Impairment Costs," of the notes to consolidated financial statements for further disclosure related to the Group's restructuring plans.

## Net Financing Charges

(in millions)	Year Ended September 30,		Change
	2017	2016	
Net financing charges	\$ 496	\$ 289	72%

Net financing charges increased in fiscal 2017 as compared to fiscal 2016 primarily due to higher interest rates, higher average borrowing levels as a result of the debt assumed with the Tyco Merger, new debt issuances in the second quarter of fiscal year 2017 and debt exchange offer fees.

## Equity Income

(in millions)	Year Ended September 30,		Change
	2017	2016	
Equity income	\$ 240	\$ 174	38%

The increase in equity income was primarily due to higher income at certain partially-owned affiliates of the Power Solutions business and the Johnson Controls - Hitachi ("JCH") joint venture in the Building Technologies & Solutions business. Refer to the "Segment Analysis" section below for a discussion of segment EBITA by segment.

## Income Tax Provision

(in millions)	Year Ended September 30,		Change
	2017	2016	
Income tax provision	\$ 705	\$ 197	*
Effective tax rate	28%	19%	

\* Measure not meaningful

The U.S. federal statutory tax rate is being used as a comparison since the Group was a U.S. domiciled company for 11 months of 2016 and due to the Group's current legal entity structure. The effective rate is below the U.S. statutory rate for fiscal 2017 primarily due to the benefits of continuing global tax planning initiatives, non-U.S. tax rate differentials, tax audit closures, and a tax benefit due to changes in entity tax status, partially offset by the jurisdictional mix of significant restructuring and impairment costs, Tyco Merger transaction / integration costs and the establishment of a deferred tax liability on the outside basis difference of the Group's investment in certain subsidiaries related to the divestiture of the Scott Safety business. The effective rate is below the U.S. statutory rate for fiscal 2016 primarily due to the benefits of continuing global tax planning initiatives and foreign tax rate differentials, partially offset by the jurisdictional mix of restructuring and impairment costs, and the tax impacts of the merger and integration related costs. The fiscal 2017 effective tax rate increased as compared to the fiscal 2016 effective tax rate primarily due to the tax effects of transactions (\$408 million), and the tax effects of restructuring and impairment costs (\$37 million), partially offset by the tax effects of reserve and valuation allowance adjustments (\$164 million) and tax planning initiatives. The fiscal year 2017 and 2016 global tax planning initiatives related primarily to foreign tax credit planning, changes in entity tax status, global financing structures and alignment of the Group's 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 Group 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 Group's valuation allowances may be necessary.

In the fourth quarter of fiscal 2017, the Group 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 Group determined that it

was more likely than not that certain deferred tax assets primarily in Canada, China and Mexico would not be able to be realized, and it was more likely than not that certain deferred tax assets in Germany would be realized. Therefore, the Group recorded \$27 million of net valuation allowances as income tax expense in the three month period ended September 30, 2017.

In the fourth quarter of fiscal 2016, the Group 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 Group 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.

### ***Uncertain Tax Positions***

The Group 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 Group's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Group is regularly under audit by tax authorities.

During fiscal 2017, the Group settled a significant number of tax examinations impacting fiscal years 2006 to fiscal 2014. In the fourth quarter of fiscal 2017, income tax audit resolutions resulted in a net \$191 million benefit to income tax expense.

The Group'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, 2017, the Group 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 statement 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 2017, the Group recorded \$428 million of transaction and integration costs which generated a \$69 million tax benefit.

During fiscal 2017, the Group recorded a discrete non-cash tax charge of \$490 million related to establishment of a deferred tax liability on the outside basis difference of the Group's investment in certain subsidiaries of the Scott Safety business. This business is reported as net assets held for sale given the announced sale to 3M Company. Refer to Note 3, "Acquisitions and Divestitures," and Note 4, "Discontinued Operations," of the notes to consolidated financial statements for additional information.

In the fourth quarter of fiscal 2017, the Group recorded a tax charge of \$53 million due to a change in the deferred tax liability related to the outside basis of certain nonconsolidated subsidiaries.

In the first quarter of fiscal 2017, the Group recorded a discrete tax benefit of \$101 million due to changes in entity tax status.

During fiscal 2017 and 2016, the Group 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 do not generate a tax benefit due to the Group's current tax position in these jurisdictions and the underlying tax basis in the impaired assets, resulting in \$65 million and \$28 million incremental tax expense in fiscal 2017 and 2016, respectively.

During the fourth quarter of fiscal 2016, the Group completed its merger with Tyco. As a result of that transaction, the Group 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 Group incurred incremental tax expense for continuing operations of \$26 million in fiscal 2016.

### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

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 Group 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 Group 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 Group's 2016 fiscal year. The retroactive extension was signed into legislation and was made permanent through the Group's 2020 fiscal year.

During the fiscal years ended 2017 and 2016, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Group's consolidated financial statements.

U.S. tax reform legislation was enacted on December 22, 2017. The Company is currently evaluating the impact of the tax law changes and does expect it to have a material impact on the Group's consolidated financial statements.

#### Loss From Discontinued Operations, Net of Tax

(in millions)	Year Ended September 30,		Change
	2017	2016	
Loss from discontinued operations, net of tax	\$ (34)	\$ (1,516)	*

\* 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
	2017	2016	
Income from continuing operations attributable to noncontrolling interests	\$ 199	\$ 132	51%
Income from discontinued operations attributable to noncontrolling interests	9	84	-89%

The increase in income from continuing operations attributable to noncontrolling interests for fiscal 2017 was primarily due to higher net income related to the JCH joint venture in the Building Technologies & Solutions business.

Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Group's discontinued operations.

#### Net Income (Loss) Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2017	2016	
Net income (loss) attributable to Johnson Controls	\$ 1,611	\$ (868)	*

\* Measure not meaningful

The increase in net income (loss) attributable to Johnson Controls was primarily due to incremental operating income as a result of the Tyco Merger and a prior year net loss from discontinued operations, partially offset by an increase in the income tax provision and higher net financing charges. Fiscal 2017 diluted earnings (loss) per share attributable to Johnson Controls was \$1.71 compared to (\$1.29) in fiscal 2016.

## Comprehensive Income (Loss) Attributable to Johnson Controls

(in millions)	Year Ended September 30,		Change
	2017	2016	
Comprehensive income (loss) attributable to Johnson Controls	\$ 1,710	\$ (964)	*

\* Measure not meaningful

The increase in comprehensive income (loss) attributable to Johnson Controls was due to higher net income (loss) attributable to Johnson Controls (\$2,479 million) and an increase in other comprehensive loss attributable to Johnson Controls (\$195 million) primarily related to favorable foreign currency translation adjustments. These year-over-year favorable foreign currency translation adjustments were primarily driven by the strengthening of the euro and British pound currencies against the U.S. dollar, partially offset by the weakening of the Japanese yen currency against the U.S. dollar.

## SEGMENT ANALYSIS

Management evaluates the performance of its business units based primarily on segment EBITA, which is defined as income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, significant restructuring and impairment costs, and net mark-to-market adjustments on pension and postretirement plans.

### *Building Technologies & Solutions*

(in millions)	Net Sales for the Year Ended September 30,			Segment EBITA for the Year Ended September 30,		
	2017	2016	Change	2017	2016	Change
Building Solutions North America	\$ 8,341	\$ 4,687	78%	\$ 1,039	\$ 494	*
Building Solutions EMEA/LA	3,595	1,613	*	290	74	*
Building Solutions Asia Pacific	2,444	1,736	41%	323	222	45%
Global Products	8,455	6,148	38%	1,179	637	85%
	<u>\$ 22,835</u>	<u>\$ 14,184</u>	<u>61%</u>	<u>\$ 2,831</u>	<u>\$ 1,427</u>	<u>98%</u>

\* Measure not meaningful

### Net Sales:

- The increase in Building Solutions North America was due to incremental sales related to the Tyco Merger including current year nonrecurring purchase accounting adjustments (\$3,689 million), the impact of prior year nonrecurring purchase accounting adjustments (\$15 million) and the favorable impact of foreign currency translation (\$5 million), partially offset by a prior year business divestiture (\$32 million) and lower installation volumes (\$23 million).
- The increase in Building Solutions EMEA/LA was due to incremental sales related to the Tyco Merger including current year nonrecurring purchase accounting adjustments (\$1,982 million), higher volumes (\$7 million), the impact of prior year nonrecurring purchase accounting adjustments (\$5 million) and the favorable impact of foreign currency translation (\$3 million), partially offset by a business divestiture (\$15 million).
- The increase in Building Solutions Asia Pacific was due to incremental sales related to the Tyco Merger including current year nonrecurring purchase accounting adjustments (\$653 million), higher volumes of equipment and control systems (\$41 million), and higher service volumes (\$38 million), partially offset by the unfavorable impact of foreign currency translation (\$24 million). The increase in volume was driven by favorable local economic conditions.

- The increase in Global Products was due to incremental sales related to the Tyco Merger including current year nonrecurring purchase accounting adjustments (\$2,157 million), higher volumes (\$221 million) and the favorable impact of foreign currency translation (\$20 million), partially offset by lower volumes related to business divestitures and deconsolidation (\$91 million). The increase in volumes was primarily attributable to new product offerings.

Segment EBITA:

- The increase in Building Solutions North America was due to incremental income related to the Tyco Merger (\$567 million), the net impact of prior year and current year nonrecurring purchase accounting adjustments (\$52 million), favorable mix (\$9 million), lower selling, general and administrative expenses (\$3 million) as a result of productivity and synergy savings net of a prior year gain on business divestiture, the favorable impact of foreign currency translation (\$1 million) and prior year transaction costs (\$1 million), partially offset by current year integration costs (\$42 million), higher operating costs as a result of channel investments (\$25 million), current year transaction costs (\$13 million), lower volumes (\$6 million) and a prior year business divestiture (\$2 million).
- The increase in Building Solutions EMEA/LA was due to incremental income related to the Tyco Merger (\$221 million), the net impact of prior year and current year nonrecurring purchase accounting adjustments (\$33 million), lower selling, general and administrative expenses as a result of productivity and synergy savings (\$23 million), favorable mix (\$7 million), higher volumes (\$2 million) and prior year transaction costs (\$1 million), partially offset by a current year unfavorable arbitration award (\$50 million), current year integration costs (\$6 million), lower equity income (\$6 million), current year transaction costs (\$5 million), the unfavorable impact of foreign currency translation (\$3 million) and a prior year business divestiture (\$1 million).
- The increase in Building Solutions Asia Pacific was due to incremental income related to the Tyco Merger (\$73 million), lower selling, general and administrative expenses as a result of productivity savings (\$24 million), higher volumes (\$20 million) and the favorable impact of foreign currency translation (\$1 million), partially offset by unfavorable mix (\$6 million), current year integration costs (\$5 million), higher operating costs (\$4 million) and current year transaction costs (\$2 million).
- The increase in Global Products was due to incremental income related to the Tyco Merger (\$474 million), higher volumes (\$55 million), lower selling, general and administrative expenses as a result of productivity and synergy savings (\$41 million), higher equity income (\$33 million), prior year integration costs (\$20 million), prior year transaction costs (\$14 million) and lower operating costs (\$13 million), partially offset by the net impact of prior year and current year nonrecurring purchase accounting adjustments (\$42 million), current year integration costs (\$25 million), unfavorable mix (\$16 million), current year transaction costs (\$13 million), the unfavorable impact of foreign currency translation (\$5 million), a prior year gain on acquisition of partially-owned affiliate (\$4 million) and business divestitures (\$3 million).

**Power Solutions**

(in millions)	Year Ended September 30,		Change
	2017	2016	
Net sales	\$ 7,337	\$ 6,653	10%
Segment EBITA	1,427	1,327	8%

- Net sales increased due to the impact of higher lead costs on pricing (\$427 million) favorable pricing and product mix (\$154 million), higher sales volumes (\$86 million) and the favorable impact of foreign currency translation (\$17 million). The increase in volumes was driven by start-stop battery volumes and growth in China. Additionally, higher start-stop volumes contributed to favorable product mix.
- Segment EBITA increased due to favorable pricing and product mix net of lead cost increases (\$106 million), lower selling, general and administrative expenses as a result of productivity savings (\$39 million), higher equity income (\$28 million), higher volumes (\$27 million), prior year restructuring and impairment costs included in equity income (\$7 million), prior year transaction costs (\$1 million) and the favorable impact of foreign currency translation (\$1 million), partially offset by higher operating costs primarily driven by efforts to satisfy growing customer demand (\$108 million) and current year transaction costs (\$1 million).

## GOODWILL, LONG-LIVED ASSETS AND OTHER INVESTMENTS

Goodwill at September 30, 2017 was \$19.7 billion, \$1.3 billion lower than the prior year. The decrease was primarily due to business divestitures.

Irish company law requires indefinite-lived intangible assets and goodwill to be amortized. However, amortization of indefinite-lived assets and goodwill may not give a true and fair view because not all goodwill and intangible assets decline in value. In addition, since goodwill that does decline in value rarely does so on a straight-line basis, straight-line amortization of goodwill over an arbitrary period may not reflect the economic reality. Therefore, in accordance with U.S. GAAP, goodwill and indefinite-lived intangible assets are not amortized. Rather, the Group assesses the impairment of goodwill and indefinite-lived intangible assets on an annual basis or more frequently if triggering events occur.

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Group 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 Group performs impairment reviews for its reporting units, which have been determined to be the Group'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 Group 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 Group 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 Group is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value.

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 Group'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.

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 Group believes the judgments and assumptions used in the impairment tests are reasonable and no impairments of goodwill or indefinite-lived assets existed during fiscal years 2017 and 2016, 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 Group 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 Group conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets" and ASC 985-20, "Costs of software to be sold, leased, or marketed." ASC 360-10-15 requires the Group 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. ASC 985-20 requires the unamortized capitalized costs of a computer software product be compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset shall be written off.

In fiscal 2017, the Group 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 2017. As a result, the Group reviewed the long-lived assets for impairment and recorded \$77 million of asset impairment charges within restructuring and impairment costs on the consolidated statement of income. Of the total impairment charges, \$30 million related to the Building Solutions North America segment, \$20 million related to the Global Products segment, \$19 million related to Corporate assets, \$7 million related to the Power Solutions segment and \$1 million related to the Building Solutions Asia Pacific 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 Group 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 second, third and fourth quarters of fiscal 2016, the Group 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 Group reviewed the long-lived assets for impairment and recorded \$103 million of asset impairment charges within restructuring and impairment costs on the consolidated statement of income. Of the total impairment charges, \$64 million related to the Power Solutions segment, \$24 million related to Corporate assets, \$8 million related to the Global Products segment, \$4 million related to the Building Solutions Asia Pacific segment and \$3 million related to the Building Solutions EMEA/LA segment. In addition, the Group recorded \$87 million of asset impairments within discontinued operations related to Adient in fiscal 2016. 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 Group 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, 2017 were \$1.2 billion, \$0.2 billion higher than the prior year. The increase was primarily due to equity income from partially-owned affiliates in the Power Solutions business and the JCH joint venture.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

(in millions)	September 30, 2017	September 30, 2016	Change
Current assets	\$ 12,292	\$ 17,109	
Current liabilities	(11,854)	(16,331)	
	438	778	-44%
Less: Cash	(321)	(579)	
Add: Short-term debt	1,214	1,078	
Add: Current portion of long-term debt	394	628	
Less: Assets held for sale	(189)	(5,812)	
Add: Liabilities held for sale	72	4,276	
Working capital (as defined)	<u>\$ 1,608</u>	<u>\$ 369</u>	*
Accounts receivable	\$ 6,666	\$ 6,394	4%
Inventories	3,209	2,888	11%
Accounts payable	4,271	4,000	7%

\* Measure not meaningful

- The Group defines working capital as current assets less current liabilities, excluding cash, 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 and businesses to be divested, provides a more useful measurement of the Group's operating performance.
- The increase in working capital at September 30, 2017 as compared to September 30, 2016, was primarily due to current year income tax payments related to the Adient-spin off, an increase in inventory to meet anticipated customer demand and an increase in accounts receivable due to timing of customer receipts, partially offset by an increase in accounts payable due to timing and mix of supplier payments.



- The Group's days sales in accounts receivable at September 30, 2017 were 65, a slight increase from 63 at September 30, 2016. There has been no significant adverse change in the level of overdue receivables or changes in revenue recognition methods. Increased volumes in certain of the segments contributed to the increase.
- The Group's inventory turns for the year ended September 30, 2017 were lower than the comparable period ended September 30, 2016 primarily due to a build of Power Solutions inventory levels to meet customer demand.
- Days in accounts payable at September 30, 2017 were 73 days, higher than 69 days at the comparable period ended September 30, 2016.

## Cash Flows

(in millions)	Year Ended September 30,	
	2017	2016
Cash provided by operating activities	\$ 12	\$ 1,895
Cash used by investing activities	(1,137)	(887)
Cash provided (used) by financing activities	717	(933)
Capital expenditures	(1,343)	(1,249)

- The decrease in cash provided by operating activities was primarily due to higher income tax payments related to the Adient spin-off (\$1.2 billion in the first quarter of fiscal 2017) and the movement in trade working capital balances.
- The increase in cash used by investing activities was primarily due to cash acquired in the Tyco Merger in the prior year and an increase in capital expenditures, partially offset by cash received from business divestitures in the current year.
- The increase in cash provided by financing activities was primarily due to the net dividend proceeds from the Adient spin-off, an increase in long-term debt and higher dividends paid to noncontrolling interests related to the JCH joint venture in the prior year, partially offset by a net decrease in short-term debt borrowings.
- The increase in capital expenditures in the current year is primarily related to higher capital investments in the current year in the Building Technologies & Solutions and Power Solutions businesses, partially offset by lower capital investments in the Automotive Experience business due to the Adient spin-off.

## Capitalization

(in millions)	September 30, 2017	September 30, 2016	Change
Short-term debt	\$ 1,214	\$ 1,078	
Current portion of long-term debt	394	628	
Long-term debt	11,964	11,053	
Total debt	\$ 13,572	\$ 12,759	6%
Shareholders' equity attributable to Johnson Controls ordinary shareholders	20,447	24,118	-15%
Total capitalization	\$ 34,019	\$ 36,877	-8%
Total debt as a % of total capitalization	40%	35%	

- The Group believes the percentage of total debt to total capitalization is useful to understanding the Group's financial condition as it provides a review of the extent to which the Group relies on external debt financing for its funding and is a measure of risk to its shareholders.
- Shareholders' equity attributable to Johnson Controls ordinary shareholders decreased as a result of the Adient spin-off in October 2016. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information.

- In connection with the Tyco Merger, on December 28, 2016, the Parent Company completed its offers to exchange all validly tendered and accepted notes of certain series (the existing notes) issued by JCI Inc. or Tyco International Finance S.A. ("TIFSA"), as applicable, each of which is a wholly owned subsidiary of the Parent Company, for new notes (the "New Notes") to be issued by the Parent Company, and the related solicitation of consents to amend the indentures governing the existing notes (the offers to exchange and the related consent solicitation together the "exchange offers"). Pursuant to the exchange offers, the Parent Company exchanged approximately \$5.6 billion of \$6.0 billion in aggregate principal amount of dollar denominated notes and approximately 423 million euro of 500 million euro in aggregate principal amount of euro denominated notes. All validly tendered and accepted existing notes have been canceled. Immediately following such cancellation, \$380.9 million aggregate principal amount of existing notes (not including the TIFSA Euro Notes) remained outstanding across seventeen series of dollar-denominated existing notes and 77.4 million euro aggregate principal amount of TIFSA Euro Notes remained outstanding across one series. In connection with the settlement of the exchange offers, the New Notes were registered under the Securities Act of 1933 and their terms are described in the Parent Company's Prospectus dated December 19, 2016, as filed with the SEC under Rule 424(b)(3) of the Act on that date. The issuance of the New Notes occurred on December 28, 2016. The New Notes are unsecured and unsubordinated obligations of the Parent Company and rank equally with all other unsecured and unsubordinated indebtedness of the Parent Company issued from time to time.
- In connection with the Tyco Merger on September 2, 2016, JCI Inc., a wholly owned subsidiary of the Group, 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 expire 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 Group, entered into a four-year, \$1.0 billion revolving credit agreement scheduled to expire in August 2020. The facilities are used to support the Group's outstanding commercial paper. There were no draws on either committed credit facility during the fiscal year ended September 30, 2017.
- 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. During fiscal 2017, the Group partially repaid \$300 million of the \$4.0 billion floating rate term loan scheduled to expire in March 2020. As of September 30, 2017, the outstanding term loan balance was \$3.7 billion. In October 2017, the Group completed the previously announced sale of its Scott Safety business to 3M, and net cash proceeds from the transaction of \$1.9 billion were used to further repay a significant portion of the \$4.0 billion term loan.
- At September 30, 2017, the Group had committed bilateral U.S. dollar denominated revolving credit facilities totaling \$550 million, which are scheduled to expire in fiscal 2018. There were no draws on any of these revolving facilities as of September 30, 2017.
- In September 2017, the Group entered into a 364-day 150 million euro, floating rate, term loan scheduled to expire in September 2018. Proceeds from the loan were used for general corporate purposes.
- In September 2017, the Group entered into five-year 35 billion yen syndicated floating rate term loan scheduled to expire in September 2022. Proceeds from the loan were used for general corporate purposes.
- In July 2017, the Group retired \$150 million in principal amount, plus accrued interest, of its 7.125% fixed rate notes that expired in July 2017.
- In July 2017, the Group repurchased, at a discount, 4 million euro of its TIFSA 1.375% fixed rate notes, plus accrued interest, scheduled to expire in 2025.
- In March 2017, the Group issued one billion euro in principal amount of 1.0% senior unsecured fixed rate notes due in fiscal 2023. Proceeds from the issuance were used to repay existing debt and for other general corporate purposes.
- In March 2017, the Group entered into a 364-day \$150 million committed revolving credit facility scheduled to expire in March 2018. As of September 30, 2017, there were no draws on the facility.
- In March 2017, the Group retired \$46 million in principal amount, plus accrued interest, of its 2.355% fixed rate notes that expired in March 2017.

- In March 2017 and February 2017, the Group repurchased, at a discount, 15 million euro of its TIFSA 1.375% fixed rate notes, plus accrued interest, scheduled to expire in February 2025.
- In February 2017, the Group issued \$500 million aggregate principal amount of 4.5% senior unsecured fixed rate notes due in fiscal 2047. Proceeds from the issuance were used to repay outstanding commercial paper borrowings and for other general corporate purposes.
- In February 2017, the Group entered into a 364-day \$150 million committed revolving credit facility scheduled to expire in February 2018. As of September 30, 2017, there were no draws on the facility.
- In January 2017, the Group entered into a 364-day \$250 million committed revolving credit facility scheduled to expire in January 2018. As of September 30, 2017, there were no draws on the facility.
- In December 2016, the Group retired \$400 million in principal amount, plus accrued interest, of its 2.6% fixed rate notes that expired in December 2016.
- In December 2016, the Group entered into a 364-day 100 million euro floating rate term loan scheduled to mature in December 2017. Proceeds from the term loan were used for general corporate purposes. Principal and accrued interest were fully repaid in March 2017.
- In December 2016, a \$100 million committed revolving credit facility expired. There were no draws on the facility.
- In November 2016, the Group fully repaid its 37 billion yen syndicated floating rate term loan, plus accrued interest, scheduled to expire in June 2020.
- In November 2016, a \$35 million committed revolving credit facility expired. There were no draws on the facility.
- In October 2016, the Group repaid two ten-month floating rate term loans totaling \$325 million, plus accrued interest, scheduled to expire in October 2016.
- In October 2016, the Group repaid a nine-month \$100 million floating rate term loan, plus accrued interest, scheduled to expire in November 2016.
- In October 2016, the Group repaid a nine-month 100 million euro floating rate term loan, plus accrued interest, scheduled to expire in October 2016.
- The Group also selectively makes use of short-term credit lines other than its revolving credit facilities at the Group and TSarl. The Group estimates that, as of September 30, 2017, it could borrow up to \$1.4 billion based on average borrowing levels during the year on committed credit lines.
- The Group believes its capital resources and liquidity position at September 30, 2017 are adequate to meet projected needs. The Group believes requirements for working capital, capital expenditures, dividends, stock repurchases, minimum pension contributions, debt maturities and any potential acquisitions in fiscal 2018 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Group currently manages its short-term debt position in the U.S. and euro commercial paper markets and bank loan markets. In the event the Group 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, 2017. As such, the Group believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.
- The Group 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 except in limited circumstances. However, in fiscal 2017, the Group provided income tax expense related to a change in the Group's assertion over the outside basis difference of the Scott Safety business as a result of the pending divestiture as well as the outside basis of certain nonconsolidated subsidiaries. In addition, in fiscal 2016, the Group provided income tax expense related to a change in the Group's assertion over a portion of the permanently reinvested earnings as a result of the planned spin-off of the Automotive Experience business. The Group currently does not intend nor foresee a need to repatriate undistributed earnings included in the outside basis differences other than in tax efficient manners. Except as noted, the Group's intent is to reduce basis differences only when it would be tax efficient. The Group expects existing U.S. cash and liquidity to continue to be sufficient to fund the Group'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 the U.S., should the Group require more capital than is generated by its operations, the Group could elect to raise capital in the U.S. through debt or equity issuances. The Group has borrowed funds in the U.S. and continues to have the ability to borrow funds in the U.S. at reasonable interest rates. In addition, the Group expects existing non-U.S. cash, cash equivalents, short-term investments and cash flows from operations to continue to be sufficient to fund the Group'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 Group require more capital at the Luxembourg and Ireland holding and financing entities, other than amounts that can be provided in tax efficient methods, the Group could also elect to raise capital through debt or equity issuances. These alternatives could result in increased interest expense or other dilution of the Group's earnings.

- The Group's debt financial covenant in its revolving credit facility requires a minimum consolidated shareholders' equity attributable to Johnson Controls of at least \$3.5 billion at all times. The revolving credit facility also limits the amount of debt secured by liens that may be incurred to a maximum aggregated amount of 10% of consolidated shareholders' equity attributable to Johnson Controls for liens and pledges. For purposes of calculating these covenants, consolidated shareholders' equity attributable to Johnson Controls is calculated without giving effect to (i) the application of Accounting Standards Codification ("ASC") 715-60, "Defined Benefit Plans - Other Postretirement," or (ii) the cumulative foreign currency translation adjustment. TSarl's revolving credit facility contains customary terms and conditions, and a financial covenant that limits the ratio of TSarl's debt to earnings before interest, taxes, depreciation, and amortization as adjusted for certain items set forth in the agreement to 3.5x. TSarl's revolving credit facility also limits its ability to incur subsidiary debt or grant liens on its and its subsidiaries' property. As of September 30, 2017, the Group and TSarl were in compliance with all covenants and other requirements set forth in their credit agreements and the indentures, governing their notes, and expect to remain in compliance for the foreseeable future. None of the Group's or TSarl's debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the respective borrower's credit rating.
- To better align its resources with its growth strategies and reduce the cost structure of its global operations in certain underlying markets, the Group committed to a significant restructuring plan in fiscal 2017 and recorded \$367 million of restructuring and impairment costs in the consolidated statement of income. The restructuring action related to cost reduction initiatives in the Group's Building Technologies & Solutions and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures and asset impairments. The Group currently estimates that upon completion of the restructuring action, the fiscal 2017 restructuring plan will reduce annual operating costs from continuing operations by approximately \$280 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 Group expects the annual benefit of these actions will be substantially realized in fiscal 2018. For fiscal 2017, the savings, net of execution costs, were approximately 40% of the expected annual operating cost reduction. The restructuring action is expected to be substantially complete in fiscal 2018. The restructuring plan reserve balance of \$239 million at September 30, 2017 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 Group committed to a significant restructuring plan in fiscal 2016 and recorded \$288 million of restructuring and impairment costs in the consolidated statement of income. The restructuring action related to cost reduction initiatives in the Group's Building Technologies & Solutions and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures, asset impairments and change-in-control payments. The Group currently estimates that upon completion of the restructuring action, the fiscal 2016 restructuring plan will reduce annual operating costs from continuing operations by approximately \$135 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 Group expects the annual benefit of these actions will be substantially realized by the end of fiscal 2018. For fiscal 2017, the savings, net of execution costs, were approximately 35% of the expected annual operating cost reduction. The restructuring action is expected to be substantially complete in fiscal 2018. The restructuring plan reserve balance of \$92 million at September 30, 2017 is expected to be paid in cash.

