Proposal for Energy Performance Contracting Services Statewide State of Hawaii

Request for Proposals No. RFP-08-022-SW

Prepared for:

State Procurement Office
1151 Punchbowl Street
Kalanimoku Building
Room 416
Honolulu, Hawaii 96813

June 6, 2008

Johnson Controls

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Johnson Controls

Transmittal Letter/Signed Offer Form

Johnson Controls' signed transmittal letter and Offer Form are attached on the following pages.

June 6, 2008

State Procurement Office
1151 Punchbowl Street
Kalanimoku Building
Room 416
Honolulu, Hawaii 96813

Dear Evaluation Committee Members:

On behalf of Johnson Controls and all of our employees supporting the State of Hawaii, I would like to thank the State of Hawaii for allowing us the opportunity to submit this proposal for Energy Performance Contracting Services Statewide.

We applaud the direction set by Governor Linda Lingle as you continue your efforts of GREENing your beautiful state. Furthermore, we recognize the diligent work being done by the Department of Accounting and General Services (DAGS) in developing a streamlined program for energy performance contracting, using both original ideas as well as "best practices" from other state programs.

We are excited about the prospect of working with Hawaii customers on performance contracting projects and are committed to focusing our team's efforts on educating, developing, implementing and managing projects for these potential long-term business relationships. We intend to leverage our extensive local resources to vigorously support the State of Hawaii and the participating facility owners, with a high level of expertise, resources, and corporate commitment to help ensure the long-term success of this program.

We hope that after you read and evaluate Johnson Controls' response that you will agree that we possess the ability and availability of services and resources to not only meet but exceed the goals and objectives outlined in this RFP. Johnson Controls stands ready to begin a long-term partnership with the State of Hawaii to implement successful energy savings projects. This partnership begins with our commitment that we will comply with the requirements, provisions, terms and conditions specified in this RFP.

Also, in the spirit of this partnership, Johnson Controls, a Hawaii licensed General Contractor, strongly suggests that the State select an Energy Services Company with, at a minimum, this license since the projects you are about to implement cover multiple, complex disciplines/measures.

As the main Johnson Controls contact for this Request for Proposal, please do not hesitate to contact me.

Michael Trovato
103 Woodmere Road
Suite 110
Folsom, CA 95630

Telephone: 916-996-9920
Fax: 916-294-8889
E-mail: michael.trovato@jci.com

Thank you for your time and for considering Johnson Controls.

Sincerely,

Michael Trovato
State Government Solutions Sales Manager
Johnson Controls, Inc.
Federal Employer Identification Number (FEIN): 39-0380010

ENERGY PERFORMANCE CONTRACTING SERVICES
STATEWIDE
RFP-08-08-022-SW

Procurement Officer
State Procurement Office
State of Hawaii
Honolulu, Hawaii 96813

Dear Sir:

The undersigned has carefully read and understands the terms and conditions specified in the Specifications and Special Provisions attached hereto, and in the Attorney General's General Conditions, by reference made a part hereof and available upon request; and hereby submits the following offer to perform the work specified herein, all in accordance with the true intent and meaning thereof. The undersigned further understands and agrees that by submitting this offer, 1) he/she is declaring his/her offer is not in violation of Chapter 84, Hawaii Revised Statutes, concerning prohibited State contracts, 2) he/she is certifying that the price(s) submitted was (were) independently arrived at without collusion and 3) he/she is committed to the maximum mark-ups and fees for work provided in Offerors proposal package in response to this solicitation.

Offeror is:

☐ Sole Proprietor ☐ Partnership ☑ *Corporation ☐ Joint Venture
☐ Other ______________________________
*State of incorporation: Wisconsin

Hawaii General Excise Tax License I.D. No. W20085626-01

Payment address (other than street address below): PO Box 730068
City, State, Zip Code: Dallas, TX. 75373

Business address (street address): 677 Ala Moana Boulevard
City, State, Zip Code: Honolulu, HI 96813

Respectfully submitted:

Date: June 6, 2008

(x) ______________________________
Authorized (Original) Signature

Telephone No.: (414) 524-5898

James Simpson, Director, State Government and Higher Education Solutions
Name and Title (Please Type or Print)

Fax No.: (414) 524-5609

E-mail Address: james.m.simpson@jci.com

** Johnson Controls, Inc.
Exact Legal Name of Company (Offeror)

**If Offeror is a "dba" or a "division" of a corporation, furnish the exact legal name of the corporation under which the awarded contract will be executed:
____

1.0 Overview of Approach to Energy Performance Contracting

Provide a stand-alone overview. For ESCOs selected for the as-needed list, this section will be posted on the SPO Website www.spo.hawaii.gov as critical reading for participants to identify potential ESCOs to consider.

Maximum of 5 pages, using any order or format to present your company as you wish.

Include highlights from the below responses including company background and market sectors served. Also include your company's strengths, areas of expertise, and your general approach to performance contracting: typical phases for a project and ability to support each phase (Project Development, Energy Auditing, Performance/Savings Guarantee, Financing, Construction, Commissioning, Measurement and Verification, Client Staff/Occupant Training, Post-construction Maintenance Support).

Our response to this item follows:

Company Background

Our company's origins go back to 1885, when Warren S. Johnson, a professor at the State Normal School in Whitewater, Wisconsin, received a patent for the first electric room thermostat. His invention launched the building control industry and was the impetus for a new company. Professor Johnson and a group of Milwaukee investors incorporated the Johnson Electric Service Company in 1900 to manufacture, install, and service automatic temperature regulation systems for buildings. The company was renamed Johnson Controls in 1974.

With more than 122 years in the energy-efficiency business, Johnson Controls pioneered performance contracting as a viable means by which to improve and upgrade facilities via guaranteed energy and operational cost savings. Today, Johnson Controls continues to deliver innovative infrastructure improvement solutions that directly contribute to our customer's core mission and their bottom line. Performance contracting is a natural solution to reducing energy and operating costs, improving comfort and updating building infrastructure for customers nationwide. Johnson Controls is committed to energy efficiency and is proud of its leadership role. We are confident that no other company can match our record in developing and implementing successful guaranteed energy performance projects.

We are a global leader in the certification of Leadership in Energy and Environmental Design (LEED) building projects. Our company also was named as the U.S. Environmental Protection Agency ENERGY STAR Buildings' "Ally of the Year" for energy efficiency leadership. Johnson Controls also has been recognized for our leadership in our industry by the National Association of Energy Service Companies (NAESCO) with their highest rating of Energy Services Provider (one of only 11 firms in North America with this distinction).

NAESCO ACCREDITED
ENERGY SERVICE PROVIDER

As a result of our work as a leader in building efficiency, we have created the world's largest repository of workspace information derived from our experience operating and maintaining over 1 billion square feet of facility workspace and controlling over $5 billion in annual energy and operations spend. This allows us to benchmark the performance of these facilities and provides us the opportunity to apply our most current best practices to achieve specific goals for new customers, such as the State of Hawaii.

Johnson Controls' commitment to exceeding customer satisfaction has contributed to decades of consistent growth and financial success. Since our origins in 1885, the company has continued to develop, expanding into a global company listed 72nd among Fortune 500 companies with $34.6 billion in sales in FY2007. In fact, fiscal year 2007 was our 61st consecutive year of increased sales and 33rd consecutive year of increased dividends. Johnson Controls has paid dividends every year since 1887.

Market Sectors Served

The table below outlines the volume of our active performance contracting business in the United States among each market we serve.

Market	Guarantees	Number of Projects
K-12 Schools	$1,132,150,367	309
Federal Government	$769,604,450	64
State and Local Government	$751,198,818	168
Higher Education	$629,071,907	97
Health Care	$407,276,707	87
Correctional Facilities	$160,678,573	72
Industrial	$74,331,931	13
Airports	$38,179,639	4
Apartment Buildings	$19,755,437	13

By partnering with customers in each market segment, Johnson Controls has become the industry leader in energy management. In nearly every state and every market, Johnson Controls has conducted performance contracting services and regularly works with customers to help implement sound, environmentally-focused energy management programs.

Our performance contracting experience includes:

- Performing over 15,000 energy audits.
- Calculating more than 13,000 baselines.
- Designing, installing, and maintaining over 15,000 mechanical systems, over 15,000 electrical systems, and over 13,000 natural gas heating and cooling systems, as well as over 510,000 water meters.

Company Strengths and Areas of Expertise

A long history of performance contracting: Johnson Controls has a successful history of providing energy conservation measures (ECMs) to many public sector clients. We are the national leader in several markets, including state and local government, higher education, and K-12 schools. The references provided within this proposal validate our experience and success. We have managed performance contracts for 30 years, offering comprehensive energy management programs that serve customers for the complete lifecycle of a project. We uphold our commitment to each customer throughout the contract term through proper specification and installation of equipment, training for the operations staff, periodic reviews and reports by the performance assurance engineer, and ongoing maintenance under a maintenance contract, whenever applicable.

A commitment to the environment and renewable energy: With scarcity of resources and global warming concerns, we believe that renewable energy sources are vital to our future.

Demonstrating our commitment to our customers' concerns and our own concerns about the environment, we are always examining the implementation of renewable energy sources to provide viable economic projects. In fact, Johnson Controls is currently implementing more than $75 million in solar, wind, biomass, geothermal, landfill gas-to-energy, cogeneration and other related energy projects as part of existing performance contracting programs. Supporting our efforts in this area, we have dedicated technical experts on our renewable energy team with a combined experience of more than 130 years developing these projects.

An experienced local project team to manage State projects: Johnson Controls offers a single point of contact with the State, which minimizes project risk, reduces project cost and ensures an on-time delivery schedule. The project team members chosen to implement performance contracts are vital to our history of project success. Johnson Controls' project team for State projects will be led by Scott Krebs, our executive project manager. Upon selection for a particular project within the State of Hawaii, he will assign a project manager with a set of skills and experience that mirrors the specific needs of the project, and that project manager will be the primary interface between Johnson Controls and the State customer. We also understand that ongoing project success begins with superior design. Bryan Greenamyer, senior solution design leader, will manage the generation of all designs associated with the different systems or ECMs.

It is also important to note that Johnson Controls' business structure is vertically aligned, ensuring that only personnel with public sector experience will be assigned to public sector projects. For example, if selected for a higher education project, we will assign personnel with significant experience with higher education customers. Our project personnel not only have the technical skills and experience necessary to perform their specific project functions, but also know your market and are able to transfer best practices from other similar projects to State of Hawaii projects.

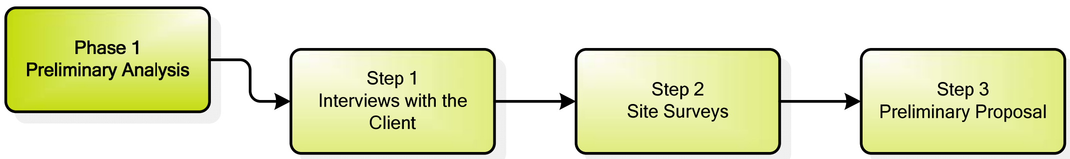
A proven subcontract management and diversity business development approach: Johnson Controls' project team also will employ a subcontract management approach that balances best value with diversity business considerations. We always strive to meet and exceed our customer's minority participation goals. We understand the specific needs of the MBE/WBE community and work with over 300 diverse suppliers representing more than 50 product and service categories. Johnson Controls is one of only 14 companies on the Billion Dollar Roundtable, a group of businesses worldwide that each spend more than $1 billion annually with women- and minority-owned businesses. We have set a goal of $2 billion for 2008.

A commitment to educating our customers and their staff or building occupants: In addition to our corporate sustainability initiatives, we also provide tools for our customers to help their employees and occupants understand sustainability. Our Sustainable Energy Education and Communications (SEEC) program is a 10-module series of online lessons that shows how employees and building occupants can find financial, environmental and social benefits at work and at home. It shows them how saving energy and water, keeping indoor air clean and other sustainable strategies can save money, reduce emissions, and help them stay healthy. (More information about SEEC is provided in the Appendix.)

General Approach to Performance Contracting

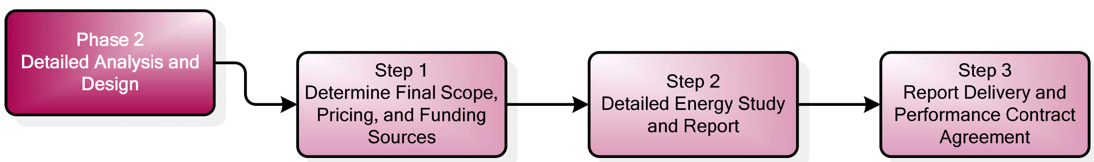
The diagrams below depict our general approach to the main phases of performance contracting. In all cases, you, the client, will be intimately involved in all phases of the project.

Phase 1: Preliminary Analysis



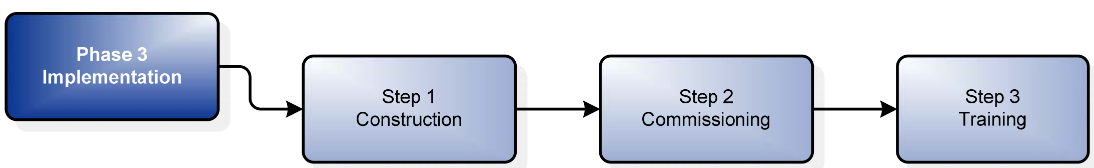
In phase 1, we identify project objectives, target systems for improvement, and determine the potential overall benefit of implementing a performance contract.

Phase 2 - Detailed Analysis and Design



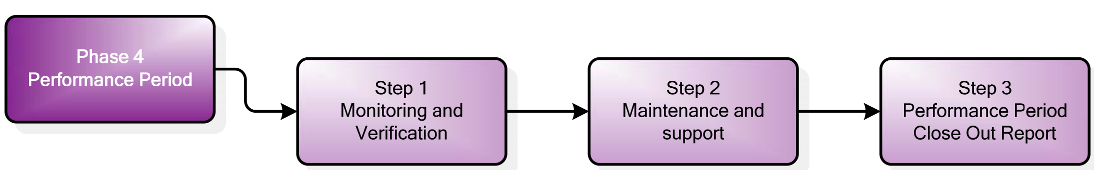
In phase 2, we determine the project parameters and funding sources for the project, conduct in-depth assessments of the facilities and create the proposal detailing the scope of the project.

Phase 3: Implementation



During phase 3, we complete project scope, close-out the project and educate the staff to effectively maintain new systems/equipment.

Phase 4: Performance Period



In phase 4, we compare pre-retrofit and post-retrofit conditions, provide technical assistance as contracted and detail overall project performance.

Team Member Support

The following chart outlines the responsibilities of Johnson Controls' key team members in successfully supporting a performance contract.

Project Team Member(s)	Responsibilities
Account Executives/Managers	Responsible for all aspects of the project and takes the lead role in ensuring the audit, installation, service and guarantee requirements of our clients are met. Our Account Managers are empowered to negotiate agreements with our clients, which commit Johnson Controls resources to fulfill our client needs. Working with the Account Manager on a project by project basis are our Solutions Design Specialist, Project Manager and Performance Assurance Engineer who are respectively responsible for project engineering, implementation and performance management.
Solutions Design Leader	The Solutions Development Leader (SDL) is responsible for developing the detailed business case, project scope, costs and savings of the performance contract. The SDL is responsible for managing the development of large, complex projects from inception through close.
Project Development Engineers	Project Development Engineers are responsible for developing the detailed business case, project scope, costs and savings based on the conceptual. Project development engineers perform the feasibility studies, technical engineering audit, savings calculations, budgeting and engineering design for all of our Solutions projects. Furthermore, they directly oversee the work of outside professional engineers and architects when they are required. Our development specialists are licensed Professional Engineers as well as Certified Energy Managers. Their backgrounds include design, engineering and operations of HVAC building systems.
Project Managers	Responsible for all aspects of the implementation of the Solutions Based Contract. Key components of the position are budgeting, costing, planning the installation, acquiring and organizing all resources, negotiating and managing subcontracts, maintaining effective and frequent communication, ensuring Johnson Controls' compliance with contractual obligations and maintaining safety on the work site. Both the account manager and project manager lead development of the project based on the client's goals.
Branch Manager	The Systems Branch Manager is responsible for the design, procurement, and installation of all building management systems. Also responsible for the integration with existing systems and providing training of client personnel on the operation of the building management systems.
Design Professionals	Our Design Professionals will be responsible for detailed engineering and design of any major renovation or repair project. Selection and guidance will be in full coordination and approval of the State.
Subconsultants and Contractors	Responsible for specific components of projects or services defined by the Project Development Engineers and the Project Manager. The scope and requirements will be defined by a subcontract with full input by the customer. Johnson Controls maintains several alliances with consultants, suppliers and contractors.
Johnson Controls Local Service and Systems Teams	Responsible for installation of mechanical and control systems and associated warranties. Team members are local and available for emergency purposes.
Performance Assurance Engineers (PAEs)	Charged with our long-term success of the Solutions Based Contract during the Performance Management Phase of the Project, the PAE establishes baselines, measures and reports savings, deploys Johnson Controls' training services and serves as the client focal point for all Warranty and Service requests. Our PAEs are Certified Energy Managers with an extensive knowledge of HVAC systems, building operations and energy management.

2.0 Project History

2.1 Market Sector Involvement

Describe your company's expertise in each of the following market sectors:

2.1.1 School Districts - small (1-5 schools) or rural over 2 hours from major metropolitan area

From basic lighting and HVAC retrofits installed 30 years ago to current projects for large multi-district wind farms and life cycle program management initiatives, Johnson Controls has consistently served the public school market, while enhancing our offerings to meet the changing needs of schools.

Our company supports national organizations, such as the American Association of School Administrators (AASA), that allow us to interact with key K-12 leaders from across the United States and keep abreast of facility-related challenges and activities. In addition, Johnson Controls sponsors the annual Igniting Creative Energies (ICE) competition for students who have an interest in energy efficiency sustainable buildings. In all 50 states, teachers, parents, and faculty from the winning students' schools are recognized, and each school receives a cash reward from Johnson Controls' Blue Sky Foundation.

Along with the expertise to develop economically sound projects for K-12 districts, we dedicate resources to identify and obtain additional funding to help reduce the initial capital investment required for energy efficiency capital retrofits. These sources of funding generally fall into the category of rebates or grants. Local teams are well versed in understanding local utility rebates and state-level grants available to school districts. On a national level, Johnson Controls monitors federal legislation and other activities that can result in additional grants being made available. We employ a full-time grant writer to support our local teams in applying for and obtaining grant funding. A notable example of this is Johnson Controls' award of $40 million in zero-interest Clean Renewable Energy Bonds (CREBs) funding for a multi-school district wind farm in Minnesota.

At a strategic level, Johnson Controls' scope of offerings is directly connected to supporting our client's district-level goals and various department-level strategies across their entire organization. This allows us to provide the most significant impact on energy efficiency for our clients. We use this overall strategy as a starting point and then customize specific projects around the goals of each customer.

In the following table, we provide a small sampling of projects in the K-12 space led by Johnson Controls.

K-12 Performance Contracting Projects Implemented by Johnson Controls		
Project Name	**Location**	**Project Size ($)**
Hemet Unified School District	Hemet, California	$5,320,000
Ann Arbor Public Schools	Ann Arbor, MI	$5,645,000
Erie Community Unit School District #1	Erie, IL	$5,190,000
Burlingame Intermediate School	Burlingame, CA	$700,000
Clear Creek School District Phase 2 (development)	Idaho Springs, CO	TBD*
Western Springs School District	Western Springs, IL	$7,260,000
Missoula School District (development)	Missoula, MT	TBD*
Monticello School District #25	Monticello, IL	$1,107,000
Brush School District Phase 2	Brush, CO	$1,000,000
Academy School District 20	Colorado Springs, CO	$457,900
School District of the City of Royal Oak	Royal Oak, MI	$2,935,000
Selinsgrove Area School District	Selinsgrove, PA	$2,753,000
Bethlehem Area School District	Bethlehem, PA	$6,060,000
Wyandotte Public Schools	Wyandotte, MI	$4,400,000
Port Washington Union Free School District	Port Washington, NY	$2,800,000
Lamar School District	Lamar, CO	$1,650,000
Clear Creek School District Phase 1	Idaho Springs, CO	$1,041,000
Pueblo School District 60	Pueblo, CO	$2,863,238
Aguilar School District Phase 1 & 2	Aguilar, CO	$1,646,000
Interboro School District	Prospect Park, PA	$1,462,000
Tigard-Tualatin School District	Tigard, OR	$1,126,000
Grand Forks Public School District	Grand Forks, ND	$1,256,000
Dallas County Schools	Selma, AL	$4,488,000
Salida School District	Salida, CO	$555,000
Calcasieu Parish Schools	Lake Charles, LA	$25,000,000
Baldwin Union Free School District	Baldwin, NY	$2,300,000
Baltimore City Public School System	Baltimore, MD	$28,999,000
Dearborn Public Schools	Dearborn, MI	$3,160,000
Whitehall-Coplay School District	Whitehall, PA	$3,197,000
Rocky Ford School District	Rocky Ford, CO	$925,000
South Haven Public Schools	South Haven, MI	$3,100,000
Louisiana School for the Deaf	Baton Rouge, LA	$3,455,000

**Total project value has yet to be determined*.

2.1.2 School Districts (large)

Please refer to our response to item 2.1.1 above, which provides our expertise with school districts, both large and small.

2.1.3 Higher education facilities – universities and major colleges

Colleges and universities nationwide are tasked to control ever-rising expenses, while students and stakeholders are demanding more and more services. They are also asked to be more socially responsible with regard to the environment and sensitive to issues of sustainability. Couple this with the reality of flat or decreased funding from states and an increasing deferred maintenance backlog, and its easy to see why most colleges and universities have a significant gap between what they want to do and available funds.

Most colleges and universities struggle to clearly define sustainability for their institution (economically, environmentally and socially) and miss the opportunity to integrate this concept into both their master plan, and the educational mission of the institution. Most struggle with the following:

- Defining Sustainability goals for their institution
- Evaluating their current environmental footprint
- Planning for an improved sustainable campus
- Implementing improvement measures and verifying their success
- Communicating these successes to the internal stakeholders, students and outside community.

Johnson Controls is a leading provider of sustainable solutions in the world. We understand the issues that have prevented most higher education facilities from making real progress in this area. We have designed processes and tools helping institutions move quickly and methodically through the sustainability path of continued improvement. These tools will help your institution position itself for maximization of funds and engage all stakeholders (students, faculty, administrator, and the community) in this planning.

Sustainability plans do not have to overwhelm your college or university. Johnson Controls can help the State of Hawaii understand, develop and implement sustainable solutions, maximizing the attractive federal, state and local incentives available today and help create the legacy you desire.

Expertise Regarding Higher Education Facilities

Johnson Controls is uniquely positioned to partner with the colleges and universities in Hawaii on meeting comprehensive energy conservation and sustainability goals.

College Presidents and students are committed to becoming more sustainable as evidenced by signing commitments such as the American College & University Presidents Climate Commitment (546 signatories to date, including the University of Hawaii at Manoa) and the students' Graduation Pledge of Social and Environmental Responsibility.

Johnson Controls is the industry leader in higher education, having approximately $629 million worth of guarantees throughout North America. Johnson Controls' track record regarding the success of our performance guarantees and overall stability of the organization gives lenders added confidence when financing capital projects in which Johnson Controls is involved. As lenders' confidence levels go up, the cost of money goes down. Our partners directly benefit from this lower cost of financing.

Furthermore, Johnson Controls has dedicated account managers for higher education. Johnson Controls has a specialized Solutions division to serve the needs of colleges and universities. Our Hawaii Solutions team is supported by our branch offices, and our corporate office located in Milwaukee, Wisconsin. The focus of our performance contracting team is to understand the needs of colleges and deliver a results-based solution.