## Contractual Obligations

A summary of the Group's significant contractual obligations for continuing operations as of September 30, 2017 is as follows (in millions):

	Total	2018	2019-2020	2021-2022	2023 and Beyond
<b>Contractual Obligations</b>					
Long-term debt (including capital lease obligations)*	\$ 12,403	\$ 394	\$ 4,228	\$ 1,305	\$ 6,476
Interest on long-term debt (including capital lease obligations)*	5,731	413	752	503	4,063
Operating leases	954	315	397	157	85
Purchase obligations	2,334	1,830	373	125	6
Pension and postretirement contributions	447	64	76	79	228
Tax indemnification liabilities**	301	—	—	—	—
Total contractual cash obligations	<u>\$ 22,170</u>	<u>\$ 3,016</u>	<u>\$ 5,826</u>	<u>\$ 2,169</u>	<u>\$ 10,858</u>

\* Refer to Note 9, "Debt and Financing Arrangements," of the notes to consolidated financial statements for information related to the Group's long-term debt.

\*\* As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Group recorded as part of the acquired liabilities of Tyco \$290 million of post sale contingent tax indemnification liabilities which is generally recorded within other noncurrent liabilities in the consolidated statement 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, 2017 and 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. 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 addition, the Group has recorded \$11 million of tax indemnification liabilities as of September 30, 2017 related to other divestitures.

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The Group 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 Group's consolidated financial statements and the uncertainties that could impact the Group's results of operations, financial position and cash flows. These consolidated financial statements were prepared in accordance with Irish Company Law, to present to shareholders and file with the Companies Registration Office in Ireland. Accordingly, these consolidated financial statements include presentation and disclosures required by Ireland's Companies Act 2014 in addition to those disclosures required under U.S. GAAP.

### Revenue Recognition

The Building Technologies & Solutions business recognizes revenue from certain long-term contracts over the contractual period under the percentage-of-completion ("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 Group's results of operations. The Group continually evaluates all of the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The Building Technologies & Solutions 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 Building Technologies & Solutions 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 Group 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 Group 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 Group recognizes revenue at the time title passes to the customer or as services are performed.

### **Goodwill and Indefinite-Lived Intangible Assets**

Irish company law requires indefinite-lived intangible assets and goodwill to be amortized. However, amortization of indefinite-lived assets and goodwill may not give a true and fair view because not all goodwill and intangible assets decline in value. In addition, since goodwill that does decline in value rarely does so on a straight-line basis, straight-line amortization of goodwill over an arbitrary period may not reflect the economic reality. Therefore, in accordance with U.S. GAAP, goodwill and indefinite-lived intangible assets are not amortized. Rather, the Group assesses the impairment of goodwill and indefinite-lived intangible assets on an annual basis or more frequently if triggering events occur.

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Group 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 Group performs impairment reviews for its reporting units, which have been determined to be the Group'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 Group 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 Group 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 Group 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 2017 and 2016.

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 Group reviews long-lived assets, including tangible assets and other intangible assets with definitive lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Group conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets" and

ASC 985-20, "Costs of software to be sold, leased, or marketed." ASC 360-10-15 requires the Group 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. ASC 985-20 requires the unamortized capitalized costs of a computer software product be compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset shall be written off. 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 2017 and 2016.

## **Employee Benefit Plans**

The Group 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 Group'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 Group reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate.

The Group 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 Group'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 Group considers the expected benefit payments on a plan-by-plan basis when setting assumed discount rates. As a result, the Group 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 Group 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 Group consistently uses the relevant country specific benchmark indices for determining the various discount rates. The Group's discount rate on U.S. pension plans was 3.80% and 3.70% at September 30, 2017 and 2016, respectively. The Group's discount rate on postretirement plans was 3.70% and 3.30% at September 30, 2017 and 2016, respectively. The Group's weighted average discount rate on non-U.S. pension plans was 2.40% and 1.90% at September 30, 2017 and 2016, respectively.

In estimating the expected return on plan assets, the Group 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 45% of the plans' assets are invested in equity securities and 44% in fixed income securities, with the remainder primarily invested in alternative investments. For the years ending September 30, 2017 and 2016, the Group'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 both fiscal years 2017 and 2016. For the years ending September 30, 2017 and 2016, the Group's weighted average expected long-term return on non-U.S. pension plan assets was 4.60% and 4.50%, respectively. The actual rate of return on non-U.S. pension plans was above 4.60% in fiscal year 2017 and above 4.50% in fiscal year 2016. For the years ending September 30, 2017 and 2016, the Group's weighted average expected long-term return on postretirement plan assets was 5.60% and 5.45%, respectively. The actual rate of return on postretirement plan assets was above 5.60% in fiscal year 2017 and above 5.45% in fiscal year 2016.

Beginning in fiscal 2018, the Group believes the long-term rate of return will approximate 7.50%, 5.35% and 5.65% 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 or at the date of a remeasurement event. If the Group's actual returns on plan assets are less than the Group's expectations, additional contributions may be required.

In fiscal 2017, total employer contributions to the defined benefit pension plans were \$342 million, of which \$49 million were voluntary contributions made by the Group. The Group expects to contribute approximately \$100 million in cash to its defined

benefit pension plans in fiscal 2018. In fiscal 2017, total employer contributions to the postretirement plans were \$5 million. The Group expects to contribute approximately \$5 million in cash to its postretirement plans in fiscal 2018.

Based on information provided by its independent actuaries and other relevant sources, the Group believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Group'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 Group records receivables from third party insurers when recovery has been determined to be probable.

The Group is subject to laws and regulations relating to protecting the environment. The Group provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Refer to Note 22, "Commitments and Contingencies," of the notes to consolidated financial statements.

The Group 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 Group records receivables from third party insurers when recovery has been determined to be probable.

### **Asbestos-Related Contingencies and Insurance Receivables**

The Group 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 Group's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Group'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 2068 (which is the Group's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Group affiliates). Asbestos related defense costs are included in the asbestos liability. The Group's legal strategy for resolving claims also impacts these estimates. The Group 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 2068. Annually, the Group 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 Group considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Group's defense strategy. The Group also evaluates the recoverability of its insurance receivable on an annual basis. The Group 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 Group records asbestos-related insurance recoveries that are probable. The Group's estimate of asbestos-related insurance recoveries represents estimated amounts due to the Group 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 Group considers available insurance, allocation methodologies, solvency and creditworthiness of the insurers. Refer to Note 22, "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 Group offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Group replace defective products within a specified time period from the date of sale. The Group 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 Group's warranty provisions are adjusted as necessary. At September 30, 2017, the Group had recorded \$409 million of warranty reserves for continuing operations, including extended warranties for which deferred revenue is recorded. The Group 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 Group's product warranty liabilities.



## **Income Taxes**

The Group 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 Group 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 Group's provision for income taxes, deferred tax assets and liabilities, and the valuation allowance recorded against the Group's net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Group 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 Group 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 Group's valuation allowances may be necessary. At September 30, 2017, the Group had a valuation allowance of \$3.8 billion for continuing operations, of which \$3.2 billion 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 \$610 million for other deferred tax assets.

The Group 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 Group's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Group is regularly under audit by tax authorities. At September 30, 2017, the Group had unrecognized tax benefits of \$2.2 billion for continuing operations.

The Group 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 International plc, except in limited circumstances including anticipated taxation on planned divestitures. The reduction of the outside basis differences via the sale or liquidation of these subsidiaries and/or distributions could create taxable income. The Group'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 Group's income tax disclosures.

## **NEW ACCOUNTING PRONOUNCEMENTS**

Refer to the "New Accounting Pronouncements" section within Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," of the notes to consolidated financial statements.

## **FINANCIAL RISK MANAGEMENT**

The Group 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 Group 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 Group 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 statement 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 Group aligns most of the critical terms of its derivatives with the supply contracts.

For net investment hedges, the Group 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 Group's net investment positions in the respective non-U.S. operation.

The Group selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate bonds. At September 30, 2017, the Group did not have any outstanding interest rate swaps. The Group assesses retrospective and prospective effectiveness and records any measured ineffectiveness in the consolidated statement 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 Group's accounting policies for derivative financial instruments is included in Note 1, "Basis of Presentation and 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 Group 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 Group'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 Group hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Group 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 Group 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 Group has 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 accumulated other comprehensive income ("AOCI") account within shareholders' equity attributable to Johnson Controls ordinary shareholders where they offset gains and losses recorded on the Group's net investments globally.

At September 30, 2017 and 2016, the Group estimates that an unfavorable 10% change in the exchange rates would have decreased net unrealized gains by approximately \$330 million and \$297 million, respectively.

### **Interest Rates**

The Group has used 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 Group had no outstanding interest rate swaps at September 30, 2017 and eight interest rate swaps totaling \$850 million outstanding at September 30, 2016. A 10% increase in the average cost of the Group's variable rate debt would have resulted in an unfavorable change in pre-tax interest expense of approximately \$13 million and \$11 million for the year ended September 30, 2017 and 2016, respectively.

### **Commodities**

The Group 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 Group'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 Group-related substances have been released into the environment.

The Group 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 Group believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Group 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 Group-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 Group have been material.

Refer to Note 22, "Commitments and Contingencies," of the notes to consolidated financial statements for additional information.

## ACQUISITION AND CANCELLATION OF OWN SHARES

The Parent Company held 17.1 million and 0.4 million of own shares as of September 30, 2017 and September 30, 2016, which amounted to 1.81% and 0.05% of total shares issued as of September 30, 2017 and 2016, respectively. The Parent Company acquires own shares based on capital allocation strategies.

The Parent Company's own shares activity for the fiscal years ended September 30, 2017 and September 30, 2016 was as follows (in millions):

	Year Ended September 30, 2017		Year Ended September 30, 2016	
	Shares	Amount	Shares	Amount
Balance at beginning of period	0.4	\$ 18	0.1	\$ 3
Payments to acquire own shares	15.7	651	—	—
Other	1.0	41	0.3	15
Balance at end of period	17.1	\$ 710	0.4	\$ 18

## 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 Parent Company's ordinary shares will be determined by the Parent Company's Board of Directors and will depend upon many factors, including the Group's financial condition and results of operations, the capital requirements of the Group'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 was acquired in conjunction with the Tycos Merger. As of September 30, 2017, the Parent Company's distributable reserve balance was approximately \$10.4 billion.

During fiscal 2017 and 2016, the Parent Company declared four quarterly dividends totaling \$1.00 and \$1.05, respectively, per ordinary share. Dividends of \$702 million and \$446 million were paid by the Parent Company to shareholders during fiscal years 2017 and 2016, respectively. As of September 30, 2017, there were \$232 million of outstanding dividends declared.

## FUTURE DEVELOPMENTS

The directors do not anticipate any significant changes in the Group's activities following the date of this report.

## **ACCOUNTING RECORDS**

The measures that the directors have taken to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regards to the keeping of accounting records, are the employment of appropriately qualified accounting personnel and the maintenance of computerized accounting systems. In accordance with Section 283 of the Companies Act 2014, sufficient books of account are maintained in the Group's registered office in One Albert Quay, Cork, Ireland and at the Group's office at 5757 N Green Bay Ave, Milwaukee, WI 53209, USA to disclose, with reasonable accuracy, the financial position of the Group at intervals not exceeding six months.

## **SIGNIFICANT EVENTS SINCE YEAR END**

Subsequent events have been evaluated through January 9, 2018, the date this report was approved by the Audit Committee of the Board of Directors and the Board of Directors. Refer to Note 3 "Acquisitions and Divestitures," Note 9 "Debt and Financing Arrangements" and Note 22 "Commitments and Contingencies" of the notes to consolidated financial statements for details of subsequent events. Additionally, on December 7, 2017, the Board of Directors has approved an incremental \$1 billion increase to its share repurchase authorization.

## **DIRECTORS**

As of September 30, 2017, the Directors of Johnson Controls Ireland were George R. Oliver, David P. Abney, Natalie A. Black, Michael E. Daniels, Juan Pablo del Valle Perochena, Roy Dunbar, Brian Duperreault, Jürgen Tinggren, Mark P. Vergnano and R. David Yost. On September 1, 2017, Alex A. Molinaroli ceased to serve as a member of the board of directors of Johnson Controls Ireland. On August 16, 2017, Jeffrey A. Joerres resigned from the board of directors of Johnson Controls Ireland. On June 14, 2017, Roy Dunbar was appointed as a director of Johnson Controls Ireland.

On December 6, 2017, David P. Abney notified the board of directors of Johnson Controls Ireland that he will not stand for re-election as a director at the end of his current term and will retire from the board of directors of Johnson Controls Ireland effective as of the conclusion of the Group's 2018 Annual Meeting of Stockholders.

On December 7, 2017, the board of directors of Johnson Controls Ireland appointed John D. Young to serve as a member of the board of directors of Johnson Controls Ireland with a term expiring at the conclusion of the next annual general meeting of the Group, where he is expected to stand for re-election.

## DIRECTORS' AND CORPORATE SECRETARY INTERESTS IN SHARES

The interests in the ordinary shares of the Parent Company of the directors and corporate secretary of Johnson Controls Ireland holding office at the end of the fiscal year 2017 and at either the beginning of the fiscal year or date of appointment if later, were as follows:

	September 30,		September 30,	
	2017		2016	
	Ordinary Shares	Restricted Share Units/Options	Ordinary Shares	Restricted Share Units/Options
<b>Directors</b>				
George R. Oliver <sup>(1)</sup>	467,900	2,144,298	384,412	2,505,753
David Abney	5,661	3,842	5,661	—
Natalie A. Black	—	3,842	—	—
Michael E. Daniels	60,976	3,842	58,802	3,831
Juan Pablo del Valle Perochena	—	3,842	—	—
Roy Dunbar	—	2,793	—	—
Brian Duperreault	24,977	3,842	32,179	3,831
Jürgen Tinggren	5,760	3,842	3,822	3,831
Mark P. Vergnano	11,584	3,842	11,584	—
R. David Yost	42,921	3,842	40,747	3,831
<b>Corporate Secretary</b>				
Matthew Heiman <sup>(2)</sup>	5,616	55,522	3,604	39,132

<sup>(1)</sup> Number of restricted share units/options held includes 1,898,108 and 2,300,926 options as of September 30, 2017 and September 30, 2016, respectively.

<sup>(2)</sup> Number of restricted share units/options held includes 41,528 and 27,225 options as of September 30, 2017 and September 30, 2016, respectively.

## POLITICAL DONATIONS

No political donations that require disclosure under Irish law were made during fiscal 2017.

## SUBSIDIARY COMPANIES AND UNDERTAKINGS

Refer to Note 30, "Subsidiary Undertakings," of the notes to consolidated financial statements for information regarding subsidiary undertakings, unconsolidated subsidiaries and branches.

## GOING CONCERN

The directors have a reasonable expectation that the Group and Johnson Controls Ireland have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## AUDIT COMMITTEE

An Audit Committee as required by the Companies Act 2014, Section 167, has been in place for the fiscal years ended September 30, 2017 and 2016.

## STATUTORY AUDITORS

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

The directors in office at the date of this report have each confirmed that:

- As far as he/she is aware, there is no relevant audit information of which the Group's statutory auditors are unaware; and
- He/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's statutory auditors is aware of that information.

On behalf of the Directors

/s/ George R. Oliver

George R. Oliver  
Chairman and Chief Executive Officer

/s/ Jürgen Tinggren

Jürgen Tinggren  
Director

January 9, 2018



## *Independent auditors' report to the members of Johnson Controls International plc*

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion:

- Johnson Controls International plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the group's and the parent company's assets, liabilities and financial position as at September 30, 2017 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the group financial statements does not contravene any provision of the Companies Act 2014 or of any regulations made thereunder;
- the parent company financial statements have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report (the "Annual Report"), which comprise:

- the Consolidated Statement of Financial Position as of September 30, 2017;
- the Parent Company Balance Sheet as at September 30, 2017
- the Consolidated Statement of Income (Loss) for the year then ended;
- the Consolidated Statement of Comprehensive Income (Loss) for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Shareholders' Equity Attributable to Johnson Controls Ordinary Shareholders for the year then ended;
- the Company Statement of Changes in Equity; and
- the Notes to the Consolidated Financial Statements and the Notes to the Company Financial Statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes the Irish Auditing and Accounting Supervisory Authority (IAASA's) Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

### Overview



#### Materiality

- Overall group materiality: \$130 million (2016: \$140 million) which represents circa. 5% of income from continuing operations before income taxes, adjusted for discrete items, primarily the group's net actuarial gain (2016: loss) for the year and separation costs of the Automotive Experience business.
- Company materiality: \$555 million (2016: \$495 million) which represents 1% of total assets. For financial statement line items that do not eliminate on consolidation, they have been audited to the overall group materiality levels.

#### Audit Scope

- The group's five reportable segments are presented in the context of its two primary businesses - Building Technology & Solutions ("BT&S") and Power Solutions.
- We conducted work on 15 reporting components. We paid particular attention to these components due to their size or characteristics and to ensure appropriate audit coverage. Full scope audits were performed on 9 components and specified procedures were performed on the further 6 components.
- Taken together, the territories and functions where we performed our audit accounted for 73% of group revenues, 69% of income before income taxes, excluding the company's net actuarial gain for the year and 74% of group total assets.

#### Key Audit Matters

- Goodwill impairment assessment
- Uncertain tax positions

### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



Key audit matter	How our audit addressed the key audit matter
<p><b>Goodwill impairment assessment</b>  <i>Refer to note 1 "basis of presentation and summary of significant accounting policies", note 3 "acquisitions and divestitures" and note 7 "goodwill and other intangible assets".</i></p> <p>The group has goodwill of \$19,688 million at September 30, 2017 representing approximately 38% of the group's total assets at year-end. The group also changed the reportable segments within its BT&amp;S business from five to four reportable segments, effective July 1, 2017, to align with its new management structure and business activities. This change arose primarily due to the acquisition of Tyco International plc ("Tyco") as at September 2, 2016 and divestiture of the group's Automotive Experience business as at October 31, 2016.</p> <p>Our audit was focused in this area due to quantitative size of the goodwill balances and the implications arising from the BT&amp;S reportable segment changes on management's impairment analysis.</p> <p>Additionally, as set out in the accounting policy, there are judgements and estimates used by the directors of Johnson Controls International plc ("JCI plc") when performing their annual impairment assessment of goodwill, including:</p> <ul style="list-style-type: none"> <li>▪ the use of historical published multiples of earnings of comparable entities with similar operations and economic characteristics including the selection of appropriate entities; and</li> <li>▪ where a discounted cash flow analysis is performed there are a number of judgements and estimates involved in the calculation, including the forecasting of merger synergies in the estimated cash flow projection period. These were determined in our professional judgement to be a significant risk due to the uncertainty of timing and realisability of merger synergies.</li> </ul>	<p>We evaluated the timing of the reportable segment change based on the period in which the business was operated in the new structure. This also included evaluating the information regularly reviewed by the Chief Operating Decision Maker to assess performance and allocate JCI plc resources and information regularly reviewed by segment leaders to assess performance of their segments.</p> <p>We performed a tie out of the retrospectively presented reportable segment results to determine if the mapping of the historical information was consistent with JCI plc's definition of the new operating segments.</p> <p>We evaluated the allocation of Tyco goodwill to JCI plc's new reportable segments by reference to the third party valuation report which had calculated the goodwill for the new reportable segment structure based on an assumed purchase price method.</p> <p>We evaluated the allocation of legacy JCI goodwill to JCI plc's new reportable segments based on the relative fair value allocation, utilising historical EBITDA multiples that management had performed.</p> <p>In order to determine if a change in reportable segments altered an existing impairment, we assessed the reportable segments by reference to the results of the prior year impairment assessment and considered whether any triggering events occurred during fiscal 2017.</p> <p>For the EBITDA multiple utilised by management to establish an estimate of fair value, we recalculated the average market multiple based on the multiples of comparable entities. We checked the mathematical accuracy of the calculation.</p> <p>For two reporting units where a discounted cashflow analysis was performed to further support the fair value estimates, we undertook the following in relation to the key assumptions:</p> <ul style="list-style-type: none"> <li>▪ We specifically focused on management's forecasted merger synergies including targeted evaluations of significant synergies expected to be realised. In this regard, we considered synergies forecasted for fiscal 2017 as compared to those actually achieved.</li> <li>▪ We also considered the directors' analysis including the discount rate, terminal growth rate and revenue and cost assumptions by comparing the assumptions to historical and projected growth rates and assumptions used by market participants. This work included utilising our own internal valuation experts.</li> </ul>



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**Uncertain tax positions**

*Refer to note 1 "basis of presentation and summary of significant accounting policies" and note 18 "income taxes".*

The group has an Uncertain Tax Positions ("UTPs") reserve of \$2,173 million as at 30 September 2017.

JCI plc is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgement is required in determining JCI plc's worldwide provision for income taxes and recording the related income tax assets and liabilities. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is a result of highly subjective management judgements and estimates.

Based on our professional judgement UTPs were a focus of our audit due to the quantitative significance of the total UTP reserve and the judgements used by the directors when determining the appropriateness of uncertain tax positions.

We tested JCI plc's key internal controls over financial reporting related to the identification, valuation and recognition of UTPs.

We evaluated the directors' analysis of each position by obtaining and evaluating supporting documentation, relevant tax law and the assumptions utilised to form the tax position.

We also considered contrary evidence arising as part of our audit, if any, for each position selected for evaluation.

We assessed the completeness of the UTPs based on our knowledge of potential exposures arising from fiscal 2017 ordinary business activities and prior periods, significant transactions, changes in tax law and the current status of U.S. and foreign tax examinations. We specifically focused on understanding and evaluating the directors' judgements and estimates involved when determining the valuation of the reserve for each UTP.

We assessed the reasonableness of estimated interest and penalties recorded to income tax expense related to JCI plc's UTPs by reviewing local country tax laws as well as the impact from net operating loss carryovers.

We considered the current year movement in UTPs based on our understanding and reconciled UTP disclosures to supporting calculations.

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*How we tailored the audit scope*

The group is structured along two primary businesses, Building Technologies & Solutions and Power Solutions. The consolidated financial statements are a consolidation of five reportable segments and over 900 legal entities. Reporting components are structured by individual plants, grouping of plants or on a country basis depending on their management team and structure. The majority of the group’s components are supported by shared service centres across five different territories; Slovakia, Mexico, China, the United Kingdom and the United States.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, including those performed at the group’s shared service centres and the industry in which the group operates.

In determining our audit scope we first focused on individual reporting components and determined the type of work that needed to be performed at the reporting components by us, as the Irish group engagement team, PwC US as the global engagement team, or other component auditors within other PwC network firms. Where the work was performed by PwC US and component auditors, we determined the level of involvement we needed to have in the audit work of those reporting components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Overall through the use of full scope audits, specified procedures audits and substantive analytical procedures we obtained coverage of 73% of group revenues, 69% of income before income taxes, excluding the group’s net actuarial (gain) loss for the year and 74% of group total assets. We allocated materiality levels and issued instructions to each component auditor. In addition to the audit report from each of the component auditors, we received detailed memoranda of examinations on work performed and relevant findings which supplemented our understanding of the component, its results and the audit findings and we participated in a number of local audit closing meetings. Included in the above coverage were other reporting components where specific audit procedures on certain balances were performed. This, together with additional procedures performed at group level, gave us the evidence we needed for our opinion on the financial statements as a whole.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<b>Group financial statements</b>	<b>Company financial statements</b>
<i><b>Overall materiality</b></i>	\$130 million (2016: \$140 million)	\$555 million (2016: \$495 million)
<i><b>How we determined it</b></i>	Circa. 5% of income before income taxes from continuing operations, adjusted for discrete items, primarily the group’s net actuarial gain (2016: loss) for the year and separation costs of the Automotive Experience business	1% of total assets
<i><b>Rationale for benchmark applied</b></i>	We deem income from continuing operations before income taxes, adjusted for discrete items, primarily the group’s net actuarial gain (2016: loss) for the year and separation costs of the Automotive Experience business to be the most appropriate for a profit focused entity.	As the company is a holding company it is deemed that total assets are the most appropriate benchmark to calculate materiality. For financial statement line items that do not eliminate on consolidation, they have been audited to the overall group materiality levels.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$13 million (group audit) (2016: \$14 million) as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons. For the company audit our misstatement threshold was \$55.5 million (2016: \$49.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern.

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### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.

Based on our knowledge and understanding of the group and company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

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### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at: [https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description\\_of\\_auditors\\_responsibilities\\_for\\_audit.pdf](https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf) This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Companies Act 2014 opinions on other matters**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The company balance sheet is in agreement with the accounting records.

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### **Companies Act 2014 exception reporting**

#### *Directors' remuneration and transactions*

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Anthony Reidy  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
Cork  
9 January 2018

- The maintenance and integrity of the Johnson Controls International plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Johnson Controls International plc**  
**Consolidated Statement of Income**

<b>(in millions, except per share data)</b>	<b>Year Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Net sales		
Products and systems*	\$ 24,099	\$ 18,084
Services*	6,073	2,753
	<u>30,172</u>	<u>20,837</u>
Cost of sales		
Products and systems*	17,220	13,323
Services*	3,613	1,860
	<u>20,833</u>	<u>15,183</u>
Gross profit	9,339	5,654
Selling, general and administrative expenses	(6,158)	(4,190)
Restructuring and impairment costs	(367)	(288)
Net financing charges	(496)	(289)
Equity income	240	174
	<u>2,558</u>	<u>1,061</u>
Income from continuing operations before income taxes		
Income tax provision	705	197
	<u>1,853</u>	<u>864</u>
Income from continuing operations		
Loss from discontinued operations, net of tax (Note 4)	(34)	(1,516)
	<u>1,819</u>	<u>(652)</u>
Net income (loss)		
Income from continuing operations attributable to noncontrolling interests	199	132
Income from discontinued operations attributable to noncontrolling interests	9	84
	<u>1,611</u>	<u>(868)</u>
Net income (loss) attributable to Johnson Controls		
Amounts attributable to Johnson Controls ordinary shareholders:		
Income from continuing operations	\$ 1,654	\$ 732
Loss from discontinued operations	(43)	(1,600)
Net income (loss)	<u>\$ 1,611</u>	<u>\$ (868)</u>
Basic earnings (loss) per share attributable to Johnson Controls		
Continuing operations	\$ 1.77	\$ 1.10
Discontinued operations	(0.05)	(2.40)
Net income (loss)	<u>\$ 1.72</u>	<u>\$ (1.30)</u>
Diluted earnings (loss) per share attributable to Johnson Controls		
Continuing operations	\$ 1.75	\$ 1.09
Discontinued operations	(0.05)	(2.38)
Net income (loss)**	<u>\$ 1.71</u>	<u>\$ (1.29)</u>

\* Products and systems consist of Building Technologies & Solutions and Power Solutions products and systems. Services are Building Technologies & Solutions 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 Statement of Comprehensive Income (Loss)**

(in millions)	Year Ended September 30,	
	2017	2016
Net income (loss)	\$ 1,819	\$ (652)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	103	(94)
Realized and unrealized gains (losses) on derivatives	(14)	9
Realized and unrealized gains (losses) on marketable securities	5	(1)
Pension and postretirement plans	—	(1)
Other comprehensive income (loss)	94	(87)
Total comprehensive income (loss)	1,913	(739)
Comprehensive income attributable to noncontrolling interests	203	225
Comprehensive income (loss) attributable to Johnson Controls	\$ 1,710	\$ (964)

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statement of Financial Position**

September 30,

(in millions, except par value and share data)

**Assets**

	2017	2016
Cash and cash equivalents	\$ 321	\$ 579
Accounts receivable, less allowance for doubtful accounts of \$182 and \$173, respectively	6,666	6,394
Inventories	3,209	2,888
Assets held for sale	189	5,812
Other current assets	1,907	1,436
Current assets	<u>12,292</u>	<u>17,109</u>
Property, plant and equipment - net	6,121	5,632
Goodwill	19,688	21,024
Other intangible assets - net	6,741	7,540
Investments in partially-owned affiliates	1,191	990
Noncurrent assets held for sale	1,920	7,374
Other noncurrent assets	3,931	3,510
Total assets	<u>\$ 51,884</u>	<u>\$ 63,179</u>

**Liabilities and Equity**

Short-term debt	\$ 1,214	\$ 1,078
Current portion of long-term debt	394	628
Accounts payable	4,271	4,000
Accrued compensation and benefits	1,071	1,333
Deferred revenue	1,279	1,228
Liabilities held for sale	72	4,276
Other current liabilities	3,553	3,788
Current liabilities	<u>11,854</u>	<u>16,331</u>
Long-term debt	11,964	11,053
Pension and postretirement benefits	947	1,550
Noncurrent liabilities held for sale	173	3,888
Other noncurrent liabilities	5,368	5,033
Long-term liabilities	<u>18,452</u>	<u>21,524</u>
Commitments and contingencies (Note 22)		
Redeemable noncontrolling interests	211	234
Ordinary shares - par value \$0.01, \$0.01; 2.0 billion, 2.0 billion shares authorized; 945,055,276, 936,247,911 shares issued, respectively	9	9
Ordinary A shares - par value €1.00; 40,000 shares authorized, none outstanding as of September 30, 2017 and 2016	—	—
Preferred shares - par value \$0.01; 200,000,000 shares authorized, none outstanding as of September 30, 2017 and 2016	—	—
Ordinary shares held in treasury, at cost (2017 - 17,080,302; 2016 - 452,083 shares)	(710)	(20)
Capital in excess of par value	16,390	16,105
Retained earnings	5,231	9,177
Accumulated other comprehensive loss	(473)	(1,153)
Shareholders' equity attributable to Johnson Controls	<u>20,447</u>	<u>24,118</u>
Noncontrolling interests	920	972
Total equity	<u>21,367</u>	<u>25,090</u>
Total liabilities and equity	<u>\$ 51,884</u>	<u>\$ 63,179</u>

**The accompanying notes are an integral part of the consolidated financial statements.**

Approved by the Board of Directors on January 9, 2018 and signed on its behalf by:

/s/ George R. Oliver  
George R. Oliver  
Chairman and Chief Executive Officer

/s/ Jürgen Tinggren  
Jürgen Tinggren  
Director



**Johnson Controls International plc**  
**Consolidated Statement of Cash Flows**

(in millions)	Year Ended September 30,	
	2017	2016
<b>Operating Activities</b>		
Net income (loss) attributable to Johnson Controls	\$ 1,611	\$ (868)
Income from continuing operations attributable to noncontrolling interests	199	132
Income from discontinued operations attributable to noncontrolling interests	9	84
Net income (loss)	1,819	(652)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	1,188	953
Pension and postretirement benefit expense (income)	(568)	460
Pension and postretirement contributions	(347)	(137)
Equity in earnings of partially-owned affiliates, net of dividends received	(181)	(250)
Deferred income taxes	1,125	(1,241)
Non-cash restructuring and impairment charges	78	221
Gain on divestitures - net	(9)	(26)
Fair value adjustment of equity investment	—	(4)
Equity-based compensation	147	142
Other	(3)	5
Changes in assets and liabilities, excluding acquisitions and divestitures:		
Accounts receivable	(520)	(344)
Inventories	(398)	1
Other assets	(480)	148
Restructuring reserves	89	141
Accounts payable and accrued liabilities	217	398
Accrued income taxes	(2,145)	2,080
Cash provided by operating activities	12	1,895
<b>Investing Activities</b>		
Capital expenditures	(1,343)	(1,249)
Sale of property, plant and equipment	33	32
Acquisition of businesses, net of cash acquired	(6)	353
Business divestitures, net of cash divested	220	32
Changes in long-term investments	(41)	(48)
Other	—	(7)
Cash used by investing activities	(1,137)	(887)
<b>Financing Activities</b>		
Increase (decrease) in short-term debt - net	145	556
Increase in long-term debt	1,865	1,501
Repayment of long-term debt	(1,297)	(1,299)
Debt financing costs	(18)	(45)
Stock repurchases	(651)	(501)
Payment of cash dividends	(702)	(915)
Proceeds from the exercise of stock options	157	70
Change in noncontrolling interest share	8	(2)
Dividends paid to noncontrolling interests	(88)	(306)
Dividends from Adient spin-off	2,050	—
Cash transferred to Adient related to spin-off	(665)	—
Cash paid to prior acquisitions	(75)	—
Other	(12)	8
Cash provided (used) by financing activities	717	(933)
Effect of exchange rate changes on cash and cash equivalents	54	12
Change in cash held for sale	96	(61)
<b>Increase (decrease) in cash and cash equivalents</b>	(258)	26
Cash and cash equivalents at beginning of period	579	553
Cash and cash equivalents at end of period	\$ 321	\$ 579

**The accompanying notes are an integral part of the consolidated financial statements.**

**Johnson Controls International plc**  
**Consolidated Statement 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, 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>	24,118	9	16,105	9,177	(20)	(1,153)
Comprehensive income	1,710	—	—	1,611	—	99
Cash dividends						
Ordinary (\$1.00 per share)	(938)	—	—	(938)	—	—
Repurchases of ordinary shares	(651)	—	—	—	(651)	—
Spin-off of Adient	(4,038)	—	—	(4,619)	—	581
Other, including options exercised	246	—	285	—	(39)	—
<b>At September 30, 2017</b>	\$ 20,447	\$ 9	\$ 16,390	\$ 5,231	\$ (710)	\$ (473)

The accompanying notes are an integral part of the consolidated financial statements.

# **Johnson Controls International plc**

## **Notes to Consolidated Financial Statements**

### **1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The directors have elected to prepare the consolidated financial statements in accordance with Section 279 (1) of the Companies Act 2014, which provides that a true and fair view of the state of affairs and profit or loss may be given by preparing the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the consolidated financial statements does not contravene any provision of the Companies Act or of any regulations made thereunder. The directors have elected to apply the amendments to Schedule III Part II of Companies Act 2014, introduced by the Companies (Accounting) Act 2017, which allows the directors to adopt a balance sheet and profit and loss format in a different way than the formats as prescribed by Section B, provided that the information given is at least equivalent to that which would have been required by the use of such format. To ensure comparability, corresponding amounts have been disclosed in the same format.

Consolidated financial statements and notes prepared in accordance with U.S. GAAP were included in the Group's Annual Report on Form 10-K for the year ended September 30, 2017, filed with the Securities and Exchange Commission (SEC). These consolidated financial statements were prepared in accordance with Irish Company Law, to present to shareholders and file with the Companies Registration Office in Ireland. Accordingly, these consolidated financial statements include presentation and disclosures required by Ireland's Companies Act 2014 in addition to those disclosures required under U.S. GAAP.

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." Johnson Controls International plc is registered at One Albert Quay, Cork, domiciled in Ireland, and incorporated under the laws of Ireland. 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 Group. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for further information.

On October 31, 2016, the Group completed the spin-off of its Automotive Experience business by way of the transfer of the Automotive Experience Business from Johnson Controls International plc to Adient plc and the issuance of ordinary shares of Adient directly to holders of Johnson Controls International plc ordinary shares on a pro rata basis. Prior to the open of business on October 31, 2016, each of the Group's shareholders received one ordinary share of Adient plc for every ten ordinary shares of Johnson Controls International plc held as of the close of business on October 19, 2016, the record date for the distribution. Group 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 Group did not retain any equity interest in Adient plc. Adient's historical financial results are reflected in the Group's consolidated financial statements as a discontinued operation. Refer to Note 4, "Discontinued Operations," 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 "Group" or "Johnson Controls"). The financial statements have been prepared in United States dollars ("USD") and in accordance with U.S. GAAP as defined in Section 279 (1) of the Companies Act 2014. 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 Group's interest exceeds 20% and the Group does not have a controlling interest.

Under certain criteria as provided for in Financial Accounting Standards Board ("FASB") ASC 810, "Consolidation," the Group may consolidate a partially-owned affiliate. To determine whether to consolidate a partially-owned affiliate, the Group 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 Group 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 Group applies the voting interest model to determine whether or not the Group shall consolidate the partially-owned affiliate.

#### *Consolidated VIEs*

Based upon the criteria set forth in ASC 810, the Group has determined that it was the primary beneficiary in one VIE for the reporting period ended September 30, 2017 and three VIEs for the reporting period ended September 30, 2016, as the Group 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 Group funded the entities' short-term liquidity needs through revolving credit facilities and had the power to direct the activities that were considered most significant to the entities through its key customer supply relationships. These VIEs were divested as a result of the Adient spin-off in the first quarter of fiscal 2017.

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 Group. The Group 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 Group is considered the primary beneficiary of one of the entities due to the Group's power pertaining to decisions over significant activities of the entity. As such, this VIE has been consolidated within the Group's consolidated statement of financial position. The impact of consolidation of the entity on the Group's consolidated statement of income for the years ended September 30, 2017 and 2016 was not material. The VIE is named as a co-obligor under a third party debt agreement of \$164 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 Group is an equity investor, consist of the remaining group entities involved in the reorganization. As part of the overall reorganization transaction, the Group 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 Group is a significant customer of certain co-obligors, resulting in a remote possibility of loss. Additionally, the Group 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 Group has guaranteed that the proceeds received from the sale or transfer will not be less than \$25 million. The Group 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 Group's consolidated statement of financial position for the consolidated VIEs are as follows (in millions):

	September 30,	
	2017	2016
Current assets	\$ 2	\$ 284
Noncurrent assets	53	98
Total assets	\$ 55	\$ 382
Current liabilities	\$ 6	\$ 230
Noncurrent liabilities	42	29
Total liabilities	\$ 48	\$ 259

The Group 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 Group. 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 Group is not considered to be the primary beneficiary of two of the entities as the Group 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 Group's interest exceeds 20% and the Group does not have a controlling interest. The Group's maximum exposure to loss includes the partially-owned affiliate investment balance of \$65 million and \$59 million at September 30, 2017 and 2016, respectively, as well as the subordinated loan from the Group, 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 Group 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 Group 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 Group'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.

In addition, the Group classifies disposal groups to be disposed of other than by sale (e.g. spin-off) as held for sale in the period the disposal occurs.

The Group 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 Group 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 Group 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 statement of financial position. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information.

### **Cash and Cash Equivalents**

The Group considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

### **Restricted Cash**

At September 30, 2017, the Group held restricted cash of approximately \$31 million, of which \$22 million was recorded within other current assets in the consolidated statement of financial position and \$9 million was recorded within other noncurrent assets in the consolidated statement of financial position. These amounts were primarily related to cash restricted for payment of asbestos liabilities. At September 30, 2016, the Group held restricted cash of approximately \$88 million, of which \$79 million was recorded within other current assets in the consolidated statement of financial position and \$9 million was recorded within other noncurrent assets in the consolidated statement of financial position. These amounts were primarily related to cash held in escrow from business divestitures and cash restricted for payment of asbestos liabilities.

### **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 Group 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 Group has identified. The Group 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 statement of financial position and the proceeds are included in cash flows from operating activities in the consolidated statement of cash flows.

### **Payables**

Trade and other creditors are payable at various dates within a year after the end of the fiscal year in accordance with the creditors usual and customary credit terms.

### **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.

### **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 Group 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**

Irish company law requires indefinite-lived intangible assets and goodwill to be amortized. However, amortization of indefinite-lived assets and goodwill may not give a true and fair view because not all goodwill and intangible assets decline in value. In addition, since goodwill that does decline in value rarely does so on a straight-line basis, straight-line amortization of goodwill over an arbitrary period may not reflect the economic reality. Therefore, in accordance with U.S. GAAP, goodwill and indefinite-lived intangible assets are not amortized. Rather, the Group assesses the impairment of goodwill and indefinite-lived intangible assets on an annual basis or more frequently if triggering events occur.

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Group 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 Group performs impairment reviews for its reporting units, which have been determined to be the Group'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 Group 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 Group 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 Group 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 2017 and 2016.

Indefinite-lived intangible assets are also subject to at least annual impairment testing. Indefinite-lived intangible assets primarily 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 Group 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 Group conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets" and ASC 985-20, "Costs of software to be sold, leased, or marketed." ASC 360-10-15 requires the Group 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. ASC 985-20 requires the unamortized capitalized costs of a computer software product be compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset shall be written off. 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 2017 and 2016.

## **Revenue Recognition**

The Building Technologies & Solutions 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 Group 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 deferred revenue in the consolidated statement of financial position. Costs and earnings in excess of billings related to these contracts were \$908 million and \$841 million at September 30, 2017 and 2016, respectively. Billings in excess of costs and earnings related to these contracts were \$451 million and \$431 million at September 30, 2017 and 2016, respectively. 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 Group's results of operations. The Group continually evaluates all of the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The Building Technologies & Solutions 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 Building Technologies & Solutions 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 Technologies & Solutions 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 Accounting Standards Update ("ASU") No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force," the Group 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 Group 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 Group 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 Building Technologies & Solutions 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 Group 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 Group 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 Group 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 Group.

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 statement 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 Group has a large number of customers that behave in a similar manner over time, the Group 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 Group depreciates its pooled subscriber system assets and related deferred revenue using a straight-line method with lives up to 12 years and considering customer attrition. The Group 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 Group to the dealer for the full amount of the contract purchase price. The Group 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 for continuing operations in the consolidated statement of income. Such expenditures for the years ended September 30, 2017 and 2016 were \$360 million and \$158 million, respectively.

### **Earnings Per Share**

The Group 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, unvested restricted stock and unvested performance share awards. 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 Group'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 gains (losses), net of the impact of foreign currency hedges, included in net income for the years ended September 30, 2017 and 2016 were \$94 million and \$(95) million, respectively.

### **Derivative Financial Instruments**

The Group 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 Group 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 statement 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 Group's derivative instruments and hedging activities.

### **Investments**

The Group 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 AOCI 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 statement of income.

## **Pension and Postretirement Benefits**

The Group 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 Group'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 Group records receivables from third party insurers when recovery has been determined to be probable.

The Group is subject to laws and regulations relating to protecting the environment. The Group provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Refer to Note 22, "Commitments and Contingencies," of the notes to consolidated financial statements.

The Group 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 Group records receivables from third party insurers when recovery has been determined to be probable. The Group maintains captive insurance companies to manage certain of its insurable liabilities.

## **Asbestos-Related Contingencies and Insurance Receivables**

The Group 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 Group's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Group'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 2068 (which is the Group's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Group affiliates). Asbestos related defense costs are included in the asbestos liability. The Group's legal strategy for resolving claims also impacts these estimates. The Group 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 2068. Annually, the Group 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 Group considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Group's defense strategy. The Group also evaluates the recoverability of its insurance receivable on an annual basis. The Group 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 Group records asbestos-related insurance recoveries that are probable. The Group's estimate of asbestos-related insurance recoveries represents estimated amounts due to the Group 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 Group considers available insurance, allocation methodologies, solvency and creditworthiness of the insurers. Refer to Note 22, "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 basis 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

Certain amounts as of September 30, 2016 have been revised to conform to the current year's presentation.

Effective July 1, 2017, the Group reorganized the reportable segments within its Building Technologies & Solutions business to align with its new management reporting structure and business activities. Prior to this reorganization, Building Technologies & Solutions was comprised of five reportable segments for financial reporting purposes: Systems and Service North America, Products North America, Asia, Rest of World and Tyco. As a result of this change, Building Technologies & Solutions is now comprised of four reportable segments for financial reporting purposes: Building Solutions North America, Building Solutions EMEA/LA, Building Solutions Asia Pacific and Global Products. Refer to Note 7, "Goodwill and Other Intangible Assets," and Note 19, "Segment Information," of the notes to consolidated financial statements for further information. The net sales and cost of sales split of products and systems versus services on the consolidated statement of income has also been revised for the Building Technologies & Solutions reorganization.

During the first quarter of fiscal 2017, the Group determined that its Automotive Experience business ("Adient") met the criteria to be classified as a discontinued operation, which required retrospective application to financial information for all periods presented. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Group's discontinued operations.

In the first quarter of fiscal 2017, the Group began evaluating the performance of its business segments primarily on segment earnings before interest, taxes and amortization ("EBITA"), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, significant restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans. Historical information has been revised to present the comparable periods on a consistent basis.

In April 2015, the FASB issued Accounting Standards Update ("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. During the quarter ended December 31, 2016, the Group adopted ASU No. 2015-03 and applied the change retrospectively to all periods presented. This change did not have an impact to any period presented on the consolidated statement of income. The financial statement impact of this change for the period ending September 30, 2016 was a decrease to noncurrent assets held for sale of \$44 million, a decrease to noncurrent liabilities held for sale of \$44 million, a decrease to other noncurrent assets of \$30 million and a decrease to long-term debt of \$30 million.

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 was effective retrospectively for the Group for the quarter ending December 31, 2016. The adoption of this guidance did not have an impact on the Group's consolidated financial statements, but did impact pension asset disclosures.

## New Accounting Pronouncements

### *Recently Adopted 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. ASU No. 2016-17 was effective for the Group for the quarter ending December 31, 2016. The adoption of this guidance did not have an impact on the Group's 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. During the quarter ended September 30, 2017, the Group early adopted ASU No. 2016-07 and applied it prospectively. The adoption of this guidance did not have an impact on the Group'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 was effective retrospectively for the Group for the quarter ending December 31, 2016. The adoption of this guidance did not have an impact on the Group's consolidated financial statements, but did impact pension asset disclosures. Refer to Note 15, "Retirement Plans," of the notes to consolidated financial statements for further information.

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. ASU No. 2015-02 was effective retrospectively for the Group for the quarter ending December 31, 2016. The adoption of this guidance did not have an impact on the Group's consolidated financial statements.

#### *Recently Issued Accounting Pronouncements*

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The ASU more closely aligns the results of hedge accounting with risk management activities through amendments to the designation and measurement guidance to better reflect a Group's hedging strategy and effectiveness. ASU 2017-12 is effective for the Group for the quarter ending December 31, 2019. Early adoption is permitted in any interim period. The Group is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU provides guidance about which changes to the terms or conditions of a share-based payment award require a reporting entity to apply modification accounting. ASU No. 2017-09 will be effective prospectively for the Group for the quarter ending December 31, 2018, with early adoption permitted. The impact of this guidance for the Group is dependent on any future share-based payment award changes, should they occur.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The ASU requires the service cost component of net periodic benefit cost to be presented with other compensation costs. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The ASU also allows only the service cost component of net periodic benefit cost to be eligible for capitalization. The guidance will be effective for the Group for the quarter ending December 31, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The guidance will be effective retrospectively except for the capitalization of the service cost component which should be applied prospectively. The adoption of this guidance is not expected to have a significant impact on the Group's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2) from the goodwill impairment test. Instead, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The guidance will be effective prospectively for the Group for the quarter ending December 31, 2020, with early adoption permitted after January 1, 2017. The impact of this guidance for the Group will depend on the outcomes of future goodwill impairment tests.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)." The ASU requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance will be effective for the Group for the quarter ending December 31, 2018, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented. The impact of this guidance for the Group will depend on the levels of restricted cash balances in the periods presented.

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 Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group for the quarter ending December 31, 2017, with early adoption permitted. The Group is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

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 Group for the quarter ending December 31, 2019, with early adoption permitted. The Group is currently assessing the impact adoption of this guidance will have on its consolidated financial statements. The Group has started the assessment process by evaluating the population of leases under the revised definition of what qualifies as a leased asset. The Group is the lessee under various agreements for facilities and equipment that are currently accounted for as operating leases. The new guidance will require the Group to record operating leases on the balance sheet with a right-of-use asset and corresponding liability for future payment obligations. The Group expects the new guidance will have a material impact on its consolidated statement of financial position for the addition of right-of-use assets and lease liabilities, but the Group does not expect it to have a material impact on its consolidated statement of income.

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, including marketable securities. ASU No. 2016-01 will be effective for the Group 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 impact of this guidance for the Group will depend on the magnitude of the unrealized gains and losses on the Group's marketable securities investments.

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 Group 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 Group'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 Group 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 Group 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," in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," and in December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," all of which provide additional clarification on certain topics addressed in ASU No. 2014-09. ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 follow the same implementation guidelines as ASU No. 2014-09 and ASU No. 2015-14. The Group has elected to adopt the new revenue guidance as of October 1, 2018 using the modified retrospective approach. In preparation for adoption of the new guidance, the Group has reviewed representative samples of contracts and other forms of agreements with customers globally and is in the process of evaluating the impact of the new revenue standard. Based on its procedures to date, the Group is not in a position today to quantify the potential impact the new revenue standard will have on its consolidated financial statements.

## 2. MERGER TRANSACTION

As discussed in Note 1, "Basis of Presentation and 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 Group's board of directors and the designation of certain senior management positions of the Group, 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 Group, or "Group 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 Group 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 Group ordinary shares and former Tyco stockholders owned approximately 44% of the issued and outstanding Group 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 creates immediate opportunities for near-term growth through cross-selling, complementary branch and channel networks, and expanded global reach for established businesses. The new Group also benefits 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.

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>\$</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 Group 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. 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 Group's results of operations.

The fair values of the assets acquired and liabilities assumed are as follows (in millions):

Cash and cash equivalents	\$	489
Accounts receivable		2,034
Inventories		807
Other current assets		617
Property, plant, and equipment - net		1,216
Goodwill		16,105
Intangible assets - net		6,384
Other noncurrent assets		536
Total assets acquired	\$	28,188
Short-term debt	\$	462
Accounts payable		725
Accrued compensation and benefits		312
Other current liabilities		1,481
Long-term debt		6,416
Long-term deferred tax liabilities		718
Long-term pension and postretirement benefits		774
Other noncurrent liabilities		1,456
Total liabilities acquired	\$	12,344
Noncontrolling interests		37
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 Group recorded goodwill of \$16.1 billion, which is attributable primarily to expected synergies, expanded market opportunities, and other benefits that the Group believes will result from combining its operations with the operations of Tyco. Goodwill has been allocated to the reporting units within Building Technologies & Solutions business based on the expected benefits from the Merger. The Group recorded a net reduction in goodwill of \$258 million in fiscal 2017 related to purchase price allocations. The goodwill created in the Merger is not deductible for tax purposes.

The purchase price allocation to identifiable intangible assets acquired are as follows:

	<u>Fair Value (in millions)</u>	<u>Weighted Average Life (in years)</u>
Customer relationships	\$ 2,280	12
Completed technology	1,650	11
Other definite-lived intangibles	214	7
Indefinite-lived trademarks	2,080	
Other indefinite-lived intangibles	90	
In-process research and development	70	
Total identifiable intangible assets	<u>\$ 6,384</u>	

#### *Actual and Pro Forma Impact*

The Group'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 and net income (loss) from continuing operations attributable to Tyco during this period and included in the Group's consolidated financial statements for the fiscal year ended September 30, 2016 total \$808 million and (\$48) million, respectively.

The following unaudited pro forma information assumes the acquisition had occurred on October 1, 2014, and had been included in the Group's consolidated statement of income for fiscal year 2016.

(in millions)	<u>Year Ended September 30,</u>	
	<u>2016</u>	
Pro forma net sales	\$	29,647
Pro forma net income from continuing operations		1,143

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 Group with the SEC on November 8, 2016 under Item 7.01, "Regulation FD Disclosure."

### **3. ACQUISITIONS AND DIVESTITURES**

#### ***Fiscal Year 2017***

During fiscal 2017, the Group completed three acquisitions for a combined purchase price, net of cash acquired, of \$9 million, \$6 million of which was paid as of September 30, 2017. The acquisitions in the aggregate were not material to the Group's consolidated financial statements. In connection with the acquisitions, the Group recorded goodwill of \$2 million.



In the fourth quarter of fiscal 2017, the Group completed two divestitures for a combined selling price, net of cash divested, of \$44 million, of which \$40 million was received as of September 30, 2017. The divestitures were not material to the Group's consolidated financial statements. In connection with the divestitures, the Group recorded a gain of \$9 million within selling, general and administrative expenses on the consolidated statement of income and reduced goodwill by \$19 million and \$2 million in the Global Products segment and in the Building Solutions Asia Pacific segment, respectively.

In the second quarter of fiscal 2017, the Group signed a definitive agreement to sell its Scott Safety business to 3M Company for approximately \$2.0 billion. The transaction closed on October 4, 2017. Net cash proceeds from the transaction of approximately \$1.9 billion were used to repay a significant portion of the Tyco International Holding S.a.r.L.'s ("TSarL") \$4.0 billion of merger-related debt. Scott Safety is a leader in high performance respiratory protection, gas and flame detection, thermal imaging and other critical products. The Scott Safety business is included in the Global Products segment and is reported within assets and liabilities held for sale in the consolidated statement of financial position as of September 30, 2017. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further disclosure related to the Group's net assets held for sale.

In the second quarter of fiscal 2017, the Group completed the sale of its ADT security business in South Africa within the Building Solutions EMEA/LA segment. The selling price, net of cash divested, was \$129 million, all of which was received as of September 30, 2017. In connection with the sale, the Group reduced goodwill in assets held for sale by \$92 million. The divestiture was not material to the Group's consolidated financial statements.

In the first quarter of fiscal 2017, the Group completed one additional divestiture for a sales price of \$4 million, all of which was received as of September 30, 2017. The divestiture decreased the Group's ownership from a controlling to noncontrolling interest, and as a result, the Group deconsolidated cash of \$5 million. The divestiture was not material to the Group's consolidated financial statements.

During fiscal 2017, the Group received \$52 million in net cash proceeds related to prior year business divestitures.

### ***Fiscal Year 2016***

On October 1, 2015, the Group formed a joint venture with Hitachi to expand its Building Technologies & Solutions product offerings. The Group acquired a 60% ownership interest in the new entity for approximately \$208 million (\$638 million purchase price less cash acquired of \$430 million), \$133 million of which was paid as of September 30, 2016 and \$75 million was paid as of September 30, 2017. In connection with the acquisition, the Group recorded goodwill of \$253 million related to purchase price allocations.

Also during fiscal 2016, the Group 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 Group's consolidated financial statements. In connection with the acquisitions, the Group recorded goodwill of \$6 million. One of the acquisitions increased the Group's ownership from a noncontrolling to controlling interest. As a result, the Group recorded a non-cash gain of \$4 million in equity income for the Global Products segment to adjust the Group's existing equity investment in the partially-owned affiliate to fair value.

In the fourth quarter of fiscal 2016, the Group completed two divestitures for a combined sales price of \$39 million, net of cash divested of \$13 million. None of the sales proceeds were received as of September 30, 2016. The divestitures were not material to the Group's consolidated financial statements. In connection with the divestitures, the Group recorded a gain of \$12 million within selling, general and administrative expenses on the consolidated statement of income and reduced goodwill by \$16 million in the Global Products segment.

In the third quarter of fiscal 2016, the Group 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 Group's consolidated financial statements. In connection with the divestiture, the Group recorded a gain of \$14 million within selling, general and administrative expenses on the consolidated statement of income and reduced goodwill by \$3 million in the Building Solutions North America segment.

During fiscal 2016, the Group received \$29 million in net cash proceeds related to prior year business divestitures.