The following table lists Johnson Controls' representative projects in higher education.

Higher Education Performance Contracting Projects Implemented by Johnson Controls

Project Name	Location	Project Size ($)
University of Hawaii – Hilo	Hilo, HI	$2,800,000
Rogers State University	Claremore, OK	$5,600,000
Oklahoma State University-Center for Veterinary Health Services	Stillwater, OK	$4,500,000
University of Wisconsin (Various PC Projects)	Madison, WI	$16,900,000
University of Central Oklahoma	Edmond, OK	$13,000,000
Connors State College	Warner, OK	$2,100,000
East Central University	Ada, OK	$3,500,000
Oklahoma Panhandle State University	Goodwell, OK	$4,750,000
Eastern Oklahoma State College	Wilburton, OK	$3,250,000
Missouri State University	Springfield, MO	$20,027,380
Moberly Area Community College	Moberly, MO	$1,100,000
East Central College	Union, MO	$920,000
University of South Carolina	Columbia, SC	$65,000,000
Lakehead University	Thunderbay, Ontario, Canada	$23,000,000
Florida State University	Tallahassee, FL	$14,000,000
Louisiana State University Health Sciences Center	Shreveport, LA	$8,000,000

Higher Education Performance Contracting Projects Implemented by Johnson Controls		
Project Name	**Location**	**Project Size ($)**
Vernon College	Vernon, TX	$1,500,000
Dillard University	New Orleans, LA	$7,500,000
West Texas A&M University	Canyon, TX	$4,400,000
Weatherford College	Weatherford, TX	$4,000,000
University of Central Oklahoma Phase II	Edmond, OK	$19,065,577
Kansas State University (Housing & Dining)_	Manhattan, KS	$3,962,834

Small/rural colleges and community colleges are highlighted in green.

2.1.4 Higher education facilities – community colleges and small/rural colleges

Please refer to our response to item 2.1.3 above, which provides our expertise with community colleges and small/rural colleges as well as larger institutions. Small/rural and community colleges are highlighted in green.

2.1.5 Cities/Counties – large

The municipal market – both small and large city and county clients – is one of the fastest growing business sectors for Johnson Controls. Our success in this unique market is due to our approach of providing energy services and expertise specific to municipal infrastructure and municipal goals with a team dedicated to City and County clients throughout each state.

Local Expertise

Our Hawaii team has been working with local cities and counties on energy efficiency projects over the last several years. We are aware and actively follow city and county policies and approaches to sustainability, energy efficiency and renewable energy. Our team offers a unique understanding of how to achieve the political goals of our clients while helping find ways to improve our client's infrastructures in ways that support long-term management and department-level goals as well.

Additionally, our local team has gained technical expertise in understanding the systems, operations and processes of specific municipal facilities and infrastructure assets. This understanding allows us to generate specific energy efficiencies for municipal infrastructure environments and maximizes the efficiency and project value to our clients. We have developed expertise in specific facilities and infrastructures, such as those listed below:

- Recreation centers
- Fire Stations
- Libraries
- City Hall facilities
- Water and wastewater treatment facilities
- Municipally-owned renewable energy assets
- Parks
- Police Stations
- Detention centers
- Museums
- Golf courses
- Street and traffic lights
- Fleet and maintenance shops

Sample List of City/County Performance Contracting Projects Implemented by Johnson Controls

Project Name	Location	Project Size ($)
Hawaii Municipal Building-Hawaii Police Department	Honolulu, HI	$9,560,817
City & County of Honolulu – Honolulu Hale	Honolulu, HI	$3,200,000
City & County of Honolulu – Traffic Signal Systems and Traffic Center	Honolulu, HI	$1,900,000
City of Aurora Phases 1-4	Aurora, CO	Phase 1 - $1,025,000 Phase 2 - $1,600,000 Phase 3 - $615,000 Phase 4 – In development
City of Littleton	Littleton, CO	Phase 1 - $175,000 Phase 2 - $150,000 Phase 3 – In development
Carroll County	Westminster, MD	$3,274,531
St. John's County	St. Augustine, FL	$8,203,385
City of Jackson	Jackson, MS	$1,814,666
Tompkins County	Ithaca, NY	$4,154,366
City of Graham	Graham, TX	$3,199,750
City of Shreveport	Shreveport, LA	$8,968,220
City of Little Rock	Little Rock, AR	$5,363,309
Polk County	Bartow, FL	$4,674,023
Cuyahoga County	Ohio	$10,812,371
City of Corsican	Texas	$5,681,160
Clark County	Washington	$3,685,396
Monroe County	Stroudsburg, PA	$2,205,247
Eaton County	Charlotte, MI	$1,581,331
Grant County	Marion, IN	$452,937
Aitkin County	Aitkin, MN	$732,582
Grayson County	Sherman, TX	$1,409,586
Charles County	La Plata, MD	$5,668,921
Kanawha County (Phase III)	Charleston, WV	$5,603,474
Tomkins County	Ithaca, NY	$4,294,464
City of Atlanta	Atlanta, GA	$14,877,008

Sample List of City/County Performance Contracting Projects Implemented by Johnson Controls		
Project Name	**Location**	**Project Size ($)**
City of Galveston	Galveston, TX	$9,962,462
City of Charleston Phases I - 2	Charleston, SC	Phase 1 - $3,970,000 Phase 2 – In development
Clackamas County Phases 1 - 2	Oregon City, OR	Phase 1 - $5,500,000 Phase 2 - $10,800,000
City of Corsicana	Corsicana, TX	$5,700,000
City of Tyler	Tyler, TX	$18,500,000
City of Miami Beach	Miami Beach, FL	$1,956,000

National Expertise

Johnson Controls' national team is constantly looking at new and different ways of providing community-focused products and services to meet the specific requirements needs and goals of cities and counties across North America. This approach creates constant innovation and current solutions to overcome political, management and technical challenges cities and counties face in today's business environment. This has resulted in specific municipal offerings that can include all utility using systems within facilities, water and wastewater treatment plants, and street and traffic lights. In recent years, Johnson Controls has taken a specific focus of helping our clients define, create policy and implement programs to make their cities and counties sustainable over the long term and many times includes energy education for citizens and staff on the demonstration and use of renewable energy sources and applications.

2.1.6 Cities/Counties – small

Please refer to our response to item 2.1.5, which provides our expertise with cities/counties, both large and small.

2.1.7 Medical/Hospital facilities

Johnson Controls has worked extremely hard over many years to become the most experienced Energy Services Company (ESCO) in the healthcare market. This is a snapshot of several of our current and past hospital Performance Contracts.

Sample List of Medical / Hospital Performance Contracting Projects Implemented by Johnson Controls		
Project Name	**Location**	**Project Size ($)**
Wilcox Memorial Hospital	Lihue, HI	$4,100,000
Shriners Hospital for Children	Honolulu, HI	$280,000
Tripler Medical Center	Honolulu, HI	Phase 1 - $3,000,000 Phase 2 - $7,200,000
Veterans Affairs Medical Center	San Francisco, CA	$6,524,185
Veterans Affairs Medical Center	Milwaukee, WI	$5,100,749
St. Clare's Health System	Denville, NJ	$17,697,473
UC Davis Medical Center	Sacramento, CA	$1,484,560
Paradise Valley Hospital	National City, CA	$3,935,232
New Hanover Hospital	Wilmington, NC	$4,495,260
Regional West Medical Center	Sterling, CO	$2,847,000
Tuomey Healthcare System-Phase 2	Sumter, SC	$759,225
Truman Medical Center West	Kansas City, MO	$4,876,996
St. Joseph Hospital	Augusta, GA	$3,017,977
Mt. Sinai Hospital	Chicago, IL	$6,276,481
Trinity Health System	Steubenville, OH	$2,060,754
St. Joseph's Hospital of Kirkwood	St. Louis, MO	$4,587,914
Children's Hospital of Michigan	Detroit, MI	$13,665,266
Shelby County Healthcare Center – Phase 3	Memphis, TN	$223,855

2.1.8 State Department of Defense/Military facilities

Federal Government customers have many of the same needs seen in other vertical markets as well as other needs that are unique because of government policies, building function or the special missions of the agencies that occupy them. The Johnson Controls Federal Systems team, combined with the global resources of our Building Efficiency offices, offers unmatched systems integration and service capabilities to the United States Government.

Just like we propose for the State of Hawaii, our Federal customers benefit from our single-point program management, which ensures consistent performance, uses global best practices, and delivers cost-effective project execution. Our on-site program offices understand the local conditions, regulations, suppliers and small business alliances that make every project different.

Below we have identified some of Johnson Controls' military and other federal energy savings performance contracts.

Federal Government Performance Contracting Projects Implemented by Johnson Controls		
Project	**Location**	**Project Size ($)**
Dover AFB	Dover, DE	$27 million
Wright Patterson AFB	Dayton, OH	$4.5 million
Fairchild AFB	Spokane, WA	$4.6 million
MacDill AFB	Tampa, FL	$12.4 million
Whiteman AFB	Whiteman AFB, MO	$5.5 million
Keesler AFB	Keesler AFB, MS	$12.4 million
Lackland AFB	San Antonio, TX	$11.6 million
Nellis AFB	Las Vegas, NV	$9 million (3 Projects)
Petersen AFB (Non-ESPC)	Colorado Springs, CO	100 buildings
Fort Irwin	Fort Irwin, CA	$11.7 million (2 projects)
Fort Sam Houston	San Antonio, TX	$49.3 million (7 projects)
Los Alamitos Joint Forces Training Base	Los Alamitos, CA	$8.2 million
Twentynine Palms Marine Air/Ground Task Force Training Center	Twentynine Palms, CA	$69.2 million (3 projects)
Pentagon (non-ESPC)	Arlington, VA	$122 million
Denver Federal Center	Denver, CO	$4.6 Million (Two projects) 7.8 and 8.2 year SPs
U.S. Environmental Protection Agency Kerr Environmental Research Center	Ada, OK	$4.3 million
Argonne National Laboratory	Argonne, IL	$11.3 million (2 projects)
Fort Hood	Fort Hood, TX	$15.4 million (2 projects)
Bureau of Prisons	Western Region of Arizona	$7.0 Million (Project aggregation and inmate labor produces $1.4 million in avoided project costs as well as $20,000 per year in on-going administrative costs)
Lyndon Baines Johnson Presidential Library	Austin, TX	$4.3 million (both libraries combined)
Gerald R. Ford Presidential Library	Grand Rapids, MI	

2.1.9 Correctional Facilities

Presently, Johnson Controls has $160,678,572 in active guarantees with our correctional facility customers. Below we have listed some of our larger performance contracting customers in the correctional market.

State Correctional Facility Performance Contracts Implemented by Johnson Controls			
Project	**Location**	**Project Size ($)**	**Year Constructed**
State of Ohio Department of Corrections	Multiple Sites, OH	TBD*	Contract Pending
Texas Department of Criminal Justice	Statewide, TX	TBD*	Contract Pending
Federal Corrections Institution (development)	Englewood, CO	TBD*	Contract Pending
Pennsylvania Department of Corrections – Laurel Highlands	Somerset, PA	$ 19,961,961	Contract Pending
State of Missouri Department of Corrections	Multiple Sites, MO	$10,000,000	2008
State of California Department of Corrections	Multiple Sites, CA	$1,000,000	2008
Commonwealth of Kentucky Department of Corrections	Multiple Sites, KT	$1,800,000	2008
Tennessee Department of Corrections - Northwest Correctional Complex	Tiptonville, TN	$2,500,000	2008
Virginia Department of Corrections	Richmond, VA	$13,381,629	2007
Indiana Department of Correction (Phase I)	Indianapolis, IN	$25,200,000	2006-2007
Pennsylvania Department of Corrections, Cresson Facility	Cresson, PA	$14,713,040	2006
Wisconsin Energy Initiative - Oakhill Correctional Facility	Oregon, WI	$485,656	2005-2006
New York Department of Corrections	Albany, NY	$10,000,000	2004-2005
Utah Department of Corrections	Draper, UT	$11,000,000	2003-2004
Maryland Department of Corrections - Hagerstown Correctional Complex	Hagerstown, MD	$10,973,180	2003
Wisconsin Energy Initiative - Kettle Moraine Correctional Facility	Kettle Moraine, WI	$430,890	2002-2003
Wisconsin Energy Initiative - Fox Lake Correctional	Fox Lake, WI	$465,877	2002-2003

State Correctional Facility Performance Contracts Implemented by Johnson Controls			
Project	**Location**	**Project Size ($)**	**Year Constructed**
Wisconsin Energy Initiative - Taycheedah Correctional Facility	Fond du Lac, WI	$560,730	2002-2003
Wisconsin Energy Initiative - Racine Correctional Facility	Sturtevant, WI	$1,812,525	2002-2003
Pennsylvania Department of Corrections - Mercer Facility	Mercer, PA	$811,737	2002-2003
Wisconsin Energy Initiative - Oshkosh Correctional Facility	Oshkosh, WI	$2,309,535	2002
Wisconsin Energy Initiative - Waupun Correctional Facility	Waupun, WI	$1,788,000	1999-2000

2.1.10 Transportation facilities (airport, harbor, highways, parking structure)

Johnson Controls has listed below a few of our performance contracts with transportation facilities.