#### 4. DISCONTINUED OPERATIONS

##### *Adient*

As discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," of the notes to consolidated financial statements, on October 31, 2016, the Group 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. The Group did not retain any equity interest in Adient plc. During the first quarter of fiscal 2017, the Group determined that Adient met the criteria to be classified as a discontinued operation and, as a result, Adient's historical financial results are reflected in the Group's consolidated financial statements as a discontinued operation, and assets and liabilities are classified as assets and liabilities held for sale. The Group did not allocate any general corporate overhead to discontinued operations.

The following table summarizes the results of Adient, reclassified as discontinued operations for the fiscal years ended September 30, 2017 and 2016 (in millions). As the Adient spin-off occurred on October 31, 2016, there is only one month of Adient results included in the year ended September 30, 2017.

	Year Ended September 30,	
	2017	2016
Net sales	\$ 1,434	\$ 16,837
Cost of sales	1,293	15,177
Gross profit	141	1,660
Selling, general and administrative expenses	(162)	(1,135)
Restructuring and impairment costs	—	(332)
Net financing charges	(9)	(25)
Equity income	31	357
Income from discontinued operations before income taxes	1	525
Income tax provision on discontinued operations	35	2,041
Loss from discontinued operations, net of tax	(34)	(1,516)
Income from discontinued operations attributable to noncontrolling interests, net of tax	9	84
Loss from discontinued operations attributable to Johnson Controls ordinary shareholders	\$ (43)	\$ (1,600)

For the fiscal year ended September 30, 2017, the income from discontinued operations before income taxes included separation costs of \$79 million. For the fiscal year ended September 30, 2016, the income from discontinued operations before income taxes included separation costs (\$418 million), significant restructuring and impairment costs (\$332 million), and net mark-to market losses on pension and postretirement plans (\$110 million).

For the fiscal year ended September 30, 2017, the effective tax rate was more than the U.S. federal statutory rate of 35% primarily due to the tax impacts of separation costs and Adient spin-off related tax expense, partially offset by non-U.S. tax rate differentials.

In preparation for the spin-off of the Automotive Experience business in the first quarter of fiscal 2017, the Group incurred incremental tax expense of \$95 million in fiscal 2016. The Group 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 fiscal 2016, the Group 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. At September 30, 2016 the Group needed to

complete the final steps of Automotive Experience restructuring and, as a result, the Group provided deferred taxes of \$24 million for the U.S. income tax expense on outside basis differences that reversed upon the completion of the restructuring.

***Assets and Liabilities Held for Sale***

During the second quarter of fiscal 2017, the Group signed a definitive agreement to sell its Scott Safety business of the Global Products segment to 3M Company. The transaction closed on October 4, 2017. The assets and liabilities of this business are presented as held for sale in the consolidated statement of financial position as of September 30, 2017. The business did not meet the criteria to be classified as a discontinued operation as the divestiture of the Scott Safety business will not have a major effect on the Group's operations and financial results.

The following table summarizes the carrying value of the Scott Safety assets and liabilities held for sale at September 30, 2017 (in millions):

	<u>September 30, 2017</u>
Cash	\$ 9
Accounts receivable - net	100
Inventories	75
Other current assets	5
Assets held for sale	<u>\$ 189</u>
Property, plant and equipment - net	\$ 79
Goodwill	1,248
Other intangible assets - net	592
Other noncurrent assets	1
Noncurrent assets held for sale	<u>\$ 1,920</u>
Accounts payable	\$ 37
Accrued compensation and benefits	10
Other current liabilities	25
Liabilities held for sale	<u>\$ 72</u>
Other noncurrent liabilities	\$ 173
Noncurrent liabilities held for sale	<u>\$ 173</u>

The following table summarizes the carrying value of Adient, classified as assets and liabilities held for sale at September 30, 2016 (in millions):

	<u>September 30, 2016</u>	
Cash	\$	105
Cash in escrow related to Adient debt		2,034
Accounts receivable - net		2,071
Inventories		672
Other current assets		756
Assets held for sale	<u>\$</u>	<u>5,638</u>
Property, plant and equipment - net	\$	2,240
Goodwill		2,385
Other intangible assets - net		113
Investments in partially-owned affiliates		1,745
Other noncurrent assets		891
Noncurrent assets held for sale	<u>\$</u>	<u>7,374</u>
Short-term debt	\$	41
Current portion of long-term debt		38
Accounts payable		2,764
Accrued compensation and benefits		430
Other current liabilities		975
Liabilities held for sale	<u>\$</u>	<u>4,248</u>
Long-term debt	\$	3,441
Pension and postretirement benefits		188
Other noncurrent liabilities		259
Noncurrent liabilities held for sale	<u>\$</u>	<u>3,888</u>

The following table summarizes depreciation and amortization, capital expenditures, and significant operating and investing non-cash items related to Adient for the fiscal years ended September 30, 2017 and 2016 (in millions):

	<u>Year Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Depreciation and amortization	\$ 29	\$ 331
Pension and postretirement benefit expense	—	113
Equity in earnings of partially-owned affiliates	(31)	(357)
Deferred income taxes	562	(476)
Non-cash restructuring and impairment costs	—	87
Equity-based compensation	1	16
Accrued income taxes	(808)	—
Other	—	(2)
Capital expenditures	(91)	(395)

During the second quarter of fiscal 2017, the Group completed the divestiture of its ADT security business in South Africa within the Building Solutions EMEA/LA segment. The assets and liabilities of this business were presented as held for sale in the consolidated statement of financial position as of September 30, 2016. The business did not meet the criteria to be classified as a discontinued operation.

The following table summarizes the carrying value of ADT security business in South Africa assets and liabilities at September 30, 2016 (in millions):

	<u>September 30, 2016</u>	
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>\$</u>	<u>157</u>
Accounts payable	\$	9
Other current liabilities		19
Liabilities held for sale	<u>\$</u>	<u>28</u>

At September 30, 2016, \$17 million of certain Corporate assets were classified as held for sale. The assets were sold during the second quarter of fiscal 2017.

## 5. INVENTORIES

Inventories consisted of the following (in millions):

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Raw materials and supplies	\$ 919	\$ 852
Work-in-process	567	503
Finished goods	1,723	1,533
Inventories	<u>\$ 3,209</u>	<u>\$ 2,888</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment by type for fiscal 2017 are as follows (in millions):

	Land	Buildings	Subscriber Systems	Machinery and Equipment	Construction in Progress	Total
<b>Cost:</b>						
<b>At September 30, 2016</b>	\$ 367	\$ 2,107	\$ 448	\$ 5,137	\$ 990	\$ 9,049
Capital expenditures and acquisitions	11	365	130	552	308	1,366
Disposals and divestitures	(2)	(36)	(2)	(145)	(17)	(202)
Impairments	—	—	—	—	(44)	(44)
Currency translation and other	(3)	9	(5)	28	15	44
<b>At September 30, 2017</b>	<u>\$ 373</u>	<u>\$ 2,445</u>	<u>\$ 571</u>	<u>\$ 5,572</u>	<u>\$ 1,252</u>	<u>\$ 10,213</u>
<b>Accumulated depreciation:</b>						
<b>At September 30, 2016</b>	\$ —	\$ (748)	\$ (10)	\$ (2,659)	\$ —	\$ (3,417)
Depreciation expense	—	(123)	(96)	(451)	—	(670)
Disposals and divestitures	—	22	—	81	—	103
Impairments	—	—	—	(2)	—	(2)
Currency translation and other	—	(10)	(1)	(95)	—	(106)
<b>At September 30, 2017</b>	<u>\$ —</u>	<u>\$ (859)</u>	<u>\$ (107)</u>	<u>\$ (3,126)</u>	<u>\$ —</u>	<u>\$ (4,092)</u>
<b>Net book value:</b>						
<b>At September 30, 2016</b>	\$ 367	\$ 1,359	\$ 438	\$ 2,478	\$ 990	\$ 5,632
<b>At September 30, 2017</b>	\$ 373	\$ 1,586	\$ 464	\$ 2,446	\$ 1,252	\$ 6,121

Interest costs capitalized during the fiscal years ended September 30, 2017, 2016 and 2015 were \$27 million, \$19 million and \$25 million, respectively. Accumulated depreciation related to capital leases at September 30, 2017 and 2016 was \$13 million and \$16 million, respectively.

As of September 30, 2017 and 2016, no property, plant and equipment assets were pledged as collateral for a loan.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective July 1, 2017, the Group reorganized the reportable segments within its Building Technologies & Solutions business to align with its new management reporting structure and business activities. Historical information has been revised to reflect the new Building Technologies & Solutions reportable segments. Refer to Note 19, "Segment Information," of the notes to consolidated financial statements for further information.

The changes in the carrying amount of goodwill in each of the Group's reportable segments for the fiscal years ended September 30, 2017 was as follows (in millions):

	September 30, 2016	Business Acquisitions	Business Divestitures	Currency Translation and Other	September 30, 2017
Building Technologies & Solutions					
Building Solutions North America	\$ 9,734	\$ (147)	\$ —	\$ 50	\$ 9,637
Building Solutions EMEA/LA	1,981	(37)	—	68	2,012
Building Solutions Asia Pacific	1,260	(14)	(2)	11	1,255
Global Products	6,963	(58)	(1,267)	49	5,687
Power Solutions	1,086	—	—	11	1,097
Total	<u>\$ 21,024</u>	<u>\$ (256)</u>	<u>\$ (1,269)</u>	<u>\$ 189</u>	<u>\$ 19,688</u>

In connection with the Tyco Merger, the Group recorded goodwill of \$16,105 million based on the final purchase price allocation. Refer to Note 2, "Merger Transaction," of the notes to consolidated financial statements for additional information.

The fiscal 2017 Global Products business divestiture amount includes \$1,248 million of goodwill transferred to noncurrent assets held for sale on the consolidated statement of financial position for the sale of the Scott Safety business. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Group's assets and liabilities held for sale.

At September 30, 2015, accumulated goodwill impairment charges included \$47 million related to the Building Solutions EMEA/LA - Latin America reporting unit.

At July 1, 2017, the Group assessed goodwill for impairment in the Building Technologies & Solutions business due to the change in reportable segments as described in Note 19, "Segment Information," of the notes to consolidated financial statements. The Group determined that the estimated fair value of each reporting unit exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at July 1, 2017.

There were no goodwill impairments resulting from fiscal 2017 and 2016 annual impairment tests. With the exception of a Building Solutions North America reporting unit that has goodwill as a result of a recent acquisition and is recorded at fair value, no reporting unit was determined to be at risk of failing step one of the goodwill impairment test. The Group continuously monitors for events and circumstances that could negatively impact the key assumptions in determining fair value, including long-term revenue growth projections, profitability, discount rates, recent market valuations from transactions by comparable companies, volatility in the Group's market capitalization, and general industry, market and macro-economic conditions. It is possible that future changes in such circumstances, or in the variables associated with the judgments, assumptions and estimates used in assessing the fair value of the reporting unit, would require the Group to record a non-cash impairment charge.

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 Group'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.

## Other Intangible Assets

The Group's other intangible assets, primarily from business acquisitions valued based on independent appraisals, consisted of (in millions):

	Amortizable			Non-Amortizable		Total
	Technology	Customer relationships	Miscellaneous	Trademarks and trade names	Miscellaneous	
<b>Cost:</b>						
<b>At September 30, 2016</b>	\$ 1,528	\$ 3,168	\$ 519	\$ 2,555	\$ 150	\$ 7,920
Acquisitions and additions	126	10	28	60	10	234
Divestitures and disposals	(353)	(63)	(154)	(153)	(20)	(743)
Currency translation and other	27	53	(4)	21	3	100
<b>At September 30, 2017</b>	<u>\$ 1,328</u>	<u>\$ 3,168</u>	<u>\$ 389</u>	<u>\$ 2,483</u>	<u>\$ 143</u>	<u>\$ 7,511</u>
<b>Accumulated amortization:</b>						
<b>At September 30, 2016</b>	\$ (24)	\$ (226)	\$ (130)	\$ —	\$ —	\$ (380)
Amortization expense	(127)	(224)	(138)	—	—	(489)
Divestitures and disposals	12	1	138	—	—	151
Impairments	—	—	(20)	—	—	(20)
Currency translation and other	2	(37)	3	—	—	(32)
<b>At September 30, 2017</b>	<u>\$ (137)</u>	<u>\$ (486)</u>	<u>\$ (147)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (770)</u>
<b>Net book value:</b>						
<b>At September 30, 2016</b>	\$ 1,504	\$ 2,942	\$ 389	\$ 2,555	\$ 150	\$ 7,540
<b>At September 30, 2017</b>	\$ 1,191	\$ 2,682	\$ 242	\$ 2,483	\$ 143	\$ 6,741

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. Given the recent acquisition, the September 30, 2017 carrying amount of the indefinite-lived intangible assets recorded as a result of the Tyco Merger approximate fair value.

Amortization of other intangible assets included within continuing operations for the fiscal years ended September 30, 2017 and 2016 was \$489 million and \$116 million, respectively. Excluding the impact of any future acquisitions, the Group anticipates amortization for fiscal 2018, 2019, 2020, 2021 and 2022 will be approximately \$375 million, \$375 million, \$372 million, \$369 million and \$360 million, respectively. There were no indefinite-lived intangible asset impairments resulting from fiscal 2017 and 2016 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 Group 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 \$17 million and \$23 million at September 30, 2017 and 2016, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense for continuing and discontinued operations for the fiscal years ended September 30, 2017 and 2016 was \$502 million and \$402 million, respectively.



Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2017 were as follows (in millions):

	Capital Leases	Operating Leases
2018	\$ 4	\$ 315
2019	3	237
2020	3	160
2021	2	96
2022	2	61
After 2022	9	85
Total minimum lease payments	<u>23</u>	<u>\$ 954</u>
Interest	(4)	
Present value of net minimum lease payments	<u>\$ 19</u>	

## 9. DEBT AND FINANCING ARRANGEMENTS

Short-term debt consisted of the following (in millions):

	September 30,	
	2017	2016
Bank borrowings and commercial paper	\$ 1,214	\$ 1,078
Weighted average interest rate on short-term debt outstanding	1.6%	1.1%

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, 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 Group's outstanding commercial paper. There were no draws on either committed credit facilities during the fiscal years ended September 30, 2017 and 2016. Commercial paper outstanding as of September 30, 2017 and 2016 was \$954 million and \$440 million, respectively.

In September 2017, the Group entered into a 364-day 150 million euro, floating rate, term loan scheduled to expire in September 2018. Proceeds from the loan were used for general corporate purposes.

In March 2017, the Group entered into a 364-day \$150 million committed revolving credit facility scheduled to expire in March 2018. As of September 30, 2017, there were no draws on the facility.

In February 2017, the Group entered into a 364-day \$150 million committed revolving credit facility scheduled to expire in February 2018. As of September 30, 2017, there were no draws on the facility.

In January 2017, the Group entered into a 364-day \$250 million committed revolving credit facility scheduled to expire in January 2018. As of September 30, 2017, there were no draws on the facility.

In December 2016, the Group entered into a 364-day 100 million euro floating rate term loan scheduled to mature in December 2017. Proceeds from the term loan were used for general corporate purposes. Principal and accrued interest were fully repaid in March 2017.

In December 2016, a \$100 million committed revolving credit facility expired. There were no draws on the facility.

In November 2016, a \$35 million committed revolving credit facility expired. There were no draws on the facility.

In October 2016, the Group repaid two ten-month floating rate term loans totaling \$325 million, plus accrued interest, scheduled to expire in October 2016.

In October 2016, the Group repaid a nine-month \$100 million floating rate term loan, plus accrued interest, scheduled to expire in November 2016.

In October 2016, the Group repaid a nine-month 100 million euro floating rate term loan, plus accrued interest, scheduled to expire in October 2016.

Long-term debt consisted of the following (in millions; due dates by fiscal year):

	September 30,	
	2017	2016
Unsecured notes		
JCI Inc. - 7.125% due in 2017 (\$150 million par value)	\$ —	\$ 149
JCI Inc. - 2.6% due in 2017 (\$400 million par value)	—	404
JCI Inc. - 2.355% due in 2017 (\$46 million par value)	—	46
JCI plc - 1.4% due in 2018 (\$259 million par value)	259	—
JCI Inc. - 1.4% due in 2018 (\$41 million par value in 2017; \$300 million par value in 2016)	42	301
JCI plc - 3.75% due in 2018 (\$49 million par value)	49	—
Tyco International Finance S.A. ("TIFSA") - 3.75% due in 2018 (\$18 million par value in 2017; \$67 million par value in 2016)	18	69
JCI plc - 5.00% due in 2020 (\$453 million par value)	452	—
JCI Inc. - 5.00% due in 2020 (\$47 million par value in 2017; \$500 million par value in 2016)	47	499
JCI plc - 4.25% due in 2021 (\$447 million par value)	446	—
JCI Inc. - 4.25% due in 2021 (\$53 million par value in 2017; \$500 million par value in 2016)	53	498
JCI plc - 3.75% due in 2022 (\$428 million par value)	427	—
JCI Inc. - 3.75% due in 2022 (\$22 million par value in 2017; \$450 million par value in 2016)	22	448
JCI plc - 4.625% due in 2023 (\$35 million par value)	38	—
TIFSA - 4.625% due in 2023 (\$7 million par value in 2017; \$42 million par value in 2016)	8	46
JCI plc - 1.00% due in 2023 (€1,000 million par value)	1,171	—
JCI plc - 3.625% due in 2024 (\$468 million par value)	468	—
JCI Inc. - 3.625% due in 2024 (\$31 million par value in 2017; \$500 million par value in 2016)	31	500
Adient - 3.5% due in 2024 (€1,000 million par value)	—	1,119
JCI plc - 1.375% due in 2025 (€423 million par value)	510	—
TIFSA - 1.375% due in 2025 (€58 million par value in 2017; €500 million par value in 2016)	70	571
JCI plc - 3.90% due in 2026 (\$698 million par value)	763	—
TIFSA - 3.90% due in 2026 (\$51 million par value in 2017; \$750 million par value in 2016)	53	824
Adient - 4.875% due in 2026 (\$900 million par value)	—	900
JCI plc - 6.00% due in 2036 (\$392 million par value)	388	—
JCI Inc. - 6.00% due in 2036 (\$8 million par value in 2017; \$400 million par value in 2016)	8	396
JCI plc - 5.70% due in 2041 (\$270 million par value)	269	—
JCI Inc. - 5.70% due in 2041 (\$30 million par value in 2017; \$300 million par value in 2016)	30	299
JCI plc - 5.25% due in 2042 (\$242 million par value)	242	—
JCI Inc. - 5.25% due in 2042 (\$8 million par value in 2017; \$250 million par value in 2016)	8	250
JCI plc - 4.625% due in 2044 (\$445 million par value)	441	—
JCI Inc. - 4.625% due in 2044 (\$6 million par value in 2017; \$450 million par value in 2016)	6	447
JCI plc - 5.125% due in 2045 (\$727 million par value)	872	—
TIFSA - 5.125% due in 2045 (\$23 million par value in 2017; \$750 million par value in 2016)	23	903
JCI plc - 6.95% due in 2046 (\$121 million par value)	121	—
JCI Inc. - 6.95% due in 2046 (\$4 million par value in 2017; \$125 million par value in 2016)	4	125
JCI plc - 4.50% due in 2047 (\$500 million par value)	495	—

JCI plc - 4.95% due in 2064 (\$435 million par value)	434	—
JCI Inc. - 4.95% due in 2064 (\$15 million par value in 2017; \$450 million par value in 2016)	15	449
TSarl - Term Loan A - LIBOR plus 1.50% due in 2020	3,700	4,000
Adient - Term Loan A - LIBOR plus 1.005% due in 2021	—	1,500
Capital lease obligations	19	24
Other foreign-denominated debt		
Euro	43	61
Japanese Yen	311	367
Other	47	39
Gross long-term debt	12,403	15,234
Less: current portion	394	628
Less: debt issuance costs	45	74
Less: current portion - liabilities held for sale	—	38
Less: long-term debt - noncurrent liabilities held for sale	—	3,441
Net long-term debt	\$ 11,964	\$ 11,053

At September 30, 2017, the Group's other foreign-denominated long-term debt was at fixed and floating rates with a weighted-average interest rate of 1.2%. At September 30, 2016, the Group's other foreign-denominated long-term debt was at fixed and floating rates with a weighted-average interest rate of 1.3%.

The installments of long-term debt maturing in subsequent fiscal years are: 2018 - \$394 million; 2019 - \$27 million; 2020 - \$4,201 million; 2021 - \$501 million; 2022 - \$804 million; 2023 and thereafter - \$6,476 million. The Group'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, 2017 and 2016 was \$448 million and \$319 million, respectively. The Group 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 Group's debt and interest expense.

## Financing Arrangements

### *Debt Exchange*

In connection with the Tyco Merger, on December 28, 2016, the Parent Company completed its offer to exchange all validly tendered and accepted notes of certain series (the "existing notes") issued by JCI Inc. or TIFSA, as applicable, each of which is a wholly owned subsidiary of the Group, for new notes (the "New Notes") to be issued by the Parent Company, and the related solicitation of consents to amend the indentures governing the existing notes (the offers to exchange and the related consent solicitation together the "exchange offers"). Pursuant to the exchange offers, the Parent Company exchanged approximately \$5.6 billion of \$6.0 billion in aggregate principal amount of dollar denominated notes and approximately 423 million euro of 500 million euro in aggregate principal amount of euro denominated notes. All validly tendered and accepted existing notes have been canceled. Immediately following such cancellation, \$380.9 million aggregate principal amount of existing notes (not including the TIFSA Euro Notes) remained outstanding across seventeen series of dollar-denominated existing notes and 77.4 million euro aggregate principal amount of TIFSA Euro Notes remained outstanding across one series. In connection with the settlement of the exchange offers, the New Notes were registered under the Securities Act of 1933 and their terms are described in the Parent Company's Prospectus dated December 19, 2016, as filed with the SEC under Rule 424(b)(3) of the Act on that date. The issuance of the New Notes occurred on December 28, 2016. The new notes are unsecured and unsubordinated obligations of the Parent Company and rank equally with all other unsecured and unsubordinated indebtedness of the Parent Company issued from time to time.

### *Financing in connection with Tyco Merger*

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. During fiscal 2017, the Group partially repaid \$300 million of the \$4.0 billion floating rate term loan scheduled to expire in March 2020.

As of September 30, 2017, the outstanding term loan balance was \$3.7 billion. In October 2017, the Group completed the previously announced sale of its Scott Safety business to 3M, and net cash proceeds from the transaction of \$1.9 billion were used to further repay a significant portion of the \$4.0 billion term loan.

#### *Financing in connection with Adient spin-off*

In August 2016, Adient Global Holdings, Ltd. ("AGH"), a wholly-owned subsidiary of the Group, 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 released in connection with the spin-off. The notes were not guaranteed by the Group or any of its subsidiaries that are not subsidiaries of Adient following the spin-off. Approximately \$1.5 billion of the proceeds were distributed to the Group in connection with the spin-off and approximately \$500 million of the proceeds were used for Adient's general corporate purposes.

In July 2016, AGH entered into a 5-year, \$1.5 billion Term A loan facility and a 5-year, \$1.5 billion 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 revolving credit facility. Upon completion of the spin-off of Adient, AGH became a wholly-owned subsidiary of Adient. On the date of the spin-off, Adient and certain of its wholly-owned subsidiaries guaranteed the debt, and the guarantees of the Group were automatically released. The Group 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, 2016; 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*

In September 2017, the Group entered into a five-year 35 billion yen syndicated floating rate term loan scheduled to expire in September 2022. Proceeds from the loan were used for general corporate purposes.

In July 2017, the Group retired \$150 million in principal amount, plus accrued interest, of its 7.125% fixed rate notes that expired in July 2017.

In July 2017, the Group repurchased, at a discount, 4 million euro of its TIFSA 1.375% fixed rate notes, plus accrued interest, scheduled to mature in 2025.

In March 2017, the Group issued one billion euro in principal amount of 1.0% senior unsecured fixed rate notes due in fiscal 2023. Proceeds from the issuance were used to repay existing debt and for other general corporate purposes.

In March 2017, the Group retired \$46 million in principal amount, plus accrued interest, of its 2.355% fixed rate notes that expired in March 2017.

In March and February 2017, the Group repurchased, at a discount, 15 million euro of its TIFSA 1.375% fixed rate notes, plus accrued interest, scheduled to expire in 2025.

In February 2017, the Group issued \$500 million aggregate principal amount of 4.5% senior unsecured fixed rate notes due in fiscal 2047. Proceeds from the issuance were used to repay outstanding commercial paper borrowings and for other general corporate purposes.

In December 2016, the Group retired \$400 million in principal amount, plus accrued interest, of its 2.6% fixed rate notes that expired in December 2016.

In November 2016, the Group fully repaid its 37 billion yen syndicated floating rate term loan, plus accrued interest scheduled to expire in June 2020.

## Net Financing Charges

The Group's net financing charges line item in the consolidated statement of income for the years ended September 30, 2017 and 2016 contained the following components (in millions):

	Year Ended September 30,	
	2017	2016
Interest expense, net of capitalized interest costs	\$ 466	\$ 293
Banking fees and bond cost amortization	67	30
Interest income	(19)	(12)
Net foreign exchange results for financing activities	(18)	(22)
Net financing charges	<u>\$ 496</u>	<u>\$ 289</u>

Interest expense for the years ended September 30, 2017 and 2016 is comprised of (\$ in millions):

	Year Ended September 30,	
	2017	2016
Interest on debt payable within five years	\$ 261	\$ 136
Interest on debt payable beyond five years	205	157
	<u>\$ 466</u>	<u>\$ 293</u>

## 10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Group selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, stock-based compensation liabilities and interest rates. Under Group 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 Group 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 Group for each derivative type.

### *Cash Flow Hedges*

The Group has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Group selectively hedges anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. The Group 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 statement 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, 2017 and 2016.

The Group selectively hedges anticipated transactions that are subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Group's purchases of lead, copper, tin, aluminum and polypropylene 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 statement 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, 2017 and 2016.

The Group had the following outstanding contracts to hedge forecasted commodity purchases:

Commodity	Units	Volume Outstanding as of	
		September 30, 2017	September 30, 2016
Copper	Metric Tons	1,962	2,653
Polypropylene	Metric Tons	19,563	—
Lead	Metric Tons	24,705	5,185
Aluminum	Metric Tons	2,169	2,620
Tin	Metric Tons	1,715	185

#### *Fair Value Hedges*

The Group selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate bonds. As fair value hedges, the interest rate swaps and related debt balances are valued under a market approach using publicized swap curves. Changes in the fair value of the swap and hedged portion of the debt are recorded in the consolidated statement of income. In the third quarter of fiscal 2014, the Group entered into four fixed to floating interest rate swaps totaling \$400 million to hedge the coupon of its 2.6% notes that matured in 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 in July 2017. In December 31, 2016, the remaining four outstanding interest rate swaps were terminated. The Group had no interest rate swaps outstanding at September 30, 2017. There were eight interest rate swaps outstanding as of September 30, 2016.

#### *Net Investment Hedges*

The Group enters into foreign currency denominated debt obligations to selectively hedge portions of its net investment in non-U.S. subsidiaries. The currency effects of the 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 Group's net investments globally. At September 30, 2017, the Group had one billion euro, 423 million euro and 58 million euro bonds designated as net investment hedges in the Group's net investment in Europe and 35 billion yen of foreign denominated debt designated as net investment hedge in the Group's net investment in Japan. At September 30, 2016, the Group had 37 billion yen of foreign denominated debt designated as net investment hedge in the Group's net investment in Japan and one billion euro and 500 million euro bonds designated as net investment hedges in the Group's net investment in Europe.

#### *Derivatives Not Designated as Hedging Instruments*

The Group 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 Group's stock price increases and decrease as the Group's stock price decreases. In contrast, the value of the swap agreement moves in the opposite direction of these liabilities, allowing the Group to fix a portion of the liabilities at a stated amount. As of September 30, 2017, the Group hedged approximately 1.4 million of its ordinary shares, which have a cost basis of \$58 million. As of September 30, 2016 the Group had no equity swaps outstanding.

The Group 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 statement 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 Group's consolidated statement 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, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Other current assets				
Foreign currency exchange derivatives	\$ 27	\$ 41	\$ —	\$ 49
Commodity derivatives	9	4	—	—
Other noncurrent assets				
Interest rate swaps	—	1	—	—
Equity swap	—	—	55	—
Total assets	<u>\$ 36</u>	<u>\$ 46</u>	<u>\$ 55</u>	<u>\$ 49</u>
Other current liabilities				
Foreign currency exchange derivatives	\$ 21	\$ 48	\$ 25	\$ 18
Commodity derivatives	1	—	—	—
Liabilities held for sale				
Foreign currency exchange derivatives	—	—	—	5
Current portion of long-term debt				
Fixed rate debt swapped to floating	—	551	—	—
Long-term debt				
Foreign currency denominated debt	2,058	938	—	—
Fixed rate debt swapped to floating	—	301	—	—
Noncurrent liabilities held for sale				
Foreign currency denominated debt	—	1,119	—	—
Total liabilities	<u>\$ 2,080</u>	<u>\$ 2,957</u>	<u>\$ 25</u>	<u>\$ 23</u>

### Counterparty Credit Risk

The use of derivative financial instruments exposes the Group to counterparty credit risk. The Group 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 Group deals with major banks worldwide having strong investment grade long-term credit ratings. To further reduce the risk of loss, the Group generally enters into International Swaps and Derivatives Association ("ISDA") master netting agreements with substantially all of its counterparties. The Group'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 Group or the counterparties. The Group'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 Group 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 Group.

The Group 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 Group has not elected to offset the fair value positions of the derivative contracts recorded in the consolidated statement of financial position. Collateral is generally not required of the Group or the counterparties under the master netting agreements. As of September 30, 2017 and 2016, 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, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Gross amount recognized	\$ 91	\$ 95	\$ 2,105	\$ 2,980
Gross amount eligible for offsetting	(16)	(21)	(16)	(21)
Net amount	<u>\$ 75</u>	<u>\$ 74</u>	<u>\$ 2,089</u>	<u>\$ 2,959</u>

*Derivatives Impact on the Statement of Income and Statement 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, 2017 and 2016 (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Year Ended September 30,	
	2017	2016
Foreign currency exchange derivatives	\$ (1)	\$ (18)
Commodity derivatives	14	3
Total	<u>\$ 13</u>	<u>\$ (15)</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 Group's consolidated statement of income for the fiscal years ended September 30, 2017 and 2016 (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,	
		2017	2016
Foreign currency exchange derivatives	Cost of sales	\$ 25	\$ 9
Foreign currency exchange derivatives	Income (loss) from discontinued operations	—	(30)
Commodity derivatives	Cost of sales	8	(12)
Forward treasury locks	Net financing charges	—	\$ 1
Total		<u>\$ 33</u>	<u>\$ (32)</u>

The following table presents the location and amount of pre-tax gains (losses) on fair value hedges recognized in the Group's consolidated statement of income for the fiscal years ended September 30, 2017 and 2016 (in millions):

Derivatives in ASC 815 Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,	
		2017	2016
Interest rate swap	Net financing charges	\$ (1)	\$ (5)
Fixed rate debt swapped to floating	Net financing charges	2	5
Total		<u>\$ 1</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 Group's consolidated statement of income for the fiscal years ended September 30, 2017 and 2016 (in millions):

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative	Year Ended September 30,	
		2017	2016
Foreign currency exchange derivatives	Cost of sales	\$ (1)	\$ (20)
Foreign currency exchange derivatives	Net financing charges	44	21
Foreign currency exchange derivatives	Income tax provision	(3)	4
Foreign currency exchange derivatives	Income (loss) from discontinued operations	5	(30)
Equity swap	Selling, general and administrative	(3)	14
Total		<u>\$ 42</u>	<u>\$ (11)</u>

The effective portion of pre-tax gains (losses) recorded in foreign currency translation adjustment ("CTA") within other comprehensive income (loss) related to net investment hedges were \$(138) million and \$(82) million for the years ended September 30, 2017 and 2016, respectively. For the years ended September 30, 2017 and 2016, no gains or losses were reclassified



from CTA into income for the Group'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 for identical assets or liabilities;

*Level 2:* Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or 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 Group's fair value hierarchy for those assets and liabilities measured at fair value as of September 30, 2017 and 2016 (in millions):

	Fair Value Measurements Using:			
	Total as of September 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Other current assets</b>				
Foreign currency exchange derivatives	\$ 27	\$ —	\$ 27	\$ —
Commodity derivatives	9	—	9	—
Exchange traded funds (fixed income) <sup>1</sup>	14	14	—	—
<b>Other noncurrent assets</b>				
Investments in marketable common stock	10	10	—	—
Deferred compensation plan assets	92	92	—	—
Exchange traded funds (fixed income) <sup>1</sup>	155	155	—	—
Exchange traded funds (equity) <sup>1</sup>	100	100	—	—
Equity swap	55	—	55	—
<b>Total assets</b>	<b>\$ 462</b>	<b>\$ 371</b>	<b>\$ 91</b>	<b>\$ —</b>
<b>Other current liabilities</b>				
Foreign currency exchange derivatives	\$ 46	\$ —	\$ 46	\$ —
Commodity derivatives	1	—	1	—
<b>Total liabilities</b>	<b>\$ 47</b>	<b>\$ —</b>	<b>\$ 47</b>	<b>\$ —</b>

	Fair Value Measurements Using:			
	Total as of September 30, 2016	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	\$ 66	\$ —	\$ 66	\$ —
Liabilities held for sale				
Foreign currency exchange derivatives	5	—	5	—
Current portion of long-term debt				
Fixed rate debt swapped to floating	551	—	551	—
Long-term debt				
Fixed rate debt swapped to floating	301	—	301	—
Total liabilities	<u>\$ 923</u>	<u>\$ —</u>	<u>\$ 923</u>	<u>\$ —</u>

<sup>1</sup>Classified as restricted investments for payment of asbestos liabilities. See Note 22, "Commitments and Contingencies" of the notes to consolidated financial statements for further details.

## 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 Group's stock price at the reporting period date.

*Deferred compensation plan assets:* Assets held in the deferred compensation plans will be used to pay benefits under certain of the Group'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 gain recorded on these investments of \$5 million for the year ended September 30, 2017 within AOCI in the consolidated statement of financial position. There was an unrealized loss recorded on these investments of \$1 million for the year ended September 30, 2016 within AOCI in the consolidated statement of financial position.

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 was \$12.7 billion and \$15.7 billion at September 30, 2017 and 2016, respectively. The fair value of public debt was \$8.6 billion and \$9.7 billion at September 30, 2017 and September 30, 2016, respectively, which was determined primarily using market quotes classified as Level 1 inputs within the ASC 820 fair value hierarchy. The fair value of other long-term debt was \$4.1 billion and \$6.0 billion at September 30, 2017 and September 30, 2016, respectively, which was determined based on quoted market prices for similar instruments classified as Level 2 inputs within the ASC 820 fair value hierarchy.

## 12. STOCK-BASED COMPENSATION

On September 2, 2016, the shareholders of the Group 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 Group'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 Group's common stock are reserved for issuance under the 2012 Plan, and 41 million shares remain available for issuance at September 30, 2017.

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 Group'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 Group 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 Group 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 Group 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. 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 Group'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 Group 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 Group 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 Group's stock throughout Note 12 refer to stock of JCI Inc. prior to the Merger Date and to stock of the Group subsequent to the Merger Date.

In connection with the Adient spin-off, pursuant to the Employee Matters Agreement between the Group and Adient, outstanding stock options and SARs held on October 31, 2016 (the "Spin Date") by employees remaining with the Group were converted into options and SARs of the Group using a 1.085317-for-one share ratio, which is based on the pre-spin and post-spin closing prices of the Group's ordinary shares. The exercise prices for options and SARs were converted using the inverse ratio in a manner designed to preserve the intrinsic value of such awards. In addition, pursuant to the Employee Matters Agreement, nonvested restricted stock held on the Spin Date by employees remaining with the Group were converted into nonvested restricted stock of the Group using the 1.085317-for-one share ratio in a manner designed to preserve the intrinsic value of such awards. There were no performance share awards outstanding as of the Spin Date. Employees remaining with the Group did not receive stock-based

compensation awards of Adient as a result of the spin-off. Except for the conversion of awards and related exercise prices discussed herein, the material terms of the awards remained unchanged. No incremental fair value resulted from the conversion of the awards; therefore, no additional compensation expense was recorded related to the award modification.

Also in connection with the spin-off transaction, pursuant to the Employee Matters Agreement, employees of Adient were entitled to receive stock-based compensation awards of the Group and Adient in replacement of previously outstanding awards of the Group granted prior to the Spin Date. These awards include stock options, SARs and nonvested restricted stock. Upon the Spin Date, the existing awards held by Adient employees were converted into new awards of the Group and Adient on a pro rata basis and further adjusted based on a formula designed to preserve the intrinsic value of such awards. Additional compensation expense, if any, resulting from the modification of awards held by Adient employees is to be recorded by Adient.

The Group has four share-based compensation plans, which are described below. For the fiscal year ended September 30, 2017, compensation cost charged against income for continuing operations, excluding the offsetting impact of outstanding equity swaps, for those plans was approximately \$134 million, all of which was recorded in selling, general and administrative expenses. For the fiscal year ended September 30, 2016, compensation cost charged against income for continuing operations, excluding the offsetting impact of outstanding equity swaps, for those plans was approximately \$160 million, of which \$121 million was recorded in selling, general and administrative expenses and \$39 million was recorded in restructuring and impairment costs. The total income tax benefit recognized for continuing operations in the consolidated statement of income for share-based compensation arrangements was approximately \$53 million and \$56 million for the fiscal years ended September 30, 2017 and 2016, respectively. The Group 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 Group'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. The expected life of options represents the period of time that options granted are expected to be outstanding, assessed separately for executives and non-executives. The risk-free interest 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. For fiscal 2017, expected volatility is based on historical volatility of certain peer companies over the most recent period corresponding to the expected life as of the grant date. For fiscal 2016, expected volatility is based on the historical volatility of the Group's stock and other factors. The expected dividend yield is based on the expected annual dividend as a percentage of the market value of the Group's ordinary shares as of the grant date. The Group uses historical data to estimate option exercises and employee terminations within the valuation model.

	Year Ended September 30,	
	2017	2016
Expected life of option (years)	4.75 & 6.5	6.4
Risk-free interest rate	1.23% - 1.93%	1.64% - 1.70%
Expected volatility of the Group's stock	24.60%	36.00%
Expected dividend yield on the Group's stock	2.21%	2.11%

A summary of stock option activity at September 30, 2017, 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, 2016	\$ 32.07	22,332,233		
Spin conversion	31.02	1,547,096		
Granted	41.73	2,841,686		
Exercised	28.33	(5,919,790)		
Forfeited or expired	42.33	(1,070,782)		
Outstanding, September 30, 2017	<u>\$ 32.76</u>	<u>19,730,443</u>	<u>4.9</u>	<u>\$ 187</u>
Exercisable, September 30, 2017	<u>\$ 33.16</u>	<u>15,054,034</u>	<u>4.0</u>	<u>\$ 180</u>

The weighted-average grant-date fair value of options granted during the fiscal years ended September 30, 2017 and 2016 was \$7.81 and \$13.14, respectively.

The total intrinsic value of options exercised during the fiscal years ended September 30, 2017 and 2016 was approximately \$81 million and \$39 million, respectively.

In conjunction with the exercise of stock options granted, the Group received cash payments for the fiscal years ended September 30, 2017 and 2016 of approximately \$157 million and \$70 million, respectively.

The Group 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 \$4 million and \$11 million for the fiscal years ended September 30, 2017 and 2016, respectively. The Group does not settle stock options granted under share-based payment arrangements for cash.

At September 30, 2017, the Group had approximately \$21 million of total unrecognized compensation cost related to nonvested stock options granted for continuing operations. That cost is expected to be recognized over a weighted-average period of 1.9 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 Group's consolidated statement 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, 2017 were as follows:

Expected life of SAR (years)	0.5 - 5.5
Risk-free interest rate	1.06% - 1.98%
Expected volatility of the Group's stock	24.60%
Expected dividend yield on the Group's stock	2.21%

A summary of SAR activity at September 30, 2017, 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, 2016	\$ 30.49	1,201,165		
Spin conversion	28.06	29,241		
Granted	41.73	15,693		
Exercised	29.62	(290,378)		
Forfeited or expired	39.17	(62,410)		
Outstanding, September 30, 2017	\$ 27.02	893,311	3.8	\$ 12
Exercisable, September 30, 2017	\$ 26.40	853,260	3.5	\$ 12

In conjunction with the exercise of SARs granted, the Group made payments of \$4 million and \$8 million during the fiscal years ended September 30, 2017 and 2016, 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. The value of restricted awards is based on the closing market value of the Group's ordinary shares on the date of grant.

A summary of the status of the Group's nonvested restricted stock awards at September 30, 2017, and changes for the fiscal year then ended, is presented below:

	Weighted Average Price	Shares/Units Subject to Restriction
Nonvested, September 30, 2016	\$ 47.27	9,566,044
Spin conversion	43.88	482,312
Granted	41.66	1,773,465
Vested	40.83	(3,045,375)
Forfeited	44.53	(1,814,740)
Nonvested, September 30, 2017	\$ 44.48	6,961,706

At September 30, 2017, the Group had approximately \$101 million of total unrecognized compensation cost related to nonvested restricted stock arrangements granted for continuing operations. That cost is expected to be recognized over a weighted-average period of 1.7 years.

### Performance Share Awards

The Plan permits the grant of performance-based share unit ("PSU") awards. 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. The PSUs are also indexed to the achievement of specified levels of total shareholder return versus a peer group over the performance period. Each PSU that is earned will be settled with shares of the Group's ordinary shares 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.

The fair value of each PSU is estimated on the date of grant using a Monte Carlo simulation that uses the assumptions noted in the following table. The risk-free interest rate for periods during the contractual life of the PSU is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on historical volatility of certain peer companies over the most recent three-year period as of the grant date.

	Year Ended September 30, 2017
Risk-free interest rate	1.40%
Expected volatility of the Group's stock	21.00%

A summary of the status of the Group's nonvested PSUs at September 30, 2017, and changes for the fiscal year then ended, is presented below:

	Weighted Average Price	Shares/Units Subject to PSU
Nonvested, September 30, 2016	\$ —	—
Granted	43.43	1,259,342
Forfeited	44.98	(139,954)
Nonvested, September 30, 2017	\$ 43.24	1,119,388

### 13. EARNINGS PER SHARE

The Group presents both basic and diluted 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 Group 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 Group 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,	
	2017	2016
<b>Income (Loss) Available to Ordinary Shareholders</b>		
Income from continuing operations	\$ 1,654	\$ 732
Loss from discontinued operations	(43)	(1,600)
Basic and diluted income (loss) available to shareholders	\$ 1,611	\$ (868)
<b>Weighted Average Shares Outstanding</b>		
Basic weighted average shares outstanding	935.3	667.4
Effect of dilutive securities:		
Stock options, unvested restricted stock and unvested performance share awards	9.3	5.2
Diluted weighted average shares outstanding	944.6	672.6
<b>Antidilutive Securities</b>		
Options to purchase common shares	0.2	—

During the three months ended September 30, 2017 and 2016, the Group declared a dividend of \$0.25 and \$0.29, respectively, per share. During the twelve months ended September 30, 2017 and 2016, the Group declared four quarterly dividends totaling \$1.00 and \$1.16, respectively, per share.

#### 14. EQUITY AND NONCONTROLLING INTERESTS

##### *Authorized Share Capital*

As of September 30, 2017, the Group's authorized share capital amounted to \$22 million and 40,000 euro, divided into 2 billion ordinary shares with a par value of \$0.01 per share, 200 million preferred shares with a par value of \$0.01 per share and 40,000 ordinary A shares with a par value of 1.00 euro per share. The authorized share capital includes 40,000 ordinary A shares with a par value of 1.00 euro per share in order to satisfy statutory requirements for the incorporation of all Irish public limited companies. Johnson Controls International plc Parent Company may issue shares subject to the maximum prescribed by its authorized share capital contained in its memorandum of association. In connection with the re-domicile, the Group canceled all the outstanding treasury shares of JCI Inc., including shares held by subsidiaries, with an offsetting reduction in the share premium account.

##### *Called-up 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
Post-share consolidation Tyco shares	408.0
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
Reduction in shares due to cash consideration paid by Tyco	(110.8)
Adjusted Johnson Controls Inc. shares outstanding (1:1 exchange ratio)	527.5
Shares outstanding at September 2, 2016	935.5
Par value	\$ 9

All ordinary shares issued at the effective time of the re-domicile were issued as fully paid-up and non-assessable. As of September 30, 2017, the Group's called-up share capital amounted to \$9 million, which is recorded in ordinary shares within the consolidated statement of financial position, comprised of 945,055,276 ordinary shares with a par value of \$0.01 per share. As of September 30, 2016, the Group's called-up share capital amounted to \$9 million, comprised of 936,247,911 ordinary shares with a par value of \$0.01 per share. There were no preferred shares or ordinary A shares issued as of September 30, 2017 and 2016.

##### *Share Premium Account*

The share premium account reflects the fair value of consideration received in excess of the par value of shares issued for stock option exercises, vesting of restricted stock units and other issuances of shares and is recorded in the capital in excess of par value within the consolidated statement of financial position. Fiscal year 2016 share premium account also reflects the issuance of shares in relation to the Tyco Merger. The share premium account was \$16.4 billion and \$16.1 billion as of September 30, 2017 and 2016, respectively.



### *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 Group's ordinary shares will be determined by the Group's Board of Directors and will depend upon many factors, including the Group's financial condition and results of operations, the capital requirements of the Group'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 Group 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. During fiscal year 2017, the Group repurchased approximately \$651 million of its shares. As of September 30, 2017, approximately \$349 million remains available under the share repurchase program. On December 7, 2017, the Board of Directors has approved an incremental \$1 billion increase to its share repurchase authorization.

There were no shares repurchased between the closing of the Merger and September 30, 2016. Prior to the Merger, during fiscal year 2016, the Group repurchased approximately \$501 million of its shares under JCI Inc.'s \$3.65 billion share repurchase program.

As of September 30, 2017 and 2016, the Group held approximately 17.1 million and 0.4 million own shares, respectively.

### *Profit and Loss Account*

The profit and loss account refers to the portion of net income which is retained by the Group rather than being distributed to shareholders as dividends, which is recorded in the retained earnings within the consolidated statement of financial position. Treasury shares are also included in this account, which is recorded in the ordinary shares held in treasury, at cost within the consolidated statement of financial position. The profit and loss account for September 30, 2017 and 2016 was \$4.5 billion and \$9.2 billion, 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, 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 securities	(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
Total comprehensive income (loss):			
Net income	1,611	164	1,775
Foreign currency translation adjustments	108	(18)	90
Realized and unrealized gains (losses) on derivatives	(14)	1	(13)
Realized and unrealized gains on marketable securities	5	—	5
Other comprehensive income (loss)	99	(17)	82
Comprehensive income	1,710	147	1,857
Other changes in equity:			
Cash dividends - ordinary shares (\$1.00 per share)	(938)	—	(938)
Dividends attributable to noncontrolling interests	—	(56)	(56)
Repurchases of ordinary shares	(651)	—	(651)
Change in noncontrolling interest share	—	(5)	(5)
Spin-off of Adient	(4,038)	(138)	(4,176)
Other, including options exercised	246	—	246
At September 30, 2017	\$ 20,447	\$ 920	\$ 21,367

The equity attributable to Johnson Controls International plc increased by \$15.8 billion as a result of the Tyco Merger in fiscal 2016. 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 31, 2016, the Group completed the Adient spin-off. As a result of the spin-off, the Group divested net assets of approximately \$4.0 billion.

As previously disclosed, on October 1, 2015, the Group formed a joint venture with Hitachi. In connection with the acquisition, the Group recorded equity attributable to noncontrolling interests of \$679 million. Also, in connection with the Tyco merger, the Group recorded equity attributable to noncontrolling interests of \$34 million.

The Group consolidates certain subsidiaries in which the noncontrolling interest party has within their control the right to require the Group 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, 2017	Year Ended September 30, 2016
Beginning balance, September 30	\$ 234	\$ 212
Net income	44	48
Foreign currency translation adjustments	13	2
Realized and unrealized losses on derivatives	(1)	(1)
Dividends	(43)	(27)
Spin-off of Adient	(36)	—
Ending balance, September 30	<u>\$ 211</u>	<u>\$ 234</u>

The following schedules present changes in AOCI attributable to Johnson Controls (in millions, net of tax):

	Year Ended September 30, 2017	Year Ended September 30, 2016
<b>Foreign currency translation adjustments</b>		
Balance at beginning of period	\$ (1,152)	\$ (1,047)
Aggregate adjustment for the period (net of tax effect of \$1 and \$(43))	108	(105)
Adient spin-off impact (net of tax effect of \$0)	563	—
Balance at end of period	<u>(481)</u>	<u>(1,152)</u>
<b>Realized and unrealized gains (losses) on derivatives</b>		
Balance at beginning of period	4	(7)
Current period changes in fair value (net of tax effect of \$4 and \$(5))	9	(10)
Reclassification to income (net of tax effect of \$(10) and \$11) *	(23)	21
Adient spin-off impact (net of tax effect of \$6)	16	—
Balance at end of period	<u>6</u>	<u>4</u>
<b>Realize and unrealized gains (losses) on marketable securities</b>		
Balance at beginning of period	(1)	—
Current period changes in fair value (net of tax effect of \$1 and \$0)	5	(1)
Balance at end of period	<u>4</u>	<u>(1)</u>
<b>Pension and postretirement plans</b>		
Balance at beginning of period	(4)	(3)
Reclassification to income (net of tax effect of \$0) **	—	(1)
Adient spin-off impact (net of tax effect of \$0)	2	—
Balance at end of period	<u>(2)</u>	<u>(4)</u>
Accumulated other comprehensive loss, end of period	<u>\$ (473)</u>	<u>\$ (1,153)</u>

\* 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 statement of income affected by reclassifications from AOCI into income related to derivatives.

\*\* Refer to Note 15, "Retirement Plans," of the notes to consolidated financial statements for disclosure of the components of the Group'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 statement of income.

## 15. RETIREMENT PLANS

### Pension Benefits

The Group 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. Certain of the Group's U.S. pension plans have been amended to prohibit new participants from entering the plans and no longer accrue benefits. 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 Group makes contributions to union-trusted 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 \$5,564 million, \$5,465 million and \$4,715 million, respectively, as of September 30, 2017 and \$7,124 million, \$6,966 million and \$5,234 million, respectively, as of September 30, 2016.

In fiscal 2017, total employer contributions to the defined benefit pension plans were \$342 million, of which \$49 million were voluntary contributions made by the Group. The Group expects to contribute approximately \$100 million in cash to its defined benefit pension plans in fiscal 2018. Projected benefit payments from the plans as of September 30, 2017 are estimated as follows (in millions):

2018	\$	332
2019		329
2020		329
2021		330
2022		338
2023-2027		1,737

### Postretirement Benefits

The Group 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 Group 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 Group has reserved the right to modify these benefits. Effective January 31, 1994, the Group modified certain U.S. salaried plans to place a limit on the Group'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 2017, total employer contributions to the postretirement plans were \$5 million. The Group expects to contribute approximately \$5 million in cash to its postretirement plans in fiscal 2018. Projected benefit payments from the plans as of September 30, 2017 are estimated as follows (in millions):

2018	\$	19
2019		19
2020		19
2021		19
2022		18
2023-2027		76

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 Group 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 Group 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 for continuing and discontinued operations amounted to \$138 million and \$128 million for the fiscal years ended 2017 and 2016, respectively.

### **Multiemployer Benefit Plans**

The Group 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 Group stops participating in some of its multiemployer benefit plans, the Group 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 Group participates in approximately 289 multiemployer benefit plans, primarily related to its Building Technologies & Solutions business in the U.S., none of which are individually significant to the Group. The number of employees covered by the Group's multiemployer benefit plans has remained consistent over the past two years, and there have been no significant changes that affect the comparability of fiscal 2017 and 2016 contributions. The Group recognizes expense for the contractually-required contribution for each period. The Group contributed \$67 million and \$46 million to multiemployer benefit plans in fiscal 2017 and 2016, respectively.

Based on the most recent information available, the Group 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 Group is not aware of any significant multiemployer benefits plans for which it is probable or reasonably possible that the Group will be obligated

to make up any shortfall in funds. Moreover, if the Group were to exit certain markets or otherwise cease making contributions to these funds, the Group could trigger a withdrawal liability. Currently, the Group is not aware of any multiemployer benefit plans for which it is probable or reasonably possible that the Group will have a significant withdrawal liability. 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 Group'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 Group's actual asset allocations are in line with target allocations. The Group 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 Group'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 Group's plan assets at September 30, 2017 and 2016, by asset category, are as follows (in millions):

Asset Category	Fair Value Measurements Using:			
	Total as of September 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>U.S. Pension</b>				
<b>Cash and Cash Equivalents</b>	\$ 70	\$ 2	\$ 68	\$ —
<b>Equity Securities</b>				
Large-Cap	652	375	277	—
Small-Cap	281	281	—	—
International - Developed	649	569	80	—
International - Emerging	51	24	27	—
<b>Fixed Income Securities</b>				
Government	270	243	27	—
Corporate/Other	917	851	66	—
Total Investments in the Fair Value Hierarchy	2,890	\$ 2,345	\$ 545	\$ —
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Real Estate Investments Measured at Net Asset Value*</b>	275			
Total Plan Assets	\$ 3,165			
<b>Non-U.S. Pension</b>				
<b>Cash and Cash Equivalents</b>	\$ 55	\$ 45	\$ 10	\$ —
<b>Equity Securities</b>				
Large-Cap	242	18	224	—
Mid-Cap	2	2	—	—
International - Developed	517	58	459	—
International - Emerging	13	—	13	—

<b>Fixed Income Securities</b>				
Government	618	74	544	—
Corporate/Other	569	292	277	—
<b>Hedge Fund</b>				
	112	—	112	—
<b>Real Estate</b>				
	24	24	—	—
Total Investments in the Fair Value Hierarchy	2,152	\$ 513	\$ 1,639	\$ —
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Real Estate Investments Measured at Net Asset Value*</b>				
	29			
Total Plan Assets	\$ 2,181			
<b>Postretirement</b>				
<b>Cash and Cash Equivalents</b>				
	\$ 3	\$ —	\$ 3	\$ —
<b>Equity Securities</b>				
Large-Cap	28	—	28	—
Small-Cap	9	—	9	—
International - Developed	21	—	21	—
International - Emerging	11	—	11	—
<b>Fixed Income Securities</b>				
Government	21	—	21	—
Corporate/Other	59	—	59	—
<b>Commodities</b>				
	15	—	15	—
<b>Real Estate</b>				
	10	—	10	—
Total Plan Assets	\$ 177	\$ —	\$ 177	\$ —

Asset Category	Fair Value Measurements Using:			
	Total as of September 30, 2016	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 and Cash Equivalents</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	—
Total Investments in the Fair Value Hierarchy	2,947	\$ 2,268	\$ 679	\$ —
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Real Estate Investments Measured at Net Asset Value*</b>	346			
Total Plan Assets	\$ 3,293			
<b><u>Non-U.S. Pension</u></b>				
<b>Cash and Cash Equivalents</b>	\$ 90	\$ 59	\$ 31	\$ —
<b>Equity Securities</b>				
Large-Cap	317	22	295	—
International - Developed	453	52	401	—
International - Emerging	19	—	19	—
<b>Fixed Income Securities</b>				
Government	864	164	700	—
Corporate/Other	561	300	261	—
<b>Hedge Fund</b>	169	—	169	—
<b>Real Estate</b>	11	11	—	—
Total Investments in the Fair Value Hierarchy	2,484	\$ 608	\$ 1,876	\$ —
Investments Measured at Net Asset Value, as Practical Expedient:				
<b>Real Estate Investments Measured at Net Asset Value*</b>	52			
Total Plan Assets	\$ 2,536			
<b><u>Postretirement</u></b>				
<b>Cash and Cash Equivalents</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	—
Total Plan Assets	\$ 196	\$ —	\$ 196	\$ —



\* The fair value of certain investments in real estate do not have a readily determinable fair value and requires the fund managers to independently arrive at fair value by calculating net asset value ("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 Group utilizes a practical expedient for measuring the fair value of its real-estate investments, as provided for under ASC 820, "Fair Value Measurement." In applying the practical expedient, the Group 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 Group's measurement date. The Group 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. In accordance with ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," investments for which fair value is measured using the net asset value per share practical expedient should be disclosed separate from the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of total plan assets to the amounts presented in the notes to consolidated financial statements.