Transportation Facility Performance Contracts Implemented by Johnson Controls		
Project	**Location**	**Project Size ($)**
Tulsa Airport Improvement Authority	Tulsa, OK	$11,368,317
JFK Port Authority of New York and New Jersey	New York, NY	$14,985,573
Bermuda International Airport	Norfolk, VA	$2,878,849
Duluth Airport Authority	Duluth, MN	$659,544
Florida Department of Transportation	Lake City, FL	$2,769,575
Huron Airport	Huron, SD	$133,410

2.1.11 Sports complexes, stadiums, arenas, etc.

Sports Complex/Stadium/Arena Performance Contracts Implemented by Johnson Controls		
Project	**Location**	**Project Size ($)**
KCMO – Kansas City Convention Center Facilities	Kansas City, MO	$18,791,655
St. Louis Convention Center	St. Louis, MO	$4,893,648
Cobo Conference / Exhibition Center	Detroit, MI	$28,392,419
Dallas Convention Center	Dallas, TX	$2,080,776

2.1.12 Other government entities – recreation centers, library districts, data/communication centers

Johnson Controls divides its energy services business into specific market segments in an effort to allow its local teams the privilege to focus their expertise on the nuances of each client, their goals, processes and infrastructures. Johnson Controls' State Government Solutions team is dedicated to developing and managing exclusively state government projects. Furthermore, Johnson Controls has national support teams constantly looking at new and different ways of providing solutions and services to meet the requirements, needs and goals of state government agencies. This approach creates constant innovation and smart solutions to overcome political, management and technical challenges state agencies face in today's business environment.

The following table lists some recent examples of state government work performed by Johnson Controls in parks and recreational facilities and administrative buildings.

State Government Performance Contracting Projects Implemented by Johnson Controls			
Project Name	**Location**	**Project Size ($)**	**Project Size (SF)**
Parks and Recreation			
State of Tennessee Parks	Various Locations in the State	$2,500,000	N/A
State of Mississippi Wildlife Fisheries and Parks	Various Locations in the State	$1,364,217	176,499
Administrative			
Wainwright and Truman State Office Buildings, Missouri	Jefferson City and St. Louis	$5,200,000	approximately 1,250,000
State of West Virginia	Charleston West Virginia	$18,561,763	N/A
Maryland Department of General Services	Baltimore, MD	$21,494,864	3,699,883
GSA Downtown Denver	Denver, CO	$1,500,000	N/A
GSA Houston	Houston, TX	$1,586,072	1,794,588

2.1.13 Multifamily buildings – high rise or large buildings

Another area of expertise for Johnson Controls is our approach to residential housing complexes such as public housing facilities and dormitories. This market continues to grow in complexity with organizations facing limited funds and stringent requirements for asset management and energy savings.

The good news is that opportunities for energy savings in residential housing complexes are generally significant. Johnson Controls brings a host of energy saving ideas and offerings to this market – from funding solutions to creative ideas for maximizing energy efficiency. We deliver innovative improvement solutions that contribute to our customers' core missions and their bottom lines.

Housing complexes need to focus on the health, safety and comfort of their residents and tenants. They need to rely on education as an important contributing factor to the energy "puzzle" – better-educated and motivated residents contribute significantly to energy conservation.

Johnson Controls is a member of the National Association of Housing and Redevelopment Organizations (NAHRO), the Public Housing Authority Directors Association (PHADA), and the Manufacturers and Suppliers Council (MSC). We are accredited by NAESCO, and we are one of only eleven companies in North America to receive the highest accreditation of Energy Service Provider (ESP).

Our work with the South St. Paul Housing and Redevelopment Authority is a prime example of our work in multi-family housing units, with 298 housing units covering 243,000 square feet. High energy costs are the major challenge with this customer.

Johnson Controls signed a $1.25 million performance contract with the South St. Paul Housing and Redevelopment Authority in 2002. While guaranteeing $31,000 in annual savings, we have been able to outperform our prediction by over 100%! Annual savings for the 2006/07 season is approximately $74,500.

The scope of the South St. Paul HRA Project includes:

- Exhaust system improvements
- Window replacement
- Air conditioning improvements
- Training and Service support
- Lighting improvements
- Central plant improvements
- Entry heating system

Large Residential Housing Experience

Johnson Controls is currently actively involved in about 50 large residential projects nationwide. During the past five years, we have been involved in public housing projects globally, most significantly in the U.S. and Hong Kong.

Most large residential housing facilities can fund energy efficiency measures with energy performance contracting – a procurement tool that allows you to leverage your future energy savings to pay for building improvements today. Energy savings are guaranteed; our engineers can determine the impact the building improvements will have on your energy usage so we guarantee the results of our work. In most instances, energy saving improvements can reduce usage from 10% to 50%!

2.1.14 Multifamily buildings – smaller scale multi-plex buildings

Please refer to our response to 2.1.13, which provides our expertise with smaller scale multi-plex buildings.

2.1.15 Multifamily buildings – mix of building types

Please refer to our response to item 2.1.13, which provides our expertise with a mix of building types.

2.1.16 Community-wide efforts – multiple entities in partnership, or other example

Johnson Controls understands that a diverse business base increases the economic vitality of a community. Johnson Controls has a strategy called Metro Markets that is focused on community-wide efforts to improve and enhance a community. This strategy is a three-pronged approach to economic development in local communities. Using *community development* and local *partnership development* to spur growth in our customer base. Johnson Controls also pursues *workforce development* initiatives as a means to recruit new, diverse employees, develop the talent pool for local businesses, and generally build community strength by creating a workforce with the skills and job opportunities that lead to better, higher-paying jobs.

Johnson Controls has spearheaded a growth initiative designed to build our business in urban communities. With efforts focused on building strong community relations and local workforce strength, Johnson Controls also creates long-term alliances with local minority business enterprises in an effort to expand our customer base and encourage local business growth.

Minority communities demand that investments lead to jobs and prosperity in their own communities. Through the Metro Markets strategy, Johnson Controls takes that demand seriously. Our strategy is based on research that indicates that local businesses have built their businesses on local community involvement and local job creation, so they are best positioned for local success. Where other plans have focused on one element and met with singular success, Johnson Controls will draw the three together with the goal of influencing the economic development of a community.

In addition to the Metro Markets strategy, Johnson Controls is committed to increasing the use of diverse businesses in our projects. Johnson Controls' diversity business initiative is directed by senior management and is integrated into our corporate strategy. Johnson Controls defines diverse suppliers as companies that are owned by minorities, women or veterans, and those designated by government agencies as small or disadvantaged businesses. We do business with more than 1,100 diverse suppliers, representing more than 50 product and service categories.

BDR
BILLION DOLLAR ROUNDTABLE
Corporate Supply Chain Diversity

In 2003, Johnson Controls joined the elite Billion Dollar Roundtable (BDR), an organization comprised of U.S. corporations that spend more than $1 billion annually with minority- and women-owned businesses. The Billion Dollar Roundtable promotes minority and women business development by:

- Exploring opportunities for increasing corporate purchasing from diverse suppliers
- Sharing best practices
- Addressing common business issues and challenges
- Providing critical insights on sustaining current diversity spending levels

The State of Hawaii will benefit from our commitment to help communities prosper. For any State of Hawaii project, Johnson Controls will work to meet and strive to exceed the diverse business requirements established.

2.1.17 Judicial Facilities

Johnson Controls has implemented projects in nearly 1,000 jail, detention center and corrections facilities over the last 12 years. These projects include new construction, maintenance, retrofits and performance contracts.

Below we have identified a few of our more recent projects in judicial facilities.

Judicial Facility Performance Contracts Implemented by Johnson Controls		
Project	**Location**	**Project Size ($)**
The Judiciary – State of Hawaii	Honolulu, HI	$1,400,000
Fulton County MEP	Atlanta, GA	$52,529,959
Fulton County Jail Retrofits	Atlanta, GA	$1,625,000
Dekalb County Jail	Decatur, GA	$2,547,000
Orange County Corrections Facility Expansion	Orlando, FL	$1,088,001
Jefferson County Jail	Birmingham, AL	$2,450,000
Broward County Government/Sheriff's Office	Fort Lauderdale, FL	$3,928,124
Harris County Criminal Justice Center	Houston, TX	$1,027,000

2.2 Project Summary

List all Energy Performance Contracting projects developed and implemented by your firm within the past five years. Only include projects where work was directly conducted by your company. If it is relevant to list projects performed under contract to another firm, clearly identify the firm with overall responsibility for that project and the project's relevance to this RFP response.

In addition to describing our energy performance contracting experience in each market sector, our response to item 2.1 also lists several of Johnson Controls' performance contracting projects developed and implemented within the past five years. In response to this item (2.2), we have chosen to highlight our expertise in performance contracting by providing an **overview of our experience over the past five years** and **listing select projects in the public sector** to demonstrate our experience with customers similar to those under the State of Hawaii statewide procurement.

Johnson Controls has an unparalleled record in delivering successful guaranteed energy savings programs to a variety of customers, in particular to public sector customers. Our experience includes the successful delivery of 1,900 performance contracting projects throughout the United States—all with honored guarantees. Johnson Controls currently has more than 750 active performance contracts, reflecting $4 billion in guarantees in force.

Performance Contracting Projects Implemented by Johnson Controls During the Past Five Years

	Contract Value Total
2007	$545,000,000
2006	$533,000,000
2005	$407,000,000
2004	$365,000,000
2003	$398,000,000

The chart above shows the total value of the performance contracting projects implemented within the past five years company-wide. On the following pages, we have listed a representative sample of the performance contracts implemented within the past five years with various public sector clients. Please note that our full customer list from the past five years includes hundreds of clients, including city and county government agencies, public universities and school districts, state correctional facilities and other state agencies, and cannot be included here due to the volume of information and confidentiality concerns.