The following is a description of the valuation methodologies used for assets measured at fair value. Certain assets are held within commingled funds which are valued at the unitized NAV or percentage of the net asset value as determined by the manager of the fund. These values are based on the fair value of the underlying net assets owned by the fund.

*Cash and Cash Equivalents:* 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.

*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 Group and custodian review the methods used by the underlying managers to value the assets. The Group 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 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 Group 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.

There were no Level 3 assets as of September 30, 2017 or 2016 or any Level 3 asset activity during fiscal 2017 or 2016.

## 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		2017	2016
	2017	2016	2017	2016		
<b>Accumulated Benefit Obligation</b>	\$ 3,382	\$ 4,118	\$ 2,618	\$ 3,359	\$ —	\$ —
<b>Change in Projected Benefit Obligation</b>						
Projected benefit obligation at beginning of year	4,169	3,022	3,522	1,447	242	211
Service cost	18	16	32	30	2	2
Interest cost	113	104	48	44	6	6
Plan participant contributions	—	—	3	1	4	6
Benefit obligations assumed in Tyco acquisition	—	974	—	1,635	—	30
Other acquisitions	—	—	—	279	—	2
Adient spin-off impact	(18)	—	(619)	—	(17)	—
Actuarial (gain) loss	(131)	355	(194)	295	(1)	5
Benefits and settlements paid	(732)	(301)	(116)	(116)	(25)	(22)
Estimated subsidy received	—	—	—	—	2	1
Curtailement	—	—	(19)	—	—	—
Other	—	(1)	(2)	(1)	—	1
Currency translation adjustment	—	—	66	(92)	1	—
Projected benefit obligation at end of year	\$ 3,419	\$ 4,169	\$ 2,721	\$ 3,522	\$ 214	\$ 242
<b>Change in Plan Assets</b>						
Fair value of plan assets at beginning of year	\$ 3,293	\$ 2,606	\$ 2,536	\$ 1,177	\$ 196	\$ 194
Actual return on plan assets	334	267	94	113	14	17
Plan assets acquired in Tyco acquisition	—	705	—	1,149	—	—
Other acquisitions	—	—	—	180	—	—
Adient spin-off impact	(16)	—	(440)	—	(13)	—
Employer and employee contributions	286	16	59	121	5	7
Benefits paid	(394)	(124)	(86)	(59)	(25)	(22)
Settlement payments	(338)	(177)	(30)	(57)	—	—
Other	—	—	(2)	—	—	—
Currency translation adjustment	—	—	50	(88)	—	—
Fair value of plan assets at end of year	\$ 3,165	\$ 3,293	\$ 2,181	\$ 2,536	\$ 177	\$ 196
Funded status	\$ (254)	\$ (876)	\$ (540)	\$ (986)	\$ (37)	\$ (46)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost - continuing operations	\$ 46	\$ 21	\$ 27	\$ 25	\$ 64	\$ 53
Prepaid benefit cost - discontinued operations	—	1	—	7	—	—
Accrued benefit liability - continuing operations	(300)	(896)	(567)	(832)	(101)	(95)
Accrued benefit liability - discontinued operations	—	(2)	—	(186)	—	(4)
Net amount recognized	\$ (254)	\$ (876)	\$ (540)	\$ (986)	\$ (37)	\$ (46)
<b>Weighted Average Assumptions (1)</b>						
Discount rate (2)	3.80%	3.70%	2.40%	1.90%	3.70%	3.30%
Rate of compensation increase	3.20%	3.20%	2.90%	2.75%	NA	NA

- (1) Plan assets and obligations are determined based on a September 30 measurement date at September 30, 2017 and 2016.
- (2) The Group considers the expected benefit payments on a plan-by-plan basis when setting assumed discount rates. As a result, the Group 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 Group 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 Group consistently uses the relevant country specific benchmark indices for determining the various discount rates. The Group has elected to utilize a full yield curve approach in the estimation of service and interest components of net periodic benefit cost (credit) for pension and other postretirement for plans that utilize a yield curve approach. The full yield curve approach applies the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

### Accumulated Other Comprehensive Income

The amounts in AOCI on the consolidated statement of financial position, exclusive of tax impacts, that have not yet been recognized as components of net periodic benefit cost at September 30, 2017 and 2016 related to pension and postretirement benefits are not significant.

The amounts in AOCI expected to be recognized as components of net periodic benefit cost (credit) over the next fiscal related to pension and postretirement benefits are not significant.

### 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		2017	2016
	2017	2016	2017	2016		
<b>Components of Net Periodic Benefit Cost (Credit):</b>						
Service cost	\$ 18	\$ 16	\$ 32	\$ 30	\$ 2	\$ 2
Interest cost	113	104	48	44	6	6
Expected return on plan assets	(229)	(191)	(92)	(61)	(10)	(10)
Net actuarial (gain) loss	(220)	268	(195)	237	(5)	(2)
Amortization of prior service cost (credit)	—	—	—	1	—	(1)
Curtailement gain	—	—	(19)	—	—	—
Settlement (gain) loss	(16)	11	(1)	6	—	—
Net periodic benefit cost (credit)	(334)	208	(227)	257	(7)	(5)
Net periodic benefit (cost) credit related to discontinued operations	—	(1)	—	(111)	—	(1)
Net periodic benefit cost (credit) included in continuing operations	<u>\$ (334)</u>	<u>\$ 207</u>	<u>\$ (227)</u>	<u>\$ 146</u>	<u>\$ (7)</u>	<u>\$ (6)</u>
<b>Expense Assumptions:</b>						
Discount rate	3.70%	4.40%	1.90%	3.10%	3.30%	3.75%
Expected return on plan assets	7.50%	7.50%	4.60%	4.50%	5.60%	5.45%
Rate of compensation increase	3.20%	3.25%	2.65%	3.30%	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 in certain underlying markets, the Group commits to restructuring plans as necessary.

In fiscal 2017, the Group committed to a significant restructuring plan (2017 Plan) and recorded \$367 million of restructuring and impairment costs in the consolidated statement 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 Group's Building Technologies & Solutions 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, \$166 million related to Corporate, \$74 million related to the Building Solutions EMEA/LA segment, \$59 million related to the Building Solutions North America segment, \$32 million related to the Global Products segment, \$20 million related to the Power Solutions segment and \$16 million related to the Building Solutions Asia Pacific segment. The restructuring actions are expected to be substantially complete in fiscal 2018.

The following table summarizes the changes in the Group's 2017 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Long-Lived Asset Impairments	Other	Currency Translation	Total
Original Reserve	\$ 276	\$ 77	\$ 14	\$ —	\$ 367
Utilized—cash	(75)	—	—	—	(75)
Utilized—noncash	—	(77)	(1)	—	(78)
Adjustment to restructuring reserves	25	—	—	—	25
Balance at September 30, 2017	<u>\$ 226</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 239</u>

In fiscal 2016, the Group committed to a significant restructuring plan (2016 Plan) and recorded \$288 million of restructuring and impairment costs in the consolidated statement of income. The restructuring actions related to cost reduction initiatives in the Group's Building Technologies & Solutions and Power Solutions businesses and at Corporate. The costs consist primarily of workforce reductions, plant closures, asset impairments and change-in-control payments. Of the restructuring and impairment costs recorded, \$161 million related to Corporate, \$66 million related to the Power Solutions segment, \$44 million related to the Global Products segment and \$17 million related to the Building Solutions EMEA/LA segment. The restructuring actions are expected to be substantially complete in fiscal 2018. Included in the reserve is \$56 million of committed restructuring actions taken by Tyco for liabilities assumed as part of the Tyco acquisition.

Additionally, the Group recorded \$332 million of restructuring and impairment costs within discontinued operations related to Adient in fiscal 2016.

The following table summarizes the changes in the Group's 2016 Plan reserve, included within other current liabilities in the consolidated statement 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	\$ 414	\$ —	\$ 30	\$ 1	\$ 445
Adient spin-off impact	(194)	—	(22)	—	(216)
Utilized—cash	(86)	—	(2)	—	(88)
Utilized—noncash	—	—	—	1	1
Adjustment to restructuring reserves	(25)	—	—	—	(25)
Transfer to liabilities held for sale	(3)	—	—	—	(3)
Adjustment to acquired Tyco restructuring reserves	(22)	—	—	—	(22)
Balance at September 30, 2017	\$ 84	\$ —	\$ 6	\$ 2	\$ 92

The Group's fiscal 2017 and 2016 restructuring plans included workforce reductions of approximately 6,100 employees (4,800 for the Building Technologies & Solutions business, 1,200 for Corporate and 100 for Power Solutions). 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, 2017, approximately 1,600 of the employees have been separated from the Group pursuant to the restructuring plans. In addition, the restructuring plans included ten plant closures in the Building Technologies & Solutions business. As of September 30, 2017, four of the ten plants have been closed.

Group 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 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.

## 17. IMPAIRMENT OF LONG-LIVED ASSETS

The Group reviews long-lived assets, including tangible assets and other intangible assets with definitive lives, for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Group conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets" and ASC 985-20, "Costs of software to be sold, leased, or marketed." ASC 360-10-15 requires the Group 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. ASC 985-20 requires the unamortized capitalized costs of a computer software product be compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset shall be written off.

In fiscal 2017, the Group 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 2017. As a result, the Group reviewed the long-lived assets for impairment and recorded \$77 million of asset impairment charges within restructuring and impairment costs on the consolidated statement of income. Of the total impairment charges, \$30 million related to the Building Solutions North America segment, \$20 million related to the Global Products segment, \$19 million related to Corporate assets, \$7 million related to the Power Solutions segment and \$1 million related to the Building Solutions Asia Pacific 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 Group 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 second, third and fourth quarters of fiscal 2016, the Group 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 Group reviewed the long-lived assets for impairment and recorded \$103 million of asset impairment charges within restructuring and impairment costs on the consolidated statement of income. Of the total impairment charges, \$64 million related to the Power Solutions segment, \$24 million related to Corporate assets, \$8 million related to the Global Products segment, \$4 million related to the Building Solutions Asia Pacific segment and \$3 million related to the Building Solutions EMEA/LA segment. In addition, the Group recorded \$87 million of asset impairments within discontinued operations related to Adient in fiscal 2016. 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 Group 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, 2017 and 2016, the Group concluded it did not have any other triggering events requiring assessment of impairment of its long-lived assets. Refer to Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," of the notes to consolidated financial statements for discussion of the Group's goodwill impairment testing.

## 18. INCOME TAXES

The more significant components of the Group's income tax provision from continuing operations are as follows (in millions):

	Year Ended September 30,	
	2017	2016
Tax expense at federal statutory rate	\$ 895	\$ 371
State income taxes, net of federal benefit	23	(6)
Foreign income tax expense at different rates and foreign losses without tax benefits	(309)	(122)
U.S. tax on foreign income	(407)	(194)
Reserve and valuation allowance adjustments	(164)	—
U.S. credits and incentives	(3)	(14)
Impact of acquisitions and divestitures	571	163
Restructuring and impairment costs	65	28
Other	34	(29)
Income tax provision	<u>\$ 705</u>	<u>\$ 197</u>

The U.S. federal statutory tax rate is being used as a comparison since the Group was a U.S. domiciled company for 11 months of 2016 and due to the Group's current legal entity structure. The effective rate is below the U.S. statutory rate for fiscal 2017 primarily due to the benefits of continuing global tax planning initiatives, non-U.S. tax rate differentials, tax audit closures, and a tax benefit due to changes in entity tax status, partially offset by the jurisdictional mix of significant restructuring and impairment costs, Tyco Merger transaction / integration costs and the establishment of a deferred tax liability on the outside basis difference of the Group's investment in certain subsidiaries related to the divestiture of the Scott Safety business. The effective rate is below the U.S. statutory rate for fiscal 2016 primarily due to the benefits of continuing global tax planning initiatives and foreign tax rate differentials, partially offset by the jurisdictional mix of restructuring and impairment costs, and the tax impacts of the Merger and integration related costs.

### *Valuation Allowances*

The Group 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 Group's valuation allowances may be necessary.

In the fourth quarter of fiscal 2017, the Group 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 Group determined that it was more likely than not that certain deferred tax assets primarily in Canada, China and Mexico would not be able to be realized, and it was more likely than not that certain deferred tax assets in Germany would be realized. Therefore, the Group recorded \$27 million of net valuation allowances as income tax expense in the three month period ended September 30, 2017.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Group recorded as part of the acquired liabilities of Tyco \$2.4 billion of valuation allowances. Also in the fourth quarter of fiscal 2016, the Group 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 Group 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.

### ***Uncertain Tax Positions***

The Group 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 Group's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Group is regularly under audit by tax authorities.

At September 30, 2017, the Group had gross tax effected unrecognized tax benefits for continuing operations of \$2,173 million of which \$2,047 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2017 was approximately \$99 million (net of tax benefit).

At September 30, 2016, the Group had gross tax effected unrecognized tax benefits for continuing operations of \$1,706 million of which \$1,604 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2016 was approximately \$84 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,	
	2017	2016
Beginning balance, October 1	\$ 1,706	\$ 1,052
Additions for tax positions related to the current year	613	442
Additions for tax positions of prior years	116	15
Reductions for tax positions of prior years	(44)	(66)
Settlements with taxing authorities	(95)	(104)
Statute closings and audit resolutions	(264)	(30)
Acquisition of business	141	397
Ending balance, September 30	<u>\$ 2,173</u>	<u>\$ 1,706</u>

During fiscal 2017, the Group settled a significant number of tax examinations impacting fiscal years 2006 to fiscal 2014. In the fourth quarter of fiscal 2017, income tax audit resolutions resulted in a net \$191 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") for certain legal entities. Additionally, the Group is currently under exam in the following major non-U.S. jurisdictions for continuing operations:

Tax Jurisdiction	Tax Years Covered
Belgium	2015 - 2016
Brazil	2011 - 2012
Canada	2013 - 2014
China	2008 - 2016
France	2010 - 2015
Germany	2007 - 2015
Japan	2016
Spain	2010 - 2014
Switzerland	2011 - 2014
United Kingdom	2011 - 2014

It is reasonably possible that certain tax examinations and /or tax litigation will conclude within the next twelve months, which could be up to a \$25 million impact to tax expense.

#### ***Other Tax Matters***

During fiscal 2017, the Group recorded \$428 million of transaction and integration costs which generated a \$69 million tax benefit.

During fiscal 2017, the Group recorded a discrete non-cash tax charge of \$490 million related to establishment of a deferred tax liability on the outside basis difference of the Group's investment in certain subsidiaries of the Scott Safety business. This business is reported as net assets held for sale given the announced sale to 3M Company. Refer to Note 3, "Acquisitions and Divestitures," and Note 4, "Discontinued Operations," of the notes to consolidated financial statements for additional information.

In the fourth quarter of fiscal 2017, the Group recorded a tax charge of \$53 million due to a change in the deferred tax liability related to the outside basis of certain nonconsolidated subsidiaries.

In the first quarter of fiscal 2017, the Group recorded a discrete tax benefit of \$101 million due to changes in entity tax status. During fiscal 2017 and 2016, the Group 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 do not generate a tax benefit due to the Group's current tax position in these jurisdictions and the underlying tax basis in the impaired assets, resulting in \$65 million and \$28 million incremental tax expense in fiscal 2017 and 2016, respectively.

During the fourth quarter of fiscal 2016, the Group completed its Merger with Tyco. As a result of that transaction, the Group 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 Group incurred incremental tax expense for continuing operations of \$26 million in fiscal 2016.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Group recorded as part of the acquired liabilities of Tyco \$290 million of post sale contingent tax indemnification liabilities which is generally recorded within other noncurrent liabilities in the consolidated statement 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, 2017 and 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 addition, the Group has recorded \$11 million of tax indemnification liabilities as of September 30, 2017 related to other divestitures.

#### ***Impacts of Tax Legislation and Change in Statutory Tax Rates***

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 Group 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 Group on September 30, 2015. The "look-through rule" had provided an exception to the U.S. taxation of certain income generated by non-U.S. subsidiaries. The rule was extended in December 2015 retroactive to the beginning of the Group's 2016 fiscal year. The retroactive extension was signed into legislation and was made permanent through the Group's 2020 fiscal year.

During the fiscal years ended 2017 and 2016, other tax legislation was adopted in various jurisdictions. These law changes did not have a material impact on the Group's consolidated financial statements.

U.S. tax reform legislation was enacted on December 22, 2017. The Company is currently evaluating the impact of the tax law changes and does expect it to have a material impact on the Group'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,	
	2017	2016
Current		
Federal	\$ (225)	\$ 169
State	(6)	5
Foreign	373	788
	<u>142</u>	<u>962</u>
Deferred		
Federal	593	(321)
State	41	(15)
Foreign	(71)	(429)
	<u>563</u>	<u>(765)</u>
Income tax provision	<u>\$ 705</u>	<u>\$ 197</u>

Consolidated U.S. income from continuing operations before income taxes and noncontrolling interests for the fiscal years ended September 30, 2017 and 2016 was income of \$868 million and \$943 million, respectively. Consolidated foreign income from continuing operations before income taxes and noncontrolling interests for the fiscal years ended September 30, 2017 and 2016 was income of \$1,690 million and \$119 million, respectively.

Income taxes paid for the fiscal years ended September 30, 2017 and 2016 were \$1,756 million and \$1,388 million, respectively. At September 30, 2017 and 2016, the Group recorded within the consolidated statement of financial position in other current liabilities approximately \$625 million and \$1,505 million, respectively, of accrued income tax liabilities for continuing operations.

The Group has not provided U.S. or non-U.S. income taxes on approximately \$16 billion of outside basis differences of consolidated subsidiaries of Johnson Controls International plc. The reduction of the outside basis differences via the sale or liquidation of these subsidiaries and/or distributions could create taxable income. The Group's intent is to reduce the outside basis differences only when it would be tax efficient. Given the numerous ways in which the basis differences may be reduced, it is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on the outside basis differences. In fiscal 2017, the Group did provide U.S. income tax expense related to the establishment of a deferred tax liability on the outside basis difference of the Group's investment in certain subsidiaries of the Scott Safety business as a result of the planned divestiture.

Deferred taxes were classified in the consolidated statement of financial position as follows (in millions):

	September 30,	
	2017	2016
Other noncurrent assets	2,360	2,467
Other noncurrent liabilities	(1,733)	(1,542)
Net deferred tax asset	<u>\$ 627</u>	<u>\$ 925</u>

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities included (in millions):

	September 30,	
	2017	2016
Deferred tax assets		
Accrued expenses and reserves	\$ 891	\$ 1,175
Employee and retiree benefits	373	438
Net operating loss and other credit carryforwards	5,130	4,483
Research and development	188	85
Joint ventures and partnerships	—	49
Other	26	19
	<u>6,608</u>	<u>6,249</u>
Valuation allowances	<u>(3,838)</u>	<u>(3,400)</u>
	<u>2,770</u>	<u>2,849</u>
Deferred tax liabilities		
Property, plant and equipment	247	87
Subsidiaries, joint ventures and partnerships	789	—
Intangible assets	1,107	1,837
	<u>2,143</u>	<u>1,924</u>
Net deferred tax asset	<u>\$ 627</u>	<u>\$ 925</u>

At September 30, 2017, the Group had available net operating loss carryforwards of approximately \$16.6 billion, of which \$6.5 billion will expire at various dates between 2018 and 2037, and the remainder has an indefinite carryforward period. The Group had available U.S. foreign tax credit carryforwards at September 30, 2017 of \$468 million which will expire at various dates between 2020 and 2024 or carried back to fiscal period 2016. 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, 2017, 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.

Deferred taxation activity for fiscal year 2017 is as follows:

<b>At September 30, 2016</b>	925
Provisions, net	(563)
Acquisitions and divestitures, net	624
Charge to equity	(441)
Currency translation and other	82
<b>At September 30, 2017</b>	<u>\$ 627</u>

## 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 Group has determined that it has five reportable segments for financial reporting purposes. The Group's five reportable segments are presented in the context of its two primary businesses - Building Technologies & Solutions and Power Solutions.

Effective July 1, 2017, the Group reorganized the reportable segments within its Building Technologies & Solutions business to align with its new management reporting structure and business activities. Prior to this reorganization, Building Technologies & Solutions was comprised of five reportable segments for financial reporting purposes: Systems and Service North America, Products North America, Asia, Rest of World and Tyco. As a result of this change, Building Technologies & Solutions is now comprised of four reportable segments for financial reporting purposes: Building Solutions North America, Building Solutions EMEA/LA, Building Solutions Asia Pacific and Global Products. Historical information has been revised to reflect the new Building Technologies & Solutions reportable segments.

A summary of the significant Building Technologies & Solutions reportable segment changes is as follows:

- The "Systems and Service North America" segment is now part of the new "Building Solutions North America" reportable segment.
- The North America Unitary Products business, Air Distribution Technologies business and refrigeration systems business, as well as HVAC products installed for Marine customers, previously included in the "Products North America" segment, are now part of the new reportable segment "Global Products." The systems and products installation business for U.S. Navy customers, previously included in the "Products North America" segment, is now part of the new "Building Solutions North America" reportable segment.
- The systems and service business within the former "Asia" segment is now part of the new "Building Solutions Asia Pacific" reportable segment. The HVAC products manufacturing business and the Johnson Controls-Hitachi joint venture, previously part of the "Asia" segment, are now part of the new "Global Products" reportable segment.
- The systems and service businesses in Europe, the Middle East and Latin America within the former "Rest of World" segment are now part of the new "Building Solutions EMEA/LA" reportable segment. The HVAC products manufacturing businesses, previously part of the "Rest of World" segment, are now part of the new "Global Products" reportable segment.
- As the Group has integrated the legacy Tyco business with its legacy Building Efficiency business for segment reporting purposes, Tyco is no longer a separate reportable segment. The Tyco businesses are now included throughout the new reportable segments.

### **Building Technologies & Solutions**

- Building Solutions North America designs, sells, installs, and services HVAC and controls systems, integrated electronic security systems (including monitoring), and integrated fire detection and suppression systems for commercial, industrial, retail, small business, institutional and governmental customers in North America. Building Solutions North America also provides energy efficiency solutions and technical services, including inspection, scheduled maintenance, and repair and replacement of mechanical and control systems, to non-residential building and industrial applications in the North American marketplace.
- Building Solutions EMEA/LA designs, sells, installs, and services HVAC, controls, refrigeration, integrated electronic security, integrated fire detection and suppression systems, and provides technical services to markets in Europe, the Middle East, Africa and Latin America.
- Building Solutions Asia Pacific designs, sells, installs, and services HVAC, controls, refrigeration, integrated electronic security, integrated fire detection and suppression systems, and provides technical services to the Asia Pacific marketplace.
- Global Products designs and produces heating and air conditioning for residential and commercial applications, and markets products and refrigeration systems to replacement and new construction market customers globally. The Global Products business also designs, manufactures and sells fire protection and security 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. Global Products also includes

the Johnson Controls-Hitachi joint venture, which was formed October 1, 2015, as well as the Scott Safety business, which was sold on October 4, 2017.

## 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 its business segments primarily on segment earnings before interest, taxes and amortization ("EBITA"), which represents income from continuing operations before income taxes and noncontrolling interests, excluding general corporate expenses, intangible asset amortization, net financing charges, significant restructuring and impairment costs, and the net mark-to-market adjustments related to pension and postretirement plans.

Financial information relating to the Group's reportable segments is as follows (in millions):

	Year Ended September 30,	
	2017	2016
<u>Net Sales</u>		
Building Technologies & Solutions		
Building Solutions North America	\$ 8,341	\$ 4,687
Building Solutions EMEA/LA	3,595	1,613
Building Solutions Asia Pacific	2,444	1,736
Global Products	8,455	6,148
	<u>22,835</u>	<u>14,184</u>
Power Solutions	<u>7,337</u>	<u>6,653</u>
Total net sales	<u>\$ 30,172</u>	<u>\$ 20,837</u>
	Year Ended September 30,	
	2017	2016
<u>Segment EBITA</u>		
Building Technologies & Solutions		
Building Solutions North America (1)	\$ 1,039	\$ 494
Building Solutions EMEA/LA (2)	290	74
Building Solutions Asia Pacific (3)	323	222
Global Products (4)	1,179	637
	<u>2,831</u>	<u>1,427</u>
Power Solutions (5)	<u>1,427</u>	<u>1,327</u>
Total segment EBITA	<u>\$ 4,258</u>	<u>\$ 2,754</u>
Amortization of intangible assets	(489)	(116)
Corporate expenses (6)	(768)	(607)
Net financing charges	(496)	(289)
Restructuring and impairment costs	(367)	(288)
Net mark-to-market adjustments on pension and postretirement plans	420	(393)
Income from continuing operations before income taxes	<u>\$ 2,558</u>	<u>\$ 1,061</u>

	September 30,	
	2017	2016
<u>Assets</u>		
Building Technologies & Solutions (7)		
Building Solutions North America	\$ 15,228	\$ 15,554
Building Solutions EMEA/LA (8)	4,885	4,649
Building Solutions Asia Pacific	2,575	2,521
Global Products (9)	14,018	15,782
	<u>36,706</u>	<u>38,506</u>
Power Solutions (10)	7,894	6,793
Assets held for sale	2,109	13,186
Unallocated	5,175	4,694
Total	<u>\$ 51,884</u>	<u>\$ 63,179</u>

	Year Ended September 30,	
	2017	2016
<u>Depreciation/Amortization</u>		
Building Technologies & Solutions		
Building Solutions North America	\$ 272	\$ 49
Building Solutions EMEA/LA	140	14
Building Solutions Asia Pacific	37	11
Global Products	410	230
	<u>859</u>	<u>304</u>
Power Solutions	236	238
Corporate	64	80
Discontinued Operations	29	331
Total	<u>\$ 1,188</u>	<u>\$ 953</u>

	Year Ended September 30,	
	2017	2016
<u>Capital Expenditures</u>		
Building Technologies & Solutions		
Building Solutions North America	\$ 107	\$ 16
Building Solutions EMEA/LA	98	19
Building Solutions Asia Pacific	27	7
Global Products	421	304
Global Workplace Solutions	—	—
	<u>653</u>	<u>346</u>
Automotive Experience		
Seating	62	392
Interiors	1	3
	<u>63</u>	<u>395</u>
Power Solutions	481	357
Corporate	146	151
Total	<u>\$ 1,343</u>	<u>\$ 1,249</u>

- (1) Building Solutions North America segment EBITA for the year ended September 30, 2017 excludes \$59 million of restructuring and impairment costs.
- (2) Building Solutions EMEA/LA segment EBITA for the years ended September 30, 2017 and 2016 excludes \$74 million and \$17 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2017 and 2016, EMEA/LA segment EBITA includes \$5 million and \$11 million, respectively, of equity income.
- (3) Building Solutions Asia Pacific segment EBITA for the year ended September 30, 2017 excludes \$16 million of restructuring and impairment costs. For the years ended September 30, 2017 and 2016, Asia Pacific segment EBITA includes \$1 million and \$1 million, respectively, of equity income.
- (4) Global Products segment EBITA for the years ended September 30, 2017 and 2016 excludes \$32 million and \$44 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2017 and 2016, Global Products segment EBITA includes \$151 million and \$114 million, respectively, of equity income.
- (5) Power Solutions segment EBITA for the years ended September 30, 2017 and 2016 excludes \$20 million and \$66 million, respectively, of restructuring and impairment costs. For the years ended September 30, 2017 and 2016, Power Solutions segment EBITA includes \$83 million and \$48 million, respectively, of equity income.
- (6) Corporate expenses for the years ended September 30, 2017 and 2016 excludes \$166 million and \$161 million, respectively, of restructuring and impairment costs.
- (7) 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 Group's disposal groups classified as held for sale.
- (8) Building Solutions EMEA/LA assets as of September 30, 2017 and 2016 include \$107 million and \$103 million, respectively, of investments in partially-owned affiliates.
- (9) Global Products assets as of September 30, 2017 and 2016 include \$637 million and \$520 million, respectively, of investments in partially-owned affiliates.
- (10) Power Solutions assets as of September 30, 2017 and 2016 include \$447 million and \$367 million, respectively, of investments in partially-owned affiliates.

In fiscal years 2017 and 2016, no customer exceeded 10% of consolidated net sales.

## Geographic Segments

Financial information relating to the Group's operations by geographic area is as follows (in millions):

	Year Ended September 30,	
	2017	2016
<u>Net Sales</u>		
United States	\$ 14,495	\$ 9,633
China	2,046	1,620
Japan	1,816	1,805
Germany	1,779	1,430
United Kingdom	928	291
Mexico	840	639
Other foreign	5,408	3,602
Other European countries	2,860	1,817
Total	<u>\$ 30,172</u>	<u>\$ 20,837</u>
<u>Long-Lived Assets (Year-end)</u>		
United States	\$ 3,155	\$ 2,880
China	535	484
Japan	180	188
Germany	290	287
United Kingdom	109	103
Mexico	489	457
Other foreign	821	785
Other European countries	542	448
Total	<u>\$ 6,121</u>	<u>\$ 5,632</u>

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 statement of financial position as of September 30, 2017 and 2016. Equity in the net income of nonconsolidated partially-owned affiliates is stated in the "Equity income" line in the consolidated statement of income for the years ended September 30, 2017 and 2016.

The following table presents summarized financial data for the Group's nonconsolidated partially-owned affiliates. The amounts included in the table below represent 100% of the results of continuing 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):

	2017	2016
Current assets	\$ 4,034	\$ 3,085
Noncurrent assets	1,513	1,436
Total assets	<u>\$ 5,547</u>	<u>\$ 4,521</u>
Current liabilities	\$ 2,470	\$ 1,864
Noncurrent liabilities	478	554
Noncontrolling interests	33	41
Shareholders' equity	2,566	2,062
Total liabilities and shareholders' equity	<u>\$ 5,547</u>	<u>\$ 4,521</u>

Summarized income statement data for the years ended September 30 is as follows (in millions):

	2017	2016
Net sales	\$ 6,445	\$ 5,329
Gross profit	1,510	1,323
Net income	517	415
Income attributable to noncontrolling interests	11	16
Net income attributable to the entity	506	399

## 21. GUARANTEES

Certain of the Group'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 Group's financial position, results of operations or cash flows.

The Group offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Group replace defective products within a specified time period from the date of sale. The Group 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 Group's warranty provisions are adjusted as necessary. The Group monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates.

The Group's product warranty liability for continuing operations is recorded in the consolidated statement 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 Group's total product warranty liability for continuing operations, including extended warranties for which deferred revenue is recorded, for the fiscal years ended September 30, 2017 and 2016 were as follows (in millions):

	Year Ended September 30, <u>2017</u>
Balance at beginning of period	\$ 374
Accruals for warranties issued during the period	312
Accruals from acquisitions and divestitures (1)	7
Accruals related to pre-existing warranties (including changes in estimates)	(4)
Settlements made (in cash or in kind) during the period	(280)
Currency translation	—
Balance at end of period	<u>\$ 409</u>

(1) The year ended September 30, 2017 includes \$13 million of product warranties transferred to liabilities held for sale on the consolidated statement of financial position. Refer to Note 4, "Discontinued Operations," of the notes to consolidated financial statements for further information regarding the Group's disposal groups classified as held for sale.

As a result of the Tyco Merger in the fourth quarter of fiscal 2016, the Group recorded, as part of the acquired liabilities of Tyco, \$290 million of post sale contingent tax indemnification liabilities which is generally recorded within other noncurrent liabilities in the consolidated statement 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, 2017 and 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 addition, the Group has recorded \$11 million of tax indemnification liabilities as of September 30, 2017 related to other divestitures.

## 22. COMMITMENTS AND CONTINGENCIES

### *Environmental Matters*

The Group 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, 2017, reserves for environmental liabilities totaled \$51 million, of which \$10 million was recorded within other current liabilities and \$41 million was recorded within other noncurrent liabilities in the consolidated statement of financial position. Reserves for environmental liabilities for continuing operations totaled \$51 million at September 30, 2016. Such potential liabilities accrued by the Group 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 Group'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 Group does not currently believe that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Group's financial position, results of operations or cash flows. In addition, the Group 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 Technologies & Solutions businesses. At September 30, 2017 and 2016, the Group recorded conditional asset retirement obligations of \$61 million and \$74 million, respectively.

### *Asbestos Matters*

The Group 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, 2017, the Group's estimated asbestos related net liability recorded on a discounted basis within the Group's consolidated statement of financial position was \$181 million. The net liability within the consolidated statement of financial position was comprised of a liability for pending and future claims and related defense costs of \$573 million, of which \$48 million was recorded in other current liabilities and \$525 million was recorded in other noncurrent liabilities. The Group also maintained separate cash, investments and receivables related to insurance recoveries within the consolidated statement of financial position of \$392 million, of which \$53 million was recorded in other current assets, and \$339 million was recorded in other noncurrent assets. Assets included \$22 million of cash and \$269 million of investments, which have all been designated as restricted. In connection with the recognition of liabilities for asbestos-related matters, the Group records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at September 30, 2017 was \$101 million. As of September 30, 2016, the Group's estimated asbestos related net liability recorded on a discounted basis within the Group's consolidated statement of financial position was \$148 million. The net liability within the consolidated statement of financial position was comprised of a liability for pending and future claims and related defense costs of \$548 million, of which \$35 million was recorded in other current liabilities and \$513 million was recorded in other noncurrent liabilities. The Group also maintained separate cash, investments and receivables related to insurance recoveries within the consolidated statement of financial position of \$400 million, of which \$41 million was recorded in other current assets, and \$359 million was recorded in other noncurrent assets. Assets included \$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 Group records asbestos-related insurance recoveries that are probable; the amount of such recoveries recorded at September 30, 2016 was \$120 million.

The Group's estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on the Group'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 2068 (which is the Group's reasonable best estimate of the actuarially determined time period through which asbestos-related claims will be filed against Group affiliates). Asbestos related defense costs are included in the asbestos liability. The Group's legal strategy for resolving claims also impacts these estimates. The Group 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 2068. Annually, the Group 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 Group considers additional quantitative and qualitative factors such as changes in legislation, the legal environment, and the Group's defense strategy. The Group also evaluates the recoverability of its insurance receivable on an annual basis. The Group 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 Group for asbestos-related liabilities and insurance-related assets are based on the Group'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 Group'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 Group'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 Group'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 Group's calculations vary significantly from actual results.

#### *Insurable Liabilities*

The Group 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, 2017 and 2016, the insurable liabilities totaled \$445 million and \$422 million, respectively, of which \$122 million and \$60 million was recorded within other current liabilities, \$22 million and \$28 million was recorded within accrued compensation and benefits, and \$301 million and \$334 million was recorded within other noncurrent liabilities in the consolidated statement of financial position, respectively. The Group records receivables from third party insurers when recovery has been determined to be probable. The amount of such receivables recorded at September 30, 2017 was \$46 million, of which \$31 million was recorded within other current assets and \$15 million was recorded within other noncurrent assets. Insurance receivables recorded at September 30, 2016 were \$21 million,

primarily recorded within other noncurrent assets. The Group maintains captive insurance companies to manage certain of its insurable liabilities.

#### *Arbitration Award*

In September 2017, the Group was subject to an unfavorable arbitration award of approximately \$50 million relating to a contractual dispute with a subcontractor used by the Group at an airport construction project in Doha, Qatar. In connection with the unfavorable arbitration award, the Group recorded a charge of \$50 million within selling, general and administrative expenses on the consolidated statement of income in the fourth quarter of fiscal 2017. The airport project is being managed by a steering committee. The Group and the subcontractor were working jointly to document claims for increased costs against the steering committee when the subcontractor initiated the arbitration proceeding against the Group. Pursuant to its arbitration proceeding against the Group, the subcontractor sought to recover costs it alleges it incurred due to project delays, additional work and related financing costs. While the award remains outstanding, it will accrue interest at a statutory rate of 9.56%.

In a related action, the Group has initiated an arbitration claim against the steering committee related to costs it incurred in connection with delays of the airport construction project, including costs related to the above award. The arbitrator is expected to issue a decision on the Group's claims against the steering committee by the end of fiscal 2018.

#### *Aqueous Film-Forming Foam Litigation*

Two of our subsidiaries, Chemguard, Inc. ("Chemguard") and Tyco Fire Products L.P. ("Tyco Fire Products"), have been named, along with other defendant manufacturers, in a number of class action lawsuits relating to the use of fire-fighting foam products by the U.S. Department of Defense (the DOD) and others for fire suppression purposes and related training exercises. Plaintiffs generally allege that the firefighting foam products manufactured by defendants contain or break down into the chemicals perfluorooctane sulfonate ("PFOS") and perfluorooctanoic acid ("PFOA") and that the use of these products by others at various airbases and airports resulted in the release of these chemicals into the environment and ultimately into communities' drinking water supplies neighboring those airports and airbases. Plaintiffs generally seek compensatory damages, including damages for alleged personal injuries, medical monitoring, and alleged diminution in property values, and also seek punitive damages and injunctive relief to address remediation of the alleged contamination. As of January 9, 2017, the Group is named in 12 putative class actions in federal courts in three states as set forth below:

##### Colorado

- *District of Colorado - Bell et al. v. The 3M Company et al.*, filed on September 18, 2016.
- *District of Colorado - Bell et al. v. The 3M Company et al.*, filed on September 18, 2016.
- *District of Colorado - Davis et al. v. The 3M Company et al.*, filed on September 22, 2016.

The above cases have been consolidated in the U.S. District Court for the District of Colorado, and a hearing on the plaintiffs' motion for class certification is scheduled for April 2018.

##### New York

- *Eastern District of New York - Green et al. v. The 3M Company et al.*, filed March 27, 2017 in Supreme Court of the State of New York, Suffolk County, prior to removal to federal court.
- *Southern District of New York - Adamo et al. v. The Port Authority of NY and NJ et al.*, filed August 11, 2017 in Supreme Court of the State of New York, Orange County, prior to removal to federal court.
- *Southern District of New York - Fogarty et al. v. The Port Authority of NY and NJ et al.*, filed August 11, 2017 in Supreme Court of the State of New York, Orange County, prior to removal to federal court.
- *Southern District of New York - Miller et al. v. The Port Authority of NY and NJ et al.*, filed August 11, 2017 in Supreme Court of the State of New York, Orange County, prior to removal to federal court.
- *Supreme Court of the State of New York, Suffolk County - Singer et al. v. The 3M Company et al.*, filed October 10, 2017.

In addition to the putative class action, Chemguard and Tyco Fire Products are defendants in (*Suffolk County Water Authority v. 3M, et. al*), filed on November 30, 2017 in the United States District Court for the Eastern District of New York. The municipal plaintiffs generally allege that the use of the defendants' fire-fighting foam products at a fire training academy and municipal airport released PFOS and PFOA into the town's water supply wells, allegedly requiring remediation. The plaintiffs assert defective design, failure to warn, negligence, public nuisance, private nuisance, and trespass and seek unspecified compensatory and punitive damages and injunctive relief.

Chemguard and Tyco Fire Products are also defendants in (*Ayo, et al. v. The 3M Company, et al.*), filed on December 11, 2017 in the Suffolk County Supreme Court of New York. Approximately 32 plaintiffs allege that releases of PFOS and PFOA have contaminated surrounding communities' water supplies near the Gabreski Air National Guard Base located on Long Island, New York. The plaintiffs assert defective design, failure to warn, negligence, private nuisance, and trespass and seek recovery for alleged diminished property values, personal injury, medical monitoring and punitive damages.

Responses to the complaints have not been filed yet in any of the New York actions.

#### Pennsylvania

- *Eastern District of Pennsylvania - Bates et al. v. The 3M Company et al.*, filed September 15, 2016.
- *Eastern District of Pennsylvania - Grande et al. v. The 3M Company et al.*, filed October 13, 2016.
- *Eastern District of Pennsylvania - Yockey et al. v. The 3M Company et al.*, filed October 24, 2016.
- *Eastern District of Pennsylvania - Fearnley et al. v. The 3M Company et al.*, filed December 9, 2016.

The above cases have been consolidated in the U.S. District Court for the Eastern District of Pennsylvania. Defendants have moved to dismiss the complaint in the consolidated proceeding.

In addition to the putative class actions, Chemguard and Tyco Fire Products are also defendants in an action filed by two plaintiffs in the U.S. District Court for the Eastern District of Pennsylvania: *Menkes et al. v. The 3M Company et al.*, (filed February 7, 2017). The Menkes plaintiffs assert substantive claims and allegations similar to the putative class allegations, but also include personal injury claim. The Group is also on notice of approximately 540 other possible individual product liability claims by filings made in Pennsylvania state court, but complaints have not been filed in those matters, and, under Pennsylvania's procedural rules, they may or may not result in lawsuits.

Chemguard and Tyco Fire Products are also defendants in two cases pending in the U.S. District Court for the District of Massachusetts: *Town of Barnstable v. the 3M. Co., et al*, (filed Nov. 21, 2016), and *County of Barnstable v. the 3M. Co., et al*, (filed January 9, 2017). These municipal plaintiffs generally allege that the use of the defendants' fire-fighting foam products at a fire training academy and municipal airport released PFOS and PFOA into the town's water supply wells, allegedly requiring remediation of the town and county property. The defendants have filed a motion to dismiss in County of Barnstable, which has been granted without prejudice.

The Group is vigorously defending these cases and believes that it has meritorious defenses to class certification and the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure, if any, represented by these matters, but there can be no assurance that any such exposure will not be material. The Group is also pursuing insurance coverage for these matters.

The Group 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 Group's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

### 23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group 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 for continuing operations included in the consolidated statement of income were \$954 million and \$195 million, respectively, for fiscal 2017; and \$917 million and \$184 million, respectively, for fiscal 2016.

The following table sets forth the amount of accounts receivable due from and payable to related parties for continuing operations in the consolidated statement of financial position (in millions):

	September 30,	
	2017	2016
Receivable from related parties	\$ 108	\$ 72
Payable to related parties	50	14

The Group has also provided financial support to certain of its VIE's, see Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," of the notes to consolidated financial statements for additional information.

#### 24. SUPPLEMENTAL BALANCE SHEET INFORMATION

As of September 30, 2017 and 2016, other current assets were comprised of (in millions):

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Income tax receivable	\$ 564	\$ 250
Non-income tax receivable	468	308
Derivative assets (Note 10)	36	94
Prepayments	196	210
Other	643	574
Other current assets	<u>\$ 1,907</u>	<u>\$ 1,436</u>

Other noncurrent assets within the consolidated statement of financial position include financial assets of \$465 million and \$376 million as of September 30, 2017 and 2016, respectively. Refer to Note 25, "Financial Assets," of the notes to consolidated financial statements for the rollforward of financial assets. As of September 30, 2017 and 2016, other noncurrent assets were comprised of (in millions):

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Asbestos-related insurance receivables	\$ 84	\$ 110
Prepaid income taxes	591	217
Deferred income taxes (Note 18)	2,360	2,467
Derivative assets (Note 10)	—	1
Prepaid retirement benefit (Note 15)	137	99
Financial assets (Note 25)	465	376
Other	294	240
Other noncurrent assets	<u>\$ 3,931</u>	<u>\$ 3,510</u>

Other current liabilities within the consolidated statement of financial position include provisions for liabilities of \$899 million and \$713 million as of September 30, 2017 and 2016, respectively. Refer to Note 26, "Provisions for Liabilities," of the notes to consolidated financial statements for the rollforward of provisions for liabilities. As of September 30, 2017 and 2016, other current liabilities were comprised of (in millions):

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Income taxes payable (Note 18)	\$ 625	\$ 1,505
Value-added taxes	373	183
Sales and use taxes	83	85
Other taxation	47	35
Dividends payable	232	—
Derivative liabilities (Note 10)	47	66
Accrued rebates	364	330
Other	883	871
Provisions (Note 26)		
Warranty reserves	226	210
Tax indemnification reserves	20	14
Restructuring reserves	331	257
Asbestos-related and insurable liabilities	170	95
Environmental reserves	10	11
Other provisions	142	126
Total provisions	<u>899</u>	<u>713</u>
Other current liabilities	<u>\$ 3,553</u>	<u>\$ 3,788</u>

Payroll taxes are recorded in the accrued compensation and benefits within the consolidated statement of financial position and were approximately \$99 million and \$25 million as of September 30, 2017 and 2016, respectively. Income taxes payable, sales and use taxes, payroll taxes, and value added taxes are payable in the timeframe set in the relevant legislation.

Other noncurrent liabilities within the consolidated statement of financial position include provisions for liabilities of \$4,798 million and \$4,326 million as of September 30, 2017 and 2016, respectively. Refer to Note 26, "Provisions for Liabilities," of the notes to consolidated financial statements for the rollforward of provisions for liabilities. As of September 30, 2017 and 2016, other noncurrent liabilities were comprised of (in millions):

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Income taxes payable	\$ 123	\$ 301
Deferred compensation	169	131
Other	278	275
Provisions (Note 26)		
Deferred taxation and uncertain tax positions	3,417	2,925
Warranty reserves	183	164
Tax indemnification reserves	270	276
Asbestos-related and insurable liabilities	826	847
Asset retirement obligation	61	74
Environmental reserves	41	40
Total provisions	<u>4,798</u>	<u>4,326</u>
Other noncurrent liabilities	<u>\$ 5,368</u>	<u>\$ 5,033</u>

## 25. FINANCIAL ASSETS

Financial assets are recorded in the investments in partially-owned affiliates and other noncurrent assets within the consolidated statement of financial position. The Group's activity for financial assets during fiscal year 2017 was as follows (in millions):

	Investments in Partially Owned Affiliates	Investments	Equity Swap	Loans to Joint Ventures	Total
<b>At September 30, 2016</b>	\$ 990	\$ 351	\$ —	\$ 25	\$ 1,366
Income from equity investments	240	—	—	—	240
Dividends	(78)	—	—	—	(78)
Additions, including business acquisitions	38	51	58	3	150
Reductions, including business divestitures	—	(20)	(3)	—	(23)
Currency translation and other	1	—	—	—	1
<b>At September 30, 2017</b>	<u>\$ 1,191</u>	<u>\$ 382</u>	<u>\$ 55</u>	<u>\$ 28</u>	<u>\$ 1,656</u>

## 26. PROVISIONS FOR LIABILITIES

As of September 30, 2017 and 2016, material provisions for liabilities were comprised of (in millions):

	September 30,	
	2017	2016
Pension and postretirement obligations (Note 15)	\$ 968	\$ 1,823
Deferred taxation and uncertain tax positions (Note 18)	3,417	2,925
Warranty reserves (Note 21)	409	374
Tax indemnification reserves (Note 18)	290	290
Restructuring reserves (Note 16)	331	257
Other provisions (included below)	1,272	1,221
	<u>\$ 6,687</u>	<u>\$ 6,890</u>

The activity in other provisions accounts for 2017 is as follows (in millions):

	Other Provisions	Environmental Reserves	Asset Retirement Obligation	Asbestos- Related and Insurable Liabilities	Total
<b>At September 30, 2016</b>	\$ 126	\$ 51	\$ 74	\$ 970	\$ 1,221
Additions, including charges and acquisitions	77	9	7	223	316
Reductions, including reversals and payments	(61)	(9)	(19)	(175)	(264)
Currency translation and other	—	—	(1)	—	(1)
<b>At September 30, 2017</b>	<u>\$ 142</u>	<u>\$ 51</u>	<u>\$ 61</u>	<u>\$ 1,018</u>	<u>\$ 1,272</u>

Provisions for liabilities are primarily recorded in other current liabilities and other noncurrent liabilities within the consolidated statement of financial position. Refer to Note 24 "Supplemental Balance Sheet Information," of the notes to consolidated financial statements for detail. Provisions for asbestos-related and insurable liabilities also include \$22 million and \$28 million recorded in accrued compensation and benefits within the consolidated statement of financial position as of September 30, 2017 and 2016, respectively.

As of September 30, 2017 provisions for pension and postretirement obligations included \$947 million recorded in pension and postretirement benefits and \$21 million recorded in accrued compensation and benefits within the consolidated statement of financial position. As of September 30, 2016 provisions for pension and postretirement obligations included \$1,550 million recorded in pension and postretirement benefits and \$273 million recorded in accrued compensation and benefits within the consolidated statement of financial position.

## 27. DIRECTORS' REMUNERATION

Group's directors' remuneration for fiscal years 2017 and 2016 is set forth in the table below. The consolidated financial statements have been presented with comparative information based on the historical operations of JCI Inc. See Note 4, "Directors' Remuneration," of the notes to company financial statements for the Parent Company's director remuneration.

George Oliver, the Group's Chief Executive Officer and the Chairman of the Board, and Alex Molinaroli, the Group's former Chief Executive Officer and the Chairman of the Board, have not been compensated for their services as directors. Accordingly, the 2017 amounts below include compensation for Mr. Oliver's service as Chairman and Chief Executive Officer for September 2017 and his service as President and Chief Operating Officer for October 2016 through August 2017 and compensation for Mr. Molinaroli's service as Chairman and Chief Executive Officer for October 2016 through August 2017, as well as compensation for all Group non-employee directors in their capacities as such. The 2016 amounts below include compensation for compensation for Mr. Molinaroli's service as Chairman and Chief Executive Officer for fiscal 2016 and Mr. Oliver's service as President and Chief Operating Officer for September 2016, as well as compensation for all Group non-employee directors in their capacities as such (\$ in millions):

	Year Ended September 30,	
	2017	2016
Emoluments for managerial and directors' services	\$ 6	\$ 10
Severance benefits <sup>(1)</sup>	64	—
Value realized on stock award vesting	20	23
Non-qualified defined benefit plan distribution	1	13
Other <sup>(2)</sup>	—	1
	<u>\$ 91</u>	<u>\$ 47</u>

<sup>(1)</sup> Cash severance and pro-rata bonus payments to Alex Molinaroli to be paid in March of 2018.

<sup>(2)</sup> Amounts reflect reimbursements with respect to financial planning, personal use of a vehicle, relocation expenses, executive physicals, executive security, personal use of aircraft, club dues and retirement plan matching contributions of \$0.3 million and \$0.8 million for fiscal years 2017 and 2016, respectively.

## 28. AUDITORS' REMUNERATION

Auditors' remuneration paid to PricewaterhouseCoopers Ireland for fiscal year 2017 included \$0.4 million of audit fees and \$0.1 million of tax fees. Auditors' remuneration paid to PricewaterhouseCoopers Ireland for fiscal year 2016 included \$0.5 million of audit fees and \$0.8 million of audit related fees.

Auditors' remuneration to affiliates of PricewaterhouseCoopers Ireland for fiscal years 2017 and 2016 was as follows (\$ in millions):

	Year Ended September 30,	
	2017	2016
Audit fees	\$ 26	\$ 25
Audit related fees	2	9
Tax fees	6	4
All other fees	—	2
	<u>\$ 34</u>	<u>\$ 40</u>

See Note 5, "Auditors' Remuneration," of the notes to company financial statements for the Parent Company's auditors' remuneration.



## 29. EMPLOYEES

The average number of persons, including executive directors, employed by the Group during the years ended September 30, 2017 and 2016 was as follows (in thousands):

	Year Ended September 30,	
	2017	2016
Building Technologies & Solutions <sup>(1)</sup>	105	62
Power Solutions	16	15
Discontinued operations (former Automotive Experience) <sup>(2)</sup>	6	75
Corporate	3	4
Total employees	130	156

<sup>1</sup>Due to the timing of the Merger, Tyco employees were part of the Group only for the last month of fiscal 2016.

<sup>2</sup>Due to the timing of the Adient spin-off, Automotive Experience Employees were part of the Group only for the first month of fiscal 2017.

Total ongoing employee costs within continuing operations consist of the following (\$ in millions):

	Year Ended September 30,	
	2017	2016
Wages and salaries	\$ 6,139	\$ 5,130
Social insurance costs	257	201
Stock based compensation	134	121
Other compensation costs	84	31
	\$ 6,614	\$ 5,483

## 30. SUBSIDIARY UNDERTAKINGS

In accordance with section 316 (1) of the Act, the related undertakings that have been included below are restricted to significant subsidiaries of the Group, as defined by Section 1.02(w) of the Securities and Exchange Commission Regulation S-X, as of September 30, 2017:

Name	Nature of Business	Group Ordinary Share %	Registered Office and Country of Incorporation
Johnson Controls Battery Group, Inc.	Power Solutions	100%	CT Corporation System, 8020 Excelsior Drive, Suite 200, Madison, Wisconsin, WI, 53717
Johnson Controls, Inc.	Corporate	100%	CT Corporation System, 8020 Excelsior Drive, Suite 200, Madison, Wisconsin, WI, 53717
Tyco International Management Company, LLC	Corporate	100%	The Corporation Trust Company of Nevada, 6100 Neil Road, Suite 500, Reno, Nevada, United States, 89511

# **JOHNSON CONTROLS INTERNATIONAL PLC**

**Company Financial Statements**

**For the Year Ended September 30, 2017**

**JOHNSON CONTROLS INTERNATIONAL PLC**  
**COMPANY BALANCE SHEET**  
(in millions)

	Note	September 30,	
		2017	2016
<b>Fixed assets</b>			
Financial assets	2	\$ 11,517	\$ 6,500
		11,517	6,500
<b>Current assets</b>			
Debtors	6	43,979	43,045
Cash at bank and in hand		—	11
		43,979	43,056
Creditors (amounts falling due within one year)	7	(6,344)	(7,053)
<b>Net current assets</b>		<b>37,635</b>	<b>36,003</b>
<b>Total assets less current liabilities</b>		<b>49,152</b>	<b>42,503</b>
Creditors (amounts falling due after more than one year)	8	(12,552)	—
<b>Net assets</b>		<b>\$ 36,600</b>	<b>\$ 42,503</b>
<b>Capital and reserves</b>			
Called-up share capital presented as equity	12	\$ 9	\$ 9
Share premium account	12	25,934	25,572
Profit and loss account	12	10,447	16,840
Share based compensation reserve	12	210	82
<b>Equity shareholders' funds</b>		<b>\$ 36,600</b>	<b>\$ 42,503</b>

Approved by the Board of Directors on January 9, 2018 and signed on its behalf by:

/s/ George R. Oliver  
George R. Oliver  
Chairman and Chief Executive Officer

/s/ Jürgen Tinggren  
Jürgen Tinggren  
Director

**JOHNSON CONTROLS INTERNATIONAL PLC**  
**COMPANY STATEMENT OF CHANGES IN EQUITY**  
(in millions)

	Ordinary Share Number	Called-up Share Capital	Share Premium Account	Profit and Loss Account	Share based Compensation Reserve	Equity Shareholders' Funds
<b>Balance as of September 25, 2015</b>	<b>422</b>	<b>\$ 4</b>	<b>\$ 160</b>	<b>\$ 17,407</b>	<b>\$ 49</b>	<b>\$ 17,620</b>
Loss for the year	—	—	—	(193)	—	(193)
Dividends declared	—	—	—	(360)	—	(360)
Issuance of shares	527	5	25,175	—	—	25,180
Share vestings and option exercise	6	—	237	—	—	237
Share based compensation	—	—	—	—	33	33
Share consolidation	(19)	—	—	—	—	—
Other	—	—	—	(14)	—	(14)
<b>Balance as of September 30, 2016</b>	<b>936</b>	<b>\$ 9</b>	<b>\$ 25,572</b>	<b>\$ 16,840</b>	<b>\$ 82</b>	<b>\$ 42,503</b>
Loss for the year	—	—	—	(344)	—	(344)
Dividends declared	—	—	—	(938)	—	(938)
Spin-off of Adient	—	—	—	(4,307)	—	(4,307)
Share vestings and option exercise	9	—	362	—	—	362
Share based compensation	—	—	—	—	128	128
Repurchase of ordinary shares	—	—	—	(651)	—	(651)
Foreign currency translation adjustment	—	—	—	(116)	—	(116)
Other	—	—	—	(37)	—	(37)
<b>Balance as of September 30, 2017</b>	<b>945</b>	<b>\$ 9</b>	<b>\$ 25,934</b>	<b>\$ 10,447</b>	<b>\$ 210</b>	<b>\$ 36,600</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 1. Basis of Preparation and Summary of Significant Accounting Policies

On November 17, 2014, Tyco International Limited, an entity organized under the laws of Switzerland ("Tyco Switzerland"), completed its change of jurisdiction of incorporation from Switzerland to Ireland by merging with its subsidiary, Tyco International plc ("Tyco Ireland"), a public limited company incorporated under the laws of Ireland. As a result, Tyco Ireland is the successor issuer to Tyco Switzerland, has succeeded to the attributes of Tyco Switzerland as the registrant under SEC regulations, and has assumed the obligations of Tyco Switzerland at that date. Subsequently, on September 2, 2016 (the "Merger date"), Johnson Controls Inc. ("JCI Inc.") organized under the laws of United States of America, reverse merged into Tyco Ireland. The Irish public limited company is now known as Johnson Controls International plc ("JCI plc"), registered at One Albert Quay, Cork, domiciled in Ireland, and incorporated under the laws of Ireland as a result of this reverse merger. Johnson Controls International plc and all its subsidiaries are hereinafter collectively referred to as the "Group" or "Johnson Controls."