Johnson Controls Energy Performance Contracts – 2003-2008 (Sampling of Public Sector Customers)						
Project Name	**Facility Type**	**City & State**	**Project Size (Dollars)**	**Project Size (Square Feet)**	**Year Completed**	**Term of ESPC**
State of Missouri - Wainwright and Truman State Office Buildings	Administrative	Jefferson City and St. Louis, MO	$5,200,000	1,250,000	2006	15 years
UC-Davis Medical Center	Medical	Sacramento, CA	$1,484,560	400,000	2004	7 years
State of West Virginia	State government/ Administrative	Charleston, WV	$18,561,763	n/a	2004	15 years
Indiana Department of Correction	Correctional Facility	Four locations, IN	$25,220,675	3,954,760	2006	10 years
Los Alamitos Joint Forces Training Base	Federal – Military Base	Los Alamitos, CA	$8,221,945	n/a	2007	24 years
Virginia Department of Corrections	Correctional Facility	Richmond, VA	$13,381,629	923,704	Phase 1: 2007 Other phases in construction	15 years
Utah Department of Corrections	Correctional Facility	Draper, UT	Phase 1: $6,600,000 Phase 2: $4,000,000	1,089,378	Phase 1: 2005 Phase 2: 2004	20 years

Johnson Controls Energy Performance Contracts – 2003-2008 (Sampling of Public Sector Customers)						
Project Name	**Facility Type**	**City & State**	**Project Size (Dollars)**	**Project Size (Square Feet)**	**Year Completed**	**Term of ESPC**
Commonwealth of Pennsylvania State Correctional Institute at Cresson	Correctional Facility	Cresson, PA	$14,713,040	n/a	2004	15 years
Veterans Affairs Medical Center-San Francisco	Medical	San Francisco, CA	$6,524,185	1,000,000	2003	14 years
City of Shreveport	Municipal/ administrative	Shreveport, LA	$8,968,220	995,823	2003	20 years
St. John's County	Municipal/ administrative	St. Augustine, FL	$8,203,385	n/a	2006	11 years
Tiffin Development Center	Medical	Tiffin, Ohio	$808,756	293,799	2003	10 years
City of Jackson	Municipal/ administrative	Jackson, MS	$1,814,666	66,000	2004	15 years
Hawaii Municipal Building-Hawaii Police Department	Municipal/ administrative	Honolulu, HI	$9,560,817	n/a	2004	15 years
City & County of Honolulu – Honolulu Hale	Municipal/ administrative	Honolulu, HI	$3,200,000	110,000	2004	15 years
City & County of Honolulu – Traffic Signal Systems and Traffic Center	Traffic center and city and county intersections	Honolulu, HI	$1,900,000	400 Oahu intersections and TraffiCenter	2003	1 year

Johnson Controls Energy Performance Contracts – 2003-2008 (Sampling of Public Sector Customers)						
Project Name	**Facility Type**	**City & State**	**Project Size (Dollars)**	**Project Size (Square Feet)**	**Year Completed**	**Term of ESPC**
Tripler Army Medical Center – ESPC Phase 1 and Phase 2	Medical	Honolulu, HI	Phase 1: $3,000,000 Phase 2: $7,200,000	800,000	2004	Phase 1: 22 years Phase 2: 23 years
The Judiciary – State of Hawaii	Municipal/ administrative	Honolulu, HI	$1,400,000	5 court buildings	2004	15 years
University of Hawaii at Hilo	College campus	Hilo, HI	$2,800,000	500,000	1997	10 years
Wilcox Memorial Hospital	Medical	Lihue, HI	$4,100,000	275,000	1999	10 years
Dutchess Community College	College campus	Poughkeepsie, NY	$2,857,775	734,000	2005	12 years
Mt. Diablo Unified School District	K-12 school district	Concord, CA	Phase 1: $5,995,131 Phase 2: $3,500,000	2,000,000	Phase 1: 2007 Phase 2: under construction	15 years
Hemet Unified School District	K-12 school district	Hemet, CA	$5,320,000	1,200,000	2004	15 years
Florida State University	College campus	Tallahassee, FL	Phase 1: $6,000,000 Phase 2: $1,000,000 Phase 3: $5,800,000 Phase 4: $1,200,000	4,000,000	Phase 1: 1998 Phase 2: 1999 Phase 3: 2006 Phase 4: 2007	15 years
Florida Gulf Coast University	College campus	Fort Myers, FL	$2,214,494	551,597	2004	15 years

Johnson Controls Energy Performance Contracts – 2003-2008 (Sampling of Public Sector Customers)						
Project Name	**Facility Type**	**City & State**	**Project Size (Dollars)**	**Project Size (Square Feet)**	**Year Completed**	**Term of ESPC**
Missouri State University	College campus	Columbia, MO	$5,400,000	2,953,706	1997	10 years
Oklahoma State University	College campus	Stillwater, OK	$4,500,000	550,000	2008	20 years
University of South Carolina	College Campus	Columbia, SC	$33,898,669	10,000,000	2005	13 years
Fort Irwin	Military Base	Fort Irwin, CA	$9,413,520	2,500,000	2006	17 years
Twentynine Palms Marine Corps Base	Military Base	Twentynine Palms, CA	Phase 1: $2,131,546 Phase 2: $16,158,073 Phase 3: $49,700,000	4,500,000	Phase 1: 2001 Phase 2: 2003 Phase 3: 2004	20 years
City of Compton	Municipal/ administrative	Compton, CA	$3,919,000	30,000	2008	15 years
State of Maryland Department of Health and Hygiene	Medical	Springfield, MD	$6,060,707	543,000	2002	13 years

2.3 Project References

For each project listed in Section 2.2, provide detailed information on Energy Performance Contracting projects your firm completed that can be used for references. Expand on the information provided in the previous section to give details on individual projects. Include the following information on each project as a minimum:

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.
Project Type: Energy Performance Contract or other type
Project Size: Number of buildings and total project square footage
Project Dollar Amount: Total contract amount and the total project capital expenditure amount
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates
Contract terms: A description of the type of contract, financing arrangement, and contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects
Project Schedule: Indicate if project was completed on schedule and an explanation if not
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table
Project Name:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings Year 1	Actual Energy Savings Year 2	Actual Energy Savings Year 3	Actual Energy Savings Year 4	Actual Energy Savings Year 5
kWh							
kW							
MMBTU							
Gallons							
(Other)							

Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.

As mentioned, Johnson Controls has hundreds of performance contracting customers, but due to the sheer volume of information and confidentiality concerns, we have chosen to highlight a sampling of public sector customer references here for your review.

Throughout this section, we provide detailed information about the following projects:

- City & County of Honolulu – Honolulu Hale
- City & County of Honolulu – Traffic Signal Systems and Traffic Center
- Tripler Army Medical Center – ESPC Phase 1 and Phase 2
- The Judiciary – State of Hawaii
- University of Hawaii at Hilo / Hilo Community College
- Wilcox Memorial Hospital
- Dutchess Community College
- Mt. Diablo Unified School District
- Hemet Unified School District
- Florida State University
- Florida Gulf Coast University
- Missouri State University
- Oklahoma State University
- University of South Carolina
- Fort Irwin
- Twentynine Palms
- City of Compton
- State of Maryland Department of Health and Hygiene
- Virginia Department of Corrections

City and County of Honolulu – Honolulu Hale

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	City & County of Honolulu - Honolulu Hale Honolulu, Hawaii City Hall Office Building
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Allyn Lee Electrical Engineer 530 South King Street Honolulu, Hawaii 96813 Telephone: (808) 523-4106
Project Type: Energy Performance Contract or other type	Energy performance contract
Project Size: Number of buildings and total project square footage	1 building; 110,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $3,200,000 Capital expenditure: $3,200,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Owner Capital Energy Funds Johnson Controls offered capital lease.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 6/02 – 1/03 Construction: 2/03 – 2/04
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings performance contract Owner, Capital Energy Funds 15-year Term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Bryan Hefner. Project Manager* ▪ Tommy Soder, Energy Engineer ▪ Michael Chang, Account Executive* ▪ Cameron Pililaau, Technician* ▪ Rodney Okabe, Engineer* Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ 200kW Cogeneration Unit with 55 ton Absorption Chiller ▪ 250 & 150 ton Centrifugal Chillers ▪ Energy Management System to optimize plant operations. Remote dial in to monitor performance, read meters and perform service ▪ T8, Elec. Ballasts, Occupancy Sensors, LED Exit Signs, CFLs ▪ Primary /Secondary Loop Conv. ▪ Variable Speed Drive Chilled water pump conversion ▪ Air Handler Replacement ▪ Electrical Service Upgrades ▪ Maintenance Contract

Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any	Lighting – One-time measurements. Central Plant by Utility Bill Analysis
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $118,000. We have achieved and exceeded the guaranteed savings target each year.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	Cogen system requested by the City. Was cost effective at construction, however, economics changed due to electrical versus gas price spread. Changed energy savings, but cost savings was exceeded every year.

City and County of Honolulu – Honolulu Hale:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh	1,527,275	1,130,049	1,179,854	1,704,641	1,658,117	1,772,106	
kW	436	351	273	297	293	310	
MMBTU							
Gallons							
Real Dollars	$125,953	$88,969	$145,850	$180,455	$211,980	$312,504	
* Cogen turned off							

City and County of Honolulu – Traffic Signal Systems

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	City and County of Honolulu – Traffic Signal Systems Honolulu, Hawaii Greater than 400 Oahu Intersections and TraffiCenter
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Ty Fukumitsu Chief, Traffic Signal &Technology 530 South King Street Honolulu, Hawaii 96813 Telephone: (808) 523-4405
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	Greater than 400 Oahu Intersections and TraffiCenter
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $1,900,000 Capital expenditure: $1,900,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Owner, Capital Energy Funds Johnson Controls offered capital lease.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 3/03 – 5/03 Construction: 6/03- 12/03
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings contract Offered municipal lease 1-year term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Rich Rauls, Project Manager ▪ Dwight Okumoto, Engineer ▪ Rodney Okabe, Engineer* ▪ Michael Chang, Account Executive* Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ LED Traffic Modules ▪ T8, Elec. Ballasts, Occupancy Sensors, LED Exit Signs, CFLs
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any	One-time sample installation tests. Engineered savings.
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the	Annual guaranteed savings of $234,661.

facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	Utility rebate of $177,000.

City and County of Honolulu – Traffic Signal Systems:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh	2,609,973	1,957,480	1,957,480				
kW							
MMBTU							
Gallons							
(Other)	$314,480	$234,661	$234,661				

Tripler Army Medical Center – Phase 1 and Phase 2

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Tripler Army Medical Center Honolulu, Hawaii Hospital
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Myron Oh Facilities Director 1 Jarrett White Road Honolulu, Hawaii 96859 Telephone: (808) 433-7762
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	250 beds; 800,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: Phase 1-$3,000,000; Phase 2-$7,200,000 Capital expenditure: Phase 1-$3,000,000; Phase 2-$7,200,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Obtained financing through Hannon Armstrong - Commercial Lease. Johnson Controls arranged financing.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: Phase 1 – 1/01 – 6/01 Phase 2 – 2/03 – 9/0-3 Construction: Phase 1 – 8/01 – 12/02 Phase 2 – 2/04 – 12/04
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings contract Commercial lease Phase 1 - 22-year term Phase 2 – 23-year term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Rich Rauls, Project Manager ▪ Tommy Soder, Engineer ▪ Rodney Okabe, Engineer* ▪ Armand Carlos, Engineer* ▪ Cameron Pililaau, Technician* ▪ Michael Chang, Account Executive* Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	Phase 1: ▪ Air Handler Modernization with Inlet Vane to Variable Speed Drive Supply & Return Fans, CO_2 outside air control, night pressure and temperature Phase 2: ▪ Restoration of Combined Chilled Water Loop capability. New Electrically Actuated Valves and DDC Control Sequence. ▪ Condenser Water

	setbacks. ▪ Domestic Hot Water Steam Heat Exchanger eliminating an Electric Resistance water heater. ▪ Energy Management ▪ System utilizing LAN ▪ Remote Differential Pressure Control of Critical and Non-Critical Chilled Water Loops. Remote DP signals via LAN. ▪ New Optimized Critical Chilled Water Pump to better match current operating conditions. ▪ 22 year Maintenance Contract	Setpoint Optimization using Wet Bulb, Chiller and Tower Fan Power Feedback. ▪ New Redesigned Heat Pump system to eliminate Diesel Steam Boilers for Domestic hot water and HVAC reheat system. ▪ New Air Handlers with Variable Speed Drive Supply & Return Fans, CO_2 outside air control, night pressure and temperature setbacks. ▪ Pneumatic to Electric VAV Controller Conversion ▪ Web-based EMCS system. ▪ 23 year Maintenance Contract
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table.	Please see the chart below for savings information.	
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Stipulated – based on short-term metering. Continuous metering.	
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Phase 1: Annual guaranteed savings of $135,976. Small shortfall first year paid back with reduced service price. Second year met the savings guarantee. Phase 2: Annual guaranteed savings estimated at $131,877. We have met the guarantee.	
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	Contract both bought out early.	

Tripler Army Medical Center – Phase 1:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2*	Year 3	Year 4	Year 5
kWh	1,362,222	1,362,222	1,352,142	1,415,135			
kW							
MMBTU							
Gallons							
(Other)	$135,976	$135,976	$134,968	$144,975			

* Contract bought out.

Tripler Army Medical Center – Phase 2:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1*	Year 2	Year 3	Year 4	Year 5
kWh	2,412,372	2,412,372	2,671,731				
kW							
MMBTU							
Gallons							
(Other)	$313,877	$313,877	$342,147				

* Contract bought out

The Judiciary - State of Hawaii

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	The Judiciary – State of Hawaii Honolulu, HI Court buildings
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Jonathan Wong Contracts Telephone: (808) 538-5805
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	5 Court Buildings on Oahu & Maui
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $1,400,000 Capital expenditure: $1,400,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Municipal lease through CitiCapital Johnson Controls arranged financing.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 6/02 – 9/02 Construction: 9/03 – 9/04
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings contract Municipal lease through CitiCapital 15-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Bryan Hefner, Project Manager* ▪ Tommy Soder, Engineer ▪ Michael Chang, Account Executive* Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ 32W T8 ▪ High/Standard/Low Power Elec. Ballasts, ▪ Occupancy Sensors ▪ LED Exit Signs ▪ Compact Fluorescent Lamps ▪ Metal Halide ▪ Delamping with Reflectors ▪ Added Fixtures ▪ Drop Down Prismatic Lens Conversions ▪ Honeycomb to Prismatic Lens
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table.	Please see the chart below for savings information.

Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any	One-time measurements after installation, stipulated HVAC savings.
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $227,958. We have met the savings guarantee.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

The Judiciary – State of Hawaii:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh	2,566,338	2,309,703	2,309,703				
kW	333	300	300				
MMBTU							
Gallons							
(Other)	$253,287	$227,958	$227,958				

University of Hawaii – Hilo / Hilo Community College

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	University of Hawaii – Hilo / Hilo Community College Hilo, HI College campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Kolin Kettleson Auxiliary Services Officer 200 West Kawili Street. Hilo, Hawaii Telephone: (808) 974-7369
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	College Campus 50+ Buildings, 500,000 sq.ft.
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $2,800,000 Capital expenditure: $2,800,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Commercial Lease – Chicorp Johnson Controls negotiated terms of lease.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 9/94 – 5/95 Construction: 6/96 – 7/97
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings contract Commercial Lease - Chicorp 10-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Rich Rauls, Project Manager* ▪ Tommy Soder, Engineer ▪ Rodney Okabe, Engineer* Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ 400 ton Variable Speed High Efficiency Centrifugal Chiller ▪ High efficiency Cooling Tower w/VFD fan ctrl. ▪ Campus-wide Energy Management System utilizing radio transmitters connect the various systems. Remote dial in to monitor performance, read meters and perform service. ▪ T8, Elec. Ballasts, Occupancy Sensors, LED Exit Signs, CFLs ▪ VFD Chilled Water Pump Conversion ▪ Chilled Water Loop Expansion to eliminate 2 old inefficient air-cooled units ▪ Power Factor Improvement ▪ AHU Variable Speed Conversion ▪ 10 year Maintenance Contract

Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any	Utility bill analysis Stipulated lighting
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $428,767. We have met the savings guarantee.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	$100,000 utility rebates

University of Hawaii – Hilo / Hilo Community College:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh							
kW							
MMBTU							
Gallons							
(Other)	$472,716	$428,767	$804,081*	$587,092	$663,108	$692,715	$753,085

* including construction savings

Wilcox Memorial Hospital

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Wilcox Memorial Hospital Lihue, Kauai Hospital
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Clarence Tanaka Maintenance Supervisor 3420 Kuhio Hwy. Lihue, Kauai Telephone: (808) 245-1146
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	200 Beds, 275,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $4,100,000 Capital expenditure: $4,100,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Owner, capital funds. Johnson Controls did not play a role in securing funding.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 5/97 – 2/98 Construction: 3/98 – 3/99
Contract terms: A description of the type of contract, financing arrangement, and contract term	Design/Build w/Maintenance Savings guarantee Owner, capital funds 10-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Bryan Hefner, Project Manager* ▪ Tommy Soder, Engineer ▪ Rodney Okabe, Engineer* ▪ Andrew Dance, Account Executive Personnel listed above with an asterisk (*) may be assigned to State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ 500 ton Engine Driven Chiller with cogeneration of Domestic Hot Water via Engine Jacket and Steam Generation via Exhaust plate heat exchanger. ▪ Energy Management System to optimize plant operations. Remote dial in to monitor performance, read meters and perform service. ▪ T8, Elec. Ballasts, Occupancy Sensors, LED Exit Signs, CFLs ▪ Primary /Secondary Loop conversion ▪ Variable Speed Drives on Chilled water ▪ Expanded CHW loop to eliminate DXs and a screw chiller.

	▪ 5 AHU Inlet Vane to VFD Conversion ▪ 10-year maintenance contract
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any	Utility bill analysis
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $338,000. First year shortfall provide service in kind. We have met the savings guarantee.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N//A

Wilcox Memorial Hospital:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh							
kW							
MMBTU							
Gallons							
(Other)	$338,616	$338,616	$295,549	$431,043	$479,045	$440,017	$462,710

Dutchess Community College

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Dutchess Community College Poughkeepsie, New York College Campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Project Owner: State of New York, State University of New York John Dunn, Dean of Administration 53 Pendell Road Poughkeepsie, NY 12601 Telephone: (845) 431-8961
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	15 buildings; approximately 734,000 square feet
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $2,857,775 Capital expenditure: $2,500,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Capital lease through CitiCapital. Johnson Controls assisted in obtaining financing. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Construction: 2004-2005
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings performance contract Capital lease through CitiCapital 12-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Margaret McIntire, Account Executive ▪ Jonathan Pera, Project Development Engineer ▪ Randy Calvert, Project Manager ▪ Dana McCormack-Boily, Performance Assurance Engineer Personnel listed above may be assigned to Hawaii projects as appropriate.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Installation took an extra 5 months due to integrating JCI controls with Circon controls already on campus.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	Johnson Controls partnered with Duchess Community College and the New York State's Energy Research and Development Authority (NYSERDA) to use energy grants and performance contracting to pay for major building system improvements from savings. Some improvements implemented include: ▪ New chiller plant ▪ Energy efficient motors

	▪ Primary/secondary pumping system ▪ Lighting ▪ Variable speed drives ▪ Gas conversions
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option B
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $75,030. We have exceeded the savings guarantee with $94,725 in savings for year 1 and $101,117 in savings for year 2.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	Johnson Controls assisted Dutchess Community College in submitting their competitive award application for the DOE Energy Star Leadership in Energy Award. DCC was the first community college to ever win the award.

Dutchess Community College:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		280,819 kWh	370,014	414,415			
kW							
MMBTU							
Gallons							
(Other)							

Mt. Diablo Unified School District

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Mt. Diablo Unified School District Concord, California K-12 School District
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Dr. Dick Nicoll Assistant Superintendent, Business 1936 Carlotta Drive Concord, California 94519 Telephone: (925) 682-8000
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	Multiple K-12 school campuses; in excess of 2 million sq. ft.
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: Phase 1 - $5,995,131; Phase 2 - $3,500,000 Capital expenditure: N/A
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Certificate of Participation (COP) Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit Start and Acceptance: Phase 1 - 2/06 – 5/06; Phase 2 - 2/08 – 4/08 Construction: Phase 1 - 6/06 – 9/07; Phase 2 under construction
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings performance contract Certificate of Participation 15-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Brad Harlow, Western Region K-12 Sales Manager ▪ Tim Clark, Project Development Engineer ▪ Brian Tanahashi, Performance Assurance Engineer
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Trash Management ▪ Vending Machine Controls ▪ Lighting Retrofit ▪ HVAC Replacement and Building Automation System ▪ Domestic Hot Water Retrofit
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.

Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option A
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual savings guarantee of $271,391. We are currently in the first year – no savings data to report.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Mt. Diablo Unified School District:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		1,197,464 kWh	Currently in year one of M&V – no savings data to report.				
kW							
MMBTU							
Gallons							
(Other)		38,173 therms					

Hemet Unified School District

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Hemet Unified School District Hemet, California K-12 School District
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Richard Beck 1791 W. Acacia Drive Hemet, California 92545 Telephone: (951) 765-5100, ext. 5000
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	2 buildings; approximately 1,200,000 square feet
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $5,320,000 Capital expenditure: $5,320,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Tax-exempt lease/purchase, with one dollar ($1) buy-out at the end of the 15-year term. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	**Audit start and acceptance:** Phase I: 6/01 – 10/01 Phase II: 1/02 – 3/02 Phase III: 1/04 – 3/04 **Construction:** Phase I: 10/01 – 4/02 Phase II: 3/02 – 7 /02 Phase III: 3/04 – 6/04
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings performance contract Tax-exempt lease/purchase, with one dollar ($1) buy-out at the end of the 15-year term.
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Dennis McVey, Account Representative ▪ Bill Bisset, Lead Engineer ▪ Alan Butcher, Regional Vice President ▪ Len Hayward, Construction Manager ▪ Jeff Hewlett, Project Manager Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Lighting system upgrade consisting of T-8 lamps, electronic ballasts, compact fluorescents, specular reflectors, LED exit signs and occupancy motion sensors at 15 school sites ▪ Installation of 165 high efficiency HVAC units at 7 school sites, comprised of replacing existing rooftop

	HVAC units and installing individual classroom rooftop HVAC units ▪ Structural upgrades and HVAC replacements at 7 school sites to bring up to DSA standards ▪ Installation of 28 rooftop packaged HVAC units Installation of 70-ton high efficiency chiller to replace the deteriorated chiller at 1 school site ▪ Expansion of the existing DDC automated control system to replace the previous outdated version at 22 school sites ▪ Electrical system repairs at 12 school sites ▪ Installation of a trash compactor at 1 school site ▪ Acted as the Engineer of Record in order to obtain DSA approval for the above structural, mechanical and electrical related scope of work
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the chart below for savings information.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Hemet used direct measure as their M&V approach.
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guaranteed savings of $677,500. We have exceeded the savings guarantee each year with annual savings of $694,984 for year 1, $730,168 in year 2, $767,133 in year 3, $805,969 in year 4, and $846,771 in year 5.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Hemet Unified School District

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		kWh	4,870,000	4,991,750	5,116,544	5,244,457	5,375,569
kW							
MMBTU							
Gallons							
(Other)		Therms	153,990	157,840	161,786	165,830	169,976

Florida State University

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Florida State University Tallahassee, Florida
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Allan R. Peck, PE, Director of Utilities & Engineering Services 990 Learning Way Tallahassee, Florida 32304 Telephone: 850.644.4878
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	58 buildings; 19 dormitories; approximately 4 million square feet.
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: Phase 1 1997-$6M; Phase 2 1998-$1M; Phase 3 2005-$5.8M; Phase 4 2006 $1.2M Capital expenditure: No capital was required.
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Public tax-exempt municipal lease. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 12/96 – 3/97 Construction: Started 1997 and Phase III ended 2007. Additional phases are in progress.
Contract terms: A description of the type of contract, financing arrangement, and contract term	Guaranteed energy savings performance contract Tax-exempt lease/purchase, with $1 buy-out at the end of the 15-year term. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Davis Gandees, Florida Higher Education Manager ▪ Mike Quillin, P.E. Engineering Manager ▪ Wanda Adams, Solution Design Leader ▪ Angela Hedgecock, PE, LEED AP, Project Engineer Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	**Mechanical upgrades** include heat recovery devices on air handlers and variable speed drives, and steam system retrofits. Control system upgrades include CO2 sensors that control outside air intake to reduce the amount of energy to heat or cool it, and HVAC occupancy sensors that adjust the cooling and heating when large classrooms are

	vacant. **Lighting system upgrades** include lighting retrofits to T-8 25W lamps, occupancy sensors and exterior lighting control. **Water and sewer upgrades** include using low flow aerators and flush valves that will save over 12 million gallons of water each year. In addition, 4 Watt LED technology lamps replaced the high energy consuming 70-watt high pressure sodium bulbs in 394 blue light security kiosks across campus, which reduced the system's energy usage by 94 percent. Campus security is enhanced as a result since the kiosks are more visible at night and easily located by students.
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option A
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Cumulative savings for this project totaled $17,046,249 over a 10-year period.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Florida State University:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		kWh	32,530,867	32,530,867	32,530,867	32,530,867	
kW							
MMBTU							
Gallons		Gallons	27,659,684	27,659,684	27,659,684	27,659,684	
LBM Steam		LBM Steam	43,403,805	43,403,805	43,403,805	43,403,805	
Therms		Therms	153,990	157,840	161,786	165,830	
Ton hours		Ton-hours	2,356,750	2,356,750	2,356,750	2,356,750	

Florida Gulf Coast University

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Florida Gulf Coast University Fort Myers, Florida College campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Florida Gulf Coast University Jim Hehl, Director of Plant Operations 10501 FGCU Boulevard Fort Myers, FL 33965 Telephone: (239) 590-1313
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	12 buildings; 551,597 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $2,214,494 Capital expenditure: $200,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Third party financed. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 2003 Construction: completed 2004
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Third party financed 15-year term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Davis Gandees, Florida Higher Education Manager ▪ Angela Hedgecock, P.E. LEED AP, Project Engineer ▪ Brian Schlander, Project Manager ▪ Jay Bonham, Sr. Performance Assurance Engineer Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	Johnson Controls provided turnkey consulting and installations for all FIMS throughout 12 buildings. Scope of work includes: chiller plant/ice storage optimization strategies, including the addition of more ice tanks (14 ea.) and improved water system balancing (pumping). VFDs were installed on the cooling towers and secondary water pumps and in individual building's tertiary pump (9 ea.)
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.

Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option A
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual savings guarantee of $109,449. We have exceeded the guarantee with $259,950 in savings in year 1, $242,112 in year 2, $396,932 in year 3 and $159,103 in savings in year 4, which only has 6 months of reported savings to date.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Florida Gulf Coast University:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4 (6 mos.)	Year 5
kWh		kWh	3,653,392	2775352	4,478,281	1,623,638 (6 mos.)	
kW							
MMBTU							
Gallons							
(Other)		KWD	5,211	3,905	6,364	3,971	
		Ton-hours	1,495,251	1,550,230	2,614,013	643,731	

Missouri State University

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Missouri State University Springfield, Missouri College campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Bob Eckels, Director of Facilities Management 901 S. National Springfield, Missouri Telephone: (417) 836-6865
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	33 buildings; 2,953,706 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $5,400,000 Capital expenditure: $5,400,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Privately financed. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Construction: 5/96-6/97
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Privately financed 10-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ John Rademayer, Professional Engineer ▪ Tim Bowman, Account Executive ▪ Vicente Bortone, Project Development Engineer ▪ Mike Yoshida, Project Manager Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Metasys system added to Campus ▪ 15,000 Light fixture retrofits ▪ Install VFDs on fans and pumps ▪ Chilled Water Reset / Hot water Reset ▪ Pipe insulation in tunnels ▪ Removed three way valves & made system variable pumping ▪ Provided on-site staff for daily monitoring and maintenance of the automation system, significantly reduced customer complaints, improved the operating efficiency of all buildings.
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual	Please see the table below. Savings data in energy units is unavailable.

savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option C
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	The Cost Avoidance table below shows annual guarantees and actual savings reported.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Missouri State University:

Cost Avoidance

	Savings				
	Year 1	Year 2	Year 3	Year 4	Year 5
Guarantee $	$880,336	$915,549	$952,171	$990,258	$1,029,869
Actual $	1,010,547	1,139,336	1,178,606	1,313,934	1,346,860
Excess $	130,211	223,787	226,435	323,676	316,991

Oklahoma State University

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Oklahoma State University Center for Veterinary Health Sciences Stillwater, Oklahoma College campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Jim Hargrave Manager of Facilities 250 McElroy Hall Stillwater, OK 74078 Telephone: (405) 744-8476
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	4 buildings; 550,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $4,500,000 Capital expenditure: $4,500,000
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	State of Oklahoma Master Lease Program; Tax Exempt. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 4/06 – 6/06 Construction: 12/06 – 1/08
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Tax-exempt master lease 20-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Josh Wilkens, Account Executive ▪ Zhi Yaw, Project Development Engineer ▪ James Jozefiny, Project Manager ▪ Abhijeet Barve, Performance Assurance Engineer Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Air Handling Unit Replacement, Repair, Upgrades ▪ Mechanical System Replacement, Repair ▪ Lighting Upgrade ▪ VAV and Lighting Sensor Coordination ▪ Water Conservation Improvements ▪ Building Automation System ▪ Window Replacement
Project Performance: The amounts of projected annual	Please see the table below.

savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Options A and C
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Annual guarantee of $458,000, with a total guarantee of $9,167,000 over the 20-year term. First year M&V is ongoing.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Oklahoma State University:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh			First year M&V is ongoing – no savings to report to date.				
kW							
MMBTU							
Gallons							
(Other)							

University of South Carolina

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	University of South Carolina Columbia, South Carolina College campus
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Helen Zeigler, Director of Business Affairs 743 Greene Street Columbia, South Carolina 29208 Telephone: (803) 777-5432
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	155 buildings; 10,000,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $33,898,669 (not including biomass plant) Capital expenditure: $53,898,669
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Municipal lease. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 12/03 – 3/04 Construction: 9/04 – 11/05
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Municipal lease 13-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Keith Byrom, Account Executive ▪ Amy Reilly, Service Branch Manager ▪ Sri Marupudi, Project Development Engineer ▪ Doug Sieverding, Project Manager ▪ Seak-Hwa Tan , Performance Assurance Engineer ▪ Dean Habhegger, Performance Assurance Engineer Personnel listed above will not be assigned as primary personnel for Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Main PC improvements and energy plant completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Facility improvement measures include: ▪ New central energy plant ▪ Lighting ▪ Water conservation ▪ Steam traps ▪ Steam leaks ▪ Condensate leaks ▪ Condensate receiver replacement ▪ Vending miser

	▪ Chiller replacement ▪ Cooling tower replacement
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option C
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Savings guarantee of $6,073,540. Total guarantee includes biomass plant, $2,130,000/yr, and PC, $3,943,540/yr (This number will be reduced to $3,834,800 in year 3.) We saved USC $3,113,138 in year 1 and $352,735 in year 2. The savings number is based on both the PC contract and the Biomass plant. Due to the Biomass Plant's incomplete status, there was an expected energy savings shortfall in Years 1 and 2. Honoring the annual savings guarantee, Johnson Controls reconciled with the University for $830,402 for year 1. Year 2 savings shortfall of $590,805 was paid in Feb. 2008.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

University of South Carolina:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		43,480,983 kWh*	23,139,557	23,377,223			
kW							
MMBTU							
Gallons		157,924 kgal	145,759	160,846			
(Other)		524,003 dekatherms*	170,873	192,734			

* kWh Guarantee is 2,206,158 & dekatherm Guarantee is 394,351 from Biomass plant.

Fort Irwin

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Fort Irwin DOE Super ESPC Fort Irwin, CA Military base
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Frank Talampas, Fort Irwin Energy Manager PO Box 105097 Fort Irwin, California 93210 Telephone: (760) 380-3429
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	Multiple buildings; approx. 2,500,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract Amount: $9,413,520 Capital Expenditure: $10,098,829
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Hannon Armstrong was selected for financing. Interest Rate of 5.95% for 21 years and 6 months. This includes the construction period. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 10/03 – 4/05 Construction: 4/05 – 8/06
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Third party financed 17-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Ed Francis, Project Manager ▪ Victor Fong, Performance Assurance Engineer Personnel listed above may be assigned to Hawaii projects as appropriate.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Audit was completed on time. Delay was caused by the lapse in ESPC requiring congressional authorization and a significant project scope change.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Boiler Replacements with service and replacement for TOC. ▪ Chiller Replacements with service and replacement for TOC ▪ Vending Machine Controls ▪ HID Lighting Replacements with replacements for TOC ▪ Water Conservation
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note	Please see the table below.

that the project name must correspond with the project name listed in the Section 2.2 table	
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Johnson Controls followed the Department of Energy approved M&V process. Johnson Controls worked closely with DOE and Fort Irwin to select the appropriate M&V approach for each measure.
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	The following savings are for the First Phase of the Fort Irwin Project. Projected Annual Savings: $287,890 Guaranteed Annual Savings: $276,885 Actual Annual Savings: Year One – $330,069 ; Year Two – $363,150; Year Three – $396,900; Year Four – $424,431; Year Five – $444,837 The Second Phase is still in Year One, however the construction period savings of $770,718 exceeded the guaranteed construction period savings of $711,855 due to improvements in the construction schedule.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Fort Irwin (Second ESPC – currently in year 1):

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		2,315,966 kWh	2,036,909 kWh				
kW		4,263 kW	5.159 kW				
MMBTU		13,093 MMBtu	12,334 MMBtu				
Gallons		37,013 kgallons	27,120 kgallons				
(Other)							

Twentynine Palms

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Twentynine Palms Twentynine Palms, CA US Marine Base in desert with over 500 buildings
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Mr. Gary Morrissett, Energy Manager Telephone: (760) 830-5128
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	500 buildings; approx. 4,500,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract Amount: Phase 1 - $2,131,546; Phase 2 - $16,158,073; Phase 3 - $49,700,000 Capital Expenditure: $2,100,000 in Phase 3
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Third party financed. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially from financing.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: Phase 1: 12/98 – 6/00 Phase 2: 9/00 – 6/01 Phase 3: 10/01 – 8/02 Construction: Phase 1 – 10/00 – 10/01 Phase 2 – 10/01 – 10/03 Phase 3 – 10/02 – 12/04
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Third party financed 20-year contract term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Marc Jeanson, Government Project Development Leader ▪ Chuck Strand, Manager ▪ Mike Gartland, Sales Manager ▪ Lew Becker, Senior Solutions Design Leader Personnel listed above may be assigned to Hawaii projects as appropriate.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ 7.5 Mw Cogeneration System ▪ Chiller Upgrades ▪ 1.1 Mw Photovoltaic Array ▪ HVAC Upgrades ▪ Skylights/Daylighting ▪ Utility Management Controls Systems

	▪ Central Chiller Plants (3) ▪ Underground CHW Distribution
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	MSPG - Extensive M&V activity is being performed, including on-site monitoring with 24/7/365 data gathered, analysis, monthly and annual reports.
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Projected Annual Savings: $296,646 Guaranteed Annual Savings: $278,551 Actual Annual Savings: Year One – $284,955; Year Two – $297,186; Year Three – $313,674; Year Four – $315,174 ; Year Five – $322,600 For your reference, both phases two and three (combined contract) have exceeded the saving guarantee by $1,051,498 in year one and $1,058,756 in year two.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Twentynine Palms (Project 1):

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		kWh					
kW	(293,361) kWh	kWh*	(336,227)	(321,476)	(293,511)	(379,645)	(396,685)
MMBTU	37,930 MMBtu	MMBtu*	37,784	37,835	37,930	37,636	37,578
Gallons							
(Other)							

Twentynine Palms (Projects 2 and 3):

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh	62,057,783 kWh	kWh*	61,383,243	62,057,783			
kW	9,061 kW	kW*	8,995	9,061			
MMBTU	(113,832) MMBtu	MMBtu*	(118,986)	(113,832)			
Gallons	(3,889) kgallons	Kgallons*	(3,889)	(3,889)			
(Other)							

*Under the ESPC IDIQ contract, only cost savings are guaranteed.

City of Compton

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	City of Compton Compton, California City government - municipal
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Mike Harvey Project Manager City of Compton 205 South Willow Brook Avenue Compton, CA 90220 Telephone: (310) 505-0202
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	Multiple buildings - 30,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $3,919,000 Capital expenditure: no capital investment necessary
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Municipal Lease (off-balance sheet financing). Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 10/05 – 12/05 Construction: 8/06 – 1/08
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Municipal lease 15-year term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Robert Sausedo, Account Executive ▪ Anil Patel, Project Engineer ▪ Robert Parker, Project Manager ▪ Victor Fong, Performance Assurance Engineer Personnel listed above may be assigned to Hawaii projects as appropriate.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Due to the heavy metals issues in the market place, product delivery was delayed. Additionally, some minor changes in scope and senior management delayed our completion.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Lighting upgrades ▪ Chiller and cooling tower upgrades ▪ Central plant ▪ Street lighting replacement
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.

Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	MSPG
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Savings guarantee of $5,914,667 over the contract term.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

City of Compton:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh			No savings data to report to date.				
kW							
MMBTU							
Gallons							
(Other)							

State of Maryland Department of Health and Hygiene

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	State of Maryland Department of Health and Hygiene, Springfield Hospital Center Sykesville, Maryland Hospital Facility
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Janice Bowen, COO Telephone: (410) 795-2100
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	3 buildings, 543,000 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract Amount: $6,060,707 Capital Expenditure: $10,875, 394
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	State of MD Master Lease for Energy Performance Contracting Projects. Johnson Controls arranges financing options for the customer, typically with a third party lender. We do not benefit financially on the financing package provided.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: 12/00 - 12/01 Construction: 1/02 – 9/02
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract State of MD Master Lease for Energy Performance Contracting Projects 13 years
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Chuck Taylor, Project Manager ▪ Kathleen MacDonald, Project Development Engineer ▪ Mike Andrews, Performance Assurance Spec. The personnel listed above will not provide primary support for State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	Completed on schedule.
List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Boiler Decentralization ▪ Decommissioning of the power plant ▪ Lighting Retrofits ▪ HVAC Restoration ▪ Facility Management Systems ▪ Infiltration Sealing ▪ Water conservation ▪ Steam trap replacements ▪ Maintenance Support services

Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Option C
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	Guaranteed savings of $14,527,343 over 13-year term. We have met the guarantee.
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

State of Maryland, Department of Health and Hygiene:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh	2,753,831	2,569,931	2,742,973	2,692,746	2,764,976		
kW							
MMBTU	2,841	2,683	2,793	2,752	2,815		
Gallons							
(Other)							

Virginia Department of Corrections

Project Identification: Owner name, city/state, facility type (hospital, school, college, city, county, etc.)	Virginia Department of Corrections - Nottoway Correctional Center - Fluvanna Correctional Center - Dillwyn Correctional Center - Buckingham Correctional Center Burkeville, Troy and Dillwyn, VA Correctional Facilities
Contact Information: Names and contact information of owner(s) representatives who can serve as references. Include phone numbers, email address, and any other means that can be used to contact representatives serving as references.	Mr. Walid Daniel Director, Energy Management TDOC 6900 Atmore Drive Richmond, VA 23225 Telephone: (804) 674-3102 x. 1215
Project Type: Energy Performance Contract or other type	Performance contract
Project Size: Number of buildings and total project square footage	45 buildings; 923,704 SF
Project Dollar Amount: Total contract amount and the total project capital expenditure amount	Contract amount: $13,381,629
Source of Funding: A description of the source of funding used for the project and the company's role (if any) in securing that funding	Municipal Lease Johnson Controls obtained multiple bids from financing companies and presented the best alternative.
Project Dates: Actual dates of audit start and acceptance; Actual construction starting and ending dates	Audit start and acceptance: Phase 1: 9/04 – 5/05 Phase 2: Currently under construction Phase 3: Under development Construction: Phase 1: 6/05-6/07 Phase 2: Currently under construction Phase 3: Under development
Contract terms: A description of the type of contract, financing arrangement, and contract term	Performance contract Municipal lease 15-year term
Project Personnel: A list of the name(s) of individuals involved in the project, their role(s) and if these personnel will be assigned to Hawaii projects	▪ Glen Heitkamp, Solution Design Specialist ▪ Kathleen MacDonald, Project Development Engineer ▪ Russ Dixon, Performance Assurance Specialist These personnel will not provide primary support for State of Hawaii projects.
Project Schedule: Indicate if project was completed on schedule and an explanation if not	The first phase was delayed a few months due to an engineering issue, and therefore was not completed on time. However, Johnson Controls made the correction and the delay created no additional cost to the customer. Phase Two is currently under construction and Phase 3 is under development, both of which are on schedule.

List of Improvements: The types of retrofits and operational improvements implemented related to energy, water and other cost savings	▪ Heating, Ventilating and Air Conditioning ▪ Control System Upgrades ▪ High Efficiency Motors ▪ Heat Pump Condensing Unit Replacements ▪ Facility Management System ▪ Lighting System Upgrades ▪ Domestic Water Retrofits ▪ Gas fired Hot Water Boilers ▪ Maintenance Support Services ▪ Customer Training
Project Performance: The amounts of projected annual savings, guaranteed annual savings, and actual annual savings for each project in a table as shown below. Note that the project name must correspond with the project name listed in the Section 2.2 table	Please see the table below.
Measurement and Verification: A brief description of the M&V approach for each project including which savings were stipulated, if any.	Options A and C
Performance Guarantee: A description of the savings guarantee for each project and, if the guaranteed savings were not achieved, how the company compensated the facility owner for any annual shortfall (e.g. pay funds to meet the guarantee, etc.)	The Virginia Department of Corrections has contracted with Johnson Controls for M&V on Phase One of the project. Annual Projected Savings: $725,500 Guaranteed Annual Saving: $733,871 Actual Annual Savings: $741,871
Additional Comments: Comments on any special features, services, conditions, creative approaches, special needs of customer, etc. that may be relevant to Hawaii State and County Agencies.	N/A

Virginia Department of Corrections:

Units	Projected Annual Energy Savings	Guaranteed Annual Energy Savings*	Actual Energy Savings				
			Year 1	Year 2	Year 3	Year 4	Year 5
kWh		1,817,553	No savings data to report to date				
kW		1,820					
MMBTU							
Gallons							
Coal		198 tons					
Propane		10,988 gals					
Water		92,215 kGals					

* Energy savings guaranteed for installation period. Annual guarantees will not be available until mid-summer, 2008.

3.0 Qualifications

3.1 History and Focus of Company

3.1.1 Structure and Evolution of the Firm.

Provide information on how your company evolved, how long it has been in business under its current and any former names, and its corporate structure (corporation, partnership, sole proprietorship, joint venture, etc.) including identification of branch offices. For joint ventures include the structure of the joint venture and historical information on each member.

Evolution of the Company

Our company's origins go back to 1885, when Warren S. Johnson, a professor at the State Normal School in Whitewater, Wisconsin, received a patent for the first electric room thermostat. His invention launched the building control industry and was the impetus for a new company. Professor Johnson and a group of Milwaukee investors incorporated the Johnson Electric Service Company in 1900 to manufacture, install, and service automatic temperature regulation systems for buildings. The company was renamed Johnson Controls in 1974.

As a pioneer in energy Performance Contracting more than 30 years ago, with more than 120 years in the energy-efficiency business, Johnson Controls is the largest and most recognized provider of performance-based energy efficiency projects. Today, Johnson Controls continues to deliver innovative infrastructure improvement solutions that directly contribute to our customers' core mission and their bottom line.

Current/Former Names

Johnson Controls has operated as an ESCO under its present name for more than 33 years, and has also operated under two former names:

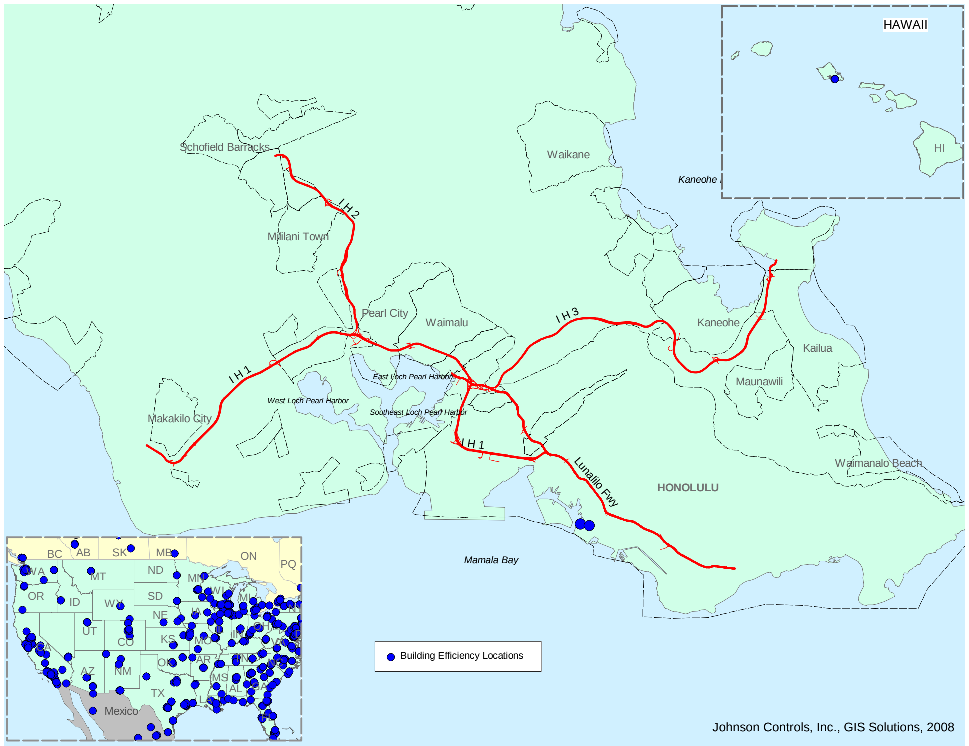
Johnson Electric Service Company	July 31, 1900 to July 10, 1902
Johnson Service Company	July 10, 1902 to November 11, 1974

Corporate Structure

Johnson Controls is a corporation, incorporated in the State of Wisconsin in 1900. We are legally qualified to do business in all states in the United States, Canada, and numerous foreign countries, holding all necessary licenses and registrations to conduct business.

Branch offices

Johnson Controls is headquartered in Milwaukee, Wisconsin. Our Building Efficiency business (the business unit that will provide service to the State of Hawaii) has more than 500 offices worldwide in 125 countries, and over 56,000 employees. In the United States, we have 150 branch offices and more than 23,000 building efficiency employees.



Building Efficiency offices in the United States.

Below we have identified our local branch offices in Honolulu as well as our corporate business address:

Building Efficiency Headquarters	Hawaii Branch Offices
507 E. Michigan Street Milwaukee, Wisconsin 53202	*Systems Branch* 677 Ala Moana Blvd., Suite 820 Honolulu, Hawaii 96813 *Service Branch* 851 D Pohukaina Honolulu, Hawaii 96813

Although our headquarters facilities are located in Milwaukee, Wisconsin, Johnson Controls' organization is structured to support customers from local offices with employees that live and are active in the local community. Our local branch offices in Honolulu have sufficient resources to perform multiple energy projects, but these offices are further supported with resources as needed to ensure project delivery in a timely and professional manner. We have an array of technical personnel resources for energy management at the regional and national level. At any time throughout the fulfillment of an energy performance contract, our local team can call upon our regional and national team of experts specializing in energy solutions for a variety of building types.

Through the strategic acquisition of York International in December of 2005, Johnson Controls' combined truck-based services has expanded to more than 120 branch locations and 4,500 front-line service providers nationwide, who deliver technical services, including controls, mechanical, electrical and fire and security.

Regionally, we have a strong presence throughout Hawaii and the Western region, demonstrated by two primary building efficiency offices in Honolulu and 40 employees dedicated to improving facility performance throughout the State, as well as 19 offices in California available to support State of Hawaii projects. This brings the Johnson Controls