The accompanying financial statements have been prepared in United States dollars and reflect the operations of Johnson Controls International plc ("we," "us," "our," "plc," "JCI plc" or "the Company").

*Financial Year* - On September 8, 2016, the Company Board approved a change in the Company's financial year end from the last Friday in September to September 30 of each year. The financial year change is effective beginning with the Company's 2016 fiscal year, which ended on September 30, 2016 (which coincides with the Company's fiscal year end for 2016 before the change). Any reference to 2016 is to the period from September 26, 2015, through September 30, 2016.

*Statement of Compliance* - The financial statements have been prepared on a going concern basis and in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014). The entity financial statements comply with Financial Accounting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the Companies Act 2014.

*Basis of Preparation* - The entity financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date. It also requires the directors to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in this Note in the following paragraph Use of Estimates.

*Corresponding Amounts* - Certain corresponding amounts have been adjusted so they are directly comparable with the amounts shown in respect of the current fiscal year. Such adjustment related to change in accounting policy for treatment of the share based payment recharge to subsidiaries for the awards granted prior to the Tyco merger on September 2, 2016. Since there was no financial asset created for these awards, the entire charge was previously recorded in the profit and loss account. However, since the recharge relates to shares issued for the stock option exercises and vesting of restricted stock units, which is capital in nature, the policy election was made to record the recharge as share premium. As a result, \$158 million and \$75 million was reclassified from profit and loss account to share premium account within the statement of changes in equity as of September 30, 2016 and 2015, respectively.

*Use of Estimates* - Estimates and judgments are required when applying accounting policies. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future, which can involve a high degree of judgment or complexity. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*Impairment of Financial Assets* - The Company monitors the carrying value of financial assets, using judgment on the future cash flows to be generated from each acquisition, synergy benefits arising and the interest rate to be used to discount future cash flows. The carrying value of financial assets is assessed for impairment based on the presence of impairment indicators - where events

or changes in circumstances indicate that the carrying amount may not be recoverable. Any shortfall in the carrying value (as compared to the lower of value in use and net realizable value) is recorded as an impairment charge.

*Foreign currency - Functional and presentation currency* - The Company's functional and presentation currency is the U.S. dollar (USD), denominated by the symbol "\$" and unless otherwise stated, the financial statements have been presented in millions.

*Foreign currency - Transactions and balances* - Foreign currency transactions, including settlements of debtors and creditors, are translated into the functional currency using the prior month-end exchange rates at the dates of the transactions. Foreign currency monetary items are revalued to USD using the month-end exchange rate. Non-monetary items measured at historical cost are revalued using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the revaluation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

*Cash at Bank and in Hand* - The Company considers all highly liquid investments purchased with maturities of three months or less from the time of purchase to be cash equivalents. Negative cash balances are reclassified to short term debt.

*Share Based Payment Accounting* - The Company has applied the requirements of FRS 102 Share-Based Payment in accounting for all stock based compensation. Consequently, the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors is based on estimated fair values. The Company issues equity-settled share-based payments to certain employees of its subsidiaries. Equity-settled share-based payments are measured at fair value at the date of grant and recognized over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Since the Company grants its shares directly to employees of its subsidiaries, it accounts for share-based compensation payment as a capital contribution with an increase in the investment in the subsidiaries. The share-based compensation payment is recharged by the Company to its subsidiaries. The share based payment recharge to subsidiaries for the awards granted prior to the Tyco merger on September 2, 2016 is recorded to the share premium account on the Company balance sheet. The share based payment recharge to subsidiaries for the awards granted post the Tyco merger on September 2, 2016 is recorded to the financial asset account on the Company balance sheet.

*Contingencies* - Contingent liabilities, arising as a result of past events, are not recognized as a liability because it is not probable that the Company will be required to transfer economic benefits in settlement of the obligation or the amount cannot be reliably measured at the end of the financial year. Possible but uncertain obligations are not recognized as liabilities but are contingent liabilities. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not recognized. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

*Financial Instruments* - The Company has chosen to apply the provisions of Sections 11 and 12 of FRS 102 to account for all of its financial instruments.

*Financial Assets* - Basic financial assets, including cash and cash equivalents and short-term deposits, are initially recognized at transaction price (including transaction costs).

Cash and cash equivalents and financial assets from arrangements which constitute financing transactions are subsequently measured at amortized cost using the effective interest method.

At the end of each financial year, financial assets measured at amortized costs are assessed for objective evidence of impairment. If there is objective evidence that a financial asset measured at amortized cost is impaired, an impairment loss is recognized in profit or loss. The impairment loss is the difference between the financial asset's carrying amount and the present value of the financial asset's estimated cash inflows discounted at the asset's original effective interest rate.

If, in a subsequent financial year, the amount of an impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed. The reversal is such

that the current carrying amount does not exceed what the carrying amount would have been had the impairment loss not previously been recognized. The impairment reversal is recognized in profit or loss.

Financial assets are derecognized when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all of the risks and rewards of ownership of the financial asset are transferred to another party or (c) control of the financial asset has been transferred to another party who has the practical ability to unilaterally sell the financial asset to an unrelated third party without imposing additional restrictions.

The investment in subsidiary recorded on September 2, 2016 following the reverse merger of JCI Inc. into JCI plc was recorded based on market capitalization. The investments are tested for impairment if circumstances or indicators suggest that impairment may exist. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. See Note 2 "Financial Assets" of the Company financial statements for further detail.

Other financial assets are initially measured at fair value, which is normally the transaction price. Such financial assets are subsequently measured at fair value and the changes in fair value are recognised in profit or loss.

*Financial Liabilities* - Basic financial liabilities, including bank loans and amounts due to subsidiary undertakings, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction. Where the arrangement constitutes a financing transaction, the resulting financial liability is initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Bank loans, amounts due to subsidiary undertakings, and financial liabilities from arrangements which constitute financing transactions are subsequently carried at amortized cost, using the effective interest method. Financial liabilities are derecognized when the liability is extinguished, that is when the contractual obligation is discharged, canceled or expires.

*Taxation - Current Tax* - Current tax is the amount of income tax payable in respect of the taxable profit for the financial year or past financial years. Current tax is measured as the amount of current tax that is expected to be paid using tax rates and laws that have been enacted or substantively enacted by the end of the financial year.

*Taxation - Deferred Tax* - Deferred tax is recognized in respect of timing differences, which are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in financial years different from those in which they are recognized in financial statements. Deferred tax is recognized on all timing differences at the end of each financial year with certain exceptions. Unrelieved tax losses and other deferred tax assets are recognized only when it is probably that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the end of each financial year and that are expected to apply to the reversal of the timing difference.

*Share Capital Presented as Equity* - Equity shares issued are recognized at the proceeds received and presented as share capital and share premium. Incremental costs directly attributable to the issue of new equity shares or options are shown in equity as a deduction, net of tax, from the proceeds.

*Dividends* - Dividends may only be declared and paid out of the profits available for distribution ("distributable reserves") in accordance with accounting practice generally accepted in Ireland and applicable Irish company law. See the Company Statement of Changes in Equity. Any dividends, if and when declared, are expected to be declared and paid in USD.

*Treasury Shares* - These are Company owned shares following the \$1 billion share repurchase program approved by the Board and the repurchase from employees who have sold a portion of their vested restricted units to cover withheld taxes.

*Going Concern* - The Directors have a reasonable expectation that JCI plc has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the financial statements.

*Disclosure Exemptions for Qualifying Entities under FRS 102* - FRS 102 allows a qualifying entity to avail of certain disclosure exemptions. The company has taken advantage of the below exemptions for qualifying entities. These exemptions are:

- (i) the requirement to prepare a statement of cash flows. [Section 7 of FRS 102 and paragraph 3 17(d)]

(ii) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated. [FRS 102 paragraph 11.39-11 48A, 12.26 - 12.29]

(iii) certain disclosure requirements of Section 26 in respect of share based payments provided that (a) for a subsidiary, the share based payment concerns equity instruments of another group entity; or (b) for an ultimate parent, the share based payment concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group; and in both cases, the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. [ FRS 102 paragraph 26.18(b), 26.19 - 26.21, 26.23]

(iv) related party disclosures related to key management services provided by a separate management entity. [paragraph 18A of ISA24]

(v) a parent company preparing consolidated financial statements under section 434(2) of the Act must publish its company financial statements together with the consolidated financial statements, although section 408 of the Act provides an exemption from including the company's individual profit and loss account. [FRS102 A4.15 & Companies Act section 434(2)]

## 2. Financial Assets

Financial assets included on the Company balance sheet as of September 30, 2017 and 2016 were as follows (\$ in millions):

	<b>Investments in Subsidiaries</b>	<b>Equity Swap</b>	<b>Total</b>
<b>As of September 30, 2016</b>	\$ 6,500	\$ —	\$ 6,500
Additions	4,972	58	5,030
Disposals and reductions	(10)	(3)	(13)
<b>As of September 30, 2017</b>	<u>\$ 11,462</u>	<u>\$ 55</u>	<u>\$ 11,517</u>

The additions in investments in subsidiaries during the year arose from the following transactions and were recorded at fair value on that date.

On October 7, 2016, the Company purchased 79.04% of JSV Holding S.a.r.l. in exchange for three interest bearing, three-year notes with aggregate principal amounts of \$2.5 billion. On March 24, 2017, the Company contributed \$1.64 billion, \$33 thousand, and \$285 million to Tyco Fire & Security Finance SCA, Tyco Fire & Security S.a.r.l., and JSV Holding S.a.r.l., respectively. On September 6, 2017, the Company formed Global Risk Underwriters (Bermuda) Ltd. for \$120 thousand. On September 15, 2017, the Company purchased all shares of Global Risk Underwriters Ltd. for \$72 million. Global Risk Underwriters Ltd. then merged with Global Risk Underwriters (Bermuda) Ltd on September 27, 2017. On September 21, 2017, the Company formed JC Luxembourg Sales S.a.r.l. for a nominal amount. On September 21, 2017, the Company contributed \$1 million to Tyco Fire & Security S.a.r.l. in exchange for one common share and the remainder to share premium.

In connection with the Tyco Merger, on December 28, 2016, the Company completed its offers to exchange all validly tendered and accepted notes of certain series (the "existing notes") issued by JCI Inc. or Tyco International Finance S.A. ("TIFSA"), as applicable, each of which is a wholly owned subsidiary of the Company, for new notes (the New Notes) to be issued by the Company, and the related solicitation of consents to amend the indentures governing the existing notes (the offers to exchange and the related consent solicitation together the "exchange offers"). Pursuant to the exchange offers, the Company exchanged approximately \$5.6 billion of \$6.0 billion in aggregate principal amount of dollar denominated notes and approximately 423 million euro of 500 million euro in aggregate principal amount of euro denominated notes. The New Notes were measured at the present value of future cash flows discounted using the market interest rate. The difference of \$264 million between the consideration received from JCI Inc. and TIFSA for the debt exchange and the fair value of the New Notes was accounted for as a capital contribution.



The Company grants its shares directly to employees of its subsidiaries and accounts for share-based compensation payment as a capital contribution with an increase in the investment in the subsidiaries. The share-based compensation payment recognized in financial year 2017 was \$210 million. The share based payment recharged to subsidiaries for stock option exercises and restricted stock unit vestings of awards granted after the merger date was \$10 million.

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, 2017, the equity swap was \$55 million.

On September 2, 2016, upon JCI Inc.'s reverse merger into Tyco Ireland, JCI plc made a contribution of notes receivable in the amount of \$6.5 billion to TIFSCA resulting in an increase of the value of JCI plc's investment in TIFSCA.

The following schedule summarizes the Company's significant directly owned investments as of September 30, 2017 and 2016:

Company	Registered Office Address	Country	Type	Ownership %	Date of Acquisition
Tyco Fire & Security Finance SCA	29 avenue de la Porte Neuve, Luxembourg, Luxembourg (fr), Luxembourg, 2227	Luxembourg	Holding co.	99.996 <sup>(1)</sup>	August 20, 2014
Tyco Fire & Security S.a.r.l	29 avenue de la Porte Neuve, Luxembourg, Luxembourg (fr), Luxembourg, 2227	Luxembourg	Holding co.	100	August 20, 2014
JSV Holding S.a.r.l.	29 avenue de la Porte Neuve, Luxembourg, Luxembourg (fr), Luxembourg, 2227	Luxembourg	Holding co.	79.04	October 7, 2016
Global Risk Underwriters (Bermuda) Ltd.	Clarendon House, 2 Church Street, Hamilton, Bermuda	Bermuda	Holding co.	100	September 6, 2017
JC Luxembourg Sales S.a.r.l.	4 rue Jean Monnet, Luxembourg, Luxembourg (fr), Luxembourg, 2180	Luxembourg	Holding co.	100	September 21, 2017

<sup>(1)</sup> JCI plc holds common shares in Tyco Fire & Security Finance SCA ("TIFSCA"), registered at 29 Av Porte Neuve, L-2227 Luxembourg. It holds 49,999 shares directly and 2 common share indirectly through Tyco Fire & Security S.a.r.l ("TFSSarl") registered at the same address.

### 3. Guarantees and Contingencies

As of September 30, 2017 and 2016, JCI plc had parent guarantees of approximately \$4.5 billion and \$2.4 billion, respectively, which were primarily comprised of guarantees of subsidiaries' credit facilities and lease obligations. Also, during financial year 2017, guarantees previously issued by JCI Inc. were transferred to the Company.

During fiscal 2017, JCI Inc., a 100% owned subsidiary of the Company, entered into two new revolving credit facilities that as of September 30, 2017 were fully and unconditionally guaranteed by JCI plc. Additionally, JCI Inc. had certain term loans and the revolving credit facility, which, as of September 30, 2016, were fully and unconditionally guaranteed by JCI plc. As of the end of the first quarter of fiscal 2017, the aforementioned term loans were repaid and the JCI Inc. revolving credit facility was moved to JCI plc.

Tyco International Finance S.A. ("TIFSA"), a 100% owned subsidiary of the Company, has public debt securities outstanding which, as of September 30, 2016, were fully and unconditionally guaranteed by JCI plc and by TIFSCA, a wholly owned subsidiary of JCI plc and parent company of TIFSA. During the first quarter of fiscal 2017, the guarantees of the TIFSA public debt securities by JCI plc and TIFSCA were removed in connection with the debt exchange described in the Note 8, "Creditors (amounts falling due after more than one year)," of the Company financial statements.

#### 4. Directors' Remuneration

The Company's directors' remuneration for financial years 2017 and 2016 is set forth in the table below.

George Oliver, the Company's Chief Executive Officer and the Chairman of the Board, and Alex Molinaroli, the Company's former Chief Executive Officer and the Chairman of the Board, have not been compensated for their services as directors. Accordingly, the 2017 amounts below include compensation for Mr. Oliver's service as Chairman and Chief Executive Officer for September 2017 and his service as President and Chief Operating Officer for October 2016 through August 2017 and compensation for Mr. Molinaroli's service as Chairman and Chief Executive Officer for October 2016 through August 2017, as well as compensation for all Company non-employee directors in their capacities as such. The 2016 amounts below include compensation for Mr. Oliver's service as Chairman and Chief Executive Officer for October 2015 through August 2016 and his service as President and Chief Operating Officer for September 2016 and compensation for Mr. Molinaroli's service as Chairman and Chief Executive Officer for September 2016, as well as compensation for all Company non-employee directors in their capacities as such (\$ in millions):

	2017	2016
Emoluments for managerial and directors' services	\$ 6	\$ 9
Severance benefits <sup>(1)</sup>	64	—
Value realized on vesting of stock awards	20	17
Non-qualified defined benefit plan distribution	1	13
	<u>\$ 91</u>	<u>\$ 39</u>

<sup>(1)</sup> Cash severance and pro-rata bonus payments to Alex Molinaroli, will be paid in March of 2018.

#### 5. Auditors' Remuneration

Auditors' remuneration was as follows (\$ in millions):

	2017	2016
Audit of individual accounts	\$ 0.1	\$ 0.1

Amounts for financial year 2017 represent estimated fees and expenses. No amounts were incurred for other assurance services or other non-audit services. See Note 28 "Auditors' Remuneration," of the consolidated financial statements for details of fees paid by the Group.

#### 6. Debtors

Debtors included on the company balance sheet as of September 30, 2017 and 2016 were as follows (\$ in millions):

	2017	2016
<i>Amounts falling due within one year:</i>		
Amounts due from subsidiary undertakings	\$ 43,921	\$ 43,039
Other debtors and prepayments	58	6
	<u>\$ 43,979</u>	<u>\$ 43,045</u>

Amounts due from subsidiary undertakings were as follows (\$ in millions):

	<b>2017</b>	<b>2016</b>
TIFSCA loan A, interest-free, payable on demand	\$ 24,220	\$ 24,220
TIFSCA loan B, interest-free, payable on demand	12,726	18,680
TIFSCA loan C, interest-free, payable on demand	5,682	—
TIFSCA loan D, interest-free, payable on demand	500	—
JCI Inc. loan, 1.71%, due October 31, 2017	300	—
Share based payment recharge due from subsidiaries	132	111
Internal foreign currency derivatives	250	—
Other	111	28
	<b>\$ 43,921</b>	<b>\$ 43,039</b>

There was a \$5.6 billion partial repayment of the \$18.7 billion TIFSCA loan B in October 2016 related to the Adient spin-off. Additionally, as part of debt exchange that occurred on December 28, 2016, the Company assumed the debt of TIFSA and JCI Inc. of approximately \$6.0 billion in exchange for notes receivable, which were later transferred to TIFSCA in exchange for an interest-free TIFSCA loans C and D.

In December 2017, the Company contributed all of the TIFSCA interest-free loans to a newly formed and wholly owned Irish subsidiary as an equity contribution.

#### 7. Creditors (amounts falling due within one year)

Creditors (amounts falling due within one year) included on the Company Balance Sheet as of September 30, 2017 and 2016 were as follows (\$ in millions):

	<b>2017</b>	<b>2016</b>
Amounts due to subsidiary undertakings	\$ 4,237	\$ 7,050
Current portion of long-term debt	307	—
Bank borrowings and commercial paper	1,476	—
Accrued dividends	232	—
Other accruals	92	3
	<b>\$ 6,344</b>	<b>\$ 7,053</b>

In September 2017, the Company entered into a 364-day 150 million euro, floating rate, term loan scheduled to expire in September 2018. As of September 30, 2017, the facility was fully drawn. The weighted-average interest rate on the loan during financial year 2017 was 0.775%.

Commercial paper outstanding as of September 30, 2017 was \$411 million, with a weighted-average interest rate of 1.4%. There was no commercial paper outstanding as of September 30, 2016.

Bank borrowings as of September 30, 2017 include a bank overdraft of \$888 million.

Amounts due to subsidiary undertakings were as follows (\$ in millions):

	<b>2017</b>	<b>2016</b>
Obsidian HCM Med Holdings Ireland loan, 2.92%, due May 31, 2018	\$ 1,443	\$ 1,431
Tyco International Holding Sarl loan, 0.102%, payable on demand	—	3,832
Tyco International Holding Sarl loan, 3.85%, due January 4, 2018	103	—
WSI loan, interest free, payable on demand	1,747	1,747
Cash pool payable	480	—
Internal foreign currency derivatives	420	—
Other	44	40
	<b>\$ 4,237</b>	<b>\$ 7,050</b>

In October 2016, the \$3.8 billion loan to Tyco International Holding Sarl was distributed out in connection with the Adient spin-off transaction.

#### 8. Creditors (amounts falling due after more than one year)

As of September 30, 2017 and 2016, creditors (amounts falling due after more than one year) were comprised of (\$ in millions):

	<b>2017</b>	<b>2016</b>
<i>Amounts falling due after more than one year:</i>		
Amounts due to subsidiary undertakings	\$ 4,688	\$ —
Long-term debt	7,864	—
	<b>\$ 12,552</b>	<b>\$ —</b>

The amount due to subsidiary undertakings consisted of unsecured, 2.07% interest-bearing loans to JCI Inc. repayable on October 7, 2020, which were created in connection with Adient spin-off transaction.

Long-term debt as of September 30, 2017 was as follows (\$ in millions; due dates by fiscal year):

	September 30,	
	2017	2016
<b>Unsecured notes:</b>		
1.4% due in 2018 (\$259 million par value)	\$ 258	\$ —
3.75% due in 2018 (\$49 million par value)	49	—
5.00% due in 2020 (\$453 million par value)	479	—
4.25% due in 2021 (\$447 million par value)	467	—
3.75% due in 2022 (\$428 million par value)	439	—
0.4006% due in 2022 (JPY 35,000 million par value)	311	—
4.625% due in 2023 (\$35 million par value)	37	—
1.00% due in 2023 (EUR 1,000 million par value)	1,171	—
3.625% due in 2024 (\$468 million par value)	470	—
1.375% due in 2025 (EUR 423 million par value)	507	—
3.90% due in 2026 (\$698 million par value)	705	—
6.00% due in 2036 (\$392 million par value)	437	—
5.70% due in 2041 (\$270 million par value)	302	—
5.25% due in 2042 (\$242 million par value)	257	—
4.625% due in 2044 (\$445 million par value)	435	—
5.125% due in 2045 (\$727 million par value)	766	—
6.95% due in 2046 (\$121 million par value)	162	—
4.50% due in 2047 (\$500 million par value)	495	—
4.95% due in 2064 (\$435 million par value)	424	—
<b>Gross long-term debt</b>	<b>8,171</b>	<b>—</b>
Less: current portion	307	—
<b>Net long-term debt</b>	<b>\$ 7,864</b>	<b>\$ —</b>

In connection with the Tyco Merger, on December 28, 2016, the Company completed its offers to exchange all validly tendered and accepted the existing notes issued by JCI Inc. or TIFSA, as applicable, each of which is a wholly owned subsidiary of the Company, for the New Notes to be issued by the Company, and the related solicitation of consents to amend the indentures governing the existing notes (the offers to exchange and the related consent solicitation, together the "exchange offers"). Pursuant to the exchange offers, the Company exchanged approximately \$5.6 billion of \$6.0 billion in aggregate principal amount of dollar denominated notes and approximately 423 million euro of 500 million euro in aggregate principal amount of euro denominated notes. In connection with the settlement of the exchange offers, the New Notes were registered under the Securities Act of 1933 and their terms are described in the Company's Prospectus dated December 19, 2016, as filed with the SEC under Rule 424(b)(3) of the Act on that date. The issuance of the New Notes occurred on December 28, 2016. The New Notes are unsecured and unsubordinated obligations of the Company and will rank equally with all other unsecured and unsubordinated indebtedness of the Company issued from time to time.

## 9. Deferred Tax Assets

The Company had no tax carryforward losses for the year ended September 30, 2017. The tax carryforward losses for the year ended September 30, 2016 were \$86 million, of which \$72 million was utilized in the financial year 2017. Based on a corporate tax rate of 25%, potential deferred tax assets of \$3 million and \$22 million existed as of September 30, 2017 and 2016, respectively. These deferred tax assets have not been recorded in the financial statements as the Company does not anticipate taxable income in the foreseeable future.

The Company had tax carryforward capital losses of \$234 million for the year ended September 30, 2017. There were no tax carryforward capital losses for the year ended September 30, 2016. Based on a capital tax rate of 33%, potential deferred tax asset of \$77 million existed as of September 30, 2017. These deferred tax assets have not been recorded in the financial statements as the Company does not anticipate taxable capital gains in the foreseeable future.

## **10. Related Party Transactions**

The Company has availed of the exemption provided in FRS 102 Section 33, for disclosure of transactions with subsidiary undertakings, 100% of whose voting rights are controlled within the Group. Consequently, the financial statements do not contain disclosures of transactions with other related entities in the Group. During financial years 2017 and 2016, only transactions with subsidiaries which are fully owned have occurred.

## **11. Subsidiary Undertakings**

Refer to Note 30, "Subsidiary Undertakings" to the consolidated financial statements.

## **12. Capital and Reserves**

Called-up share capital is the number of issued ordinary shares of JCI plc. The par value of each ordinary share is \$0.01.

The share premium account reflects the fair value of consideration received in excess of the par value of shares issued for stock option exercises, vesting of restricted stock units and other issuances of shares, including the consideration received from the subsidiaries for the issuance of stock for stock option exercises and vesting of restricted stock units for awards granted prior to the Merger date. Financial year 2016 share premium account also reflects the issuance of shares in relation to the 2016 merger of JCI Inc. and Tyco Ireland.

The profit and loss account refers to the portion of net income which is retained by the Company rather than being distributed to shareholders as dividends. Treasury shares are accounted for in this account. The balance of these self owned shares as of September 30, 2017 and 2016 was \$710 million and \$18 million, respectively.

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 share based compensation reserve arises upon the granting of shares under the stock based compensation plan. The balance of this reserve as of September 30, 2017 and 2016 was \$210 million and \$82 million, respectively.

## **13. Dividends**

Dividends of \$702 million and \$446 million were paid to external shareholders during financial years 2017 and 2016, respectively. As of September 30, 2017, there were \$232 million of outstanding dividends declared. As of September 30, 2016, there were no outstanding dividends declared.

#### **14. Loss Attributable to JCI plc**

In accordance with Section 304(2) of the Companies Act 2014, the Company is availing of the exemption provided from presenting and filing its individual Profit and Loss Account. JCI plc's loss for financial years 2017 and 2016 as determined in accordance with FRS 102 were \$344 million and \$193 million, respectively.

#### **15. Subsequent Events**

On December 7, 2017, the Board of Directors has approved an incremental \$1 billion increase to its share repurchase authorization.

#### **16. Approval of Financial Statements**

The financial statements were approved and authorized for issue by the Board of Directors on January 9, 2018 and were signed on its behalf on that date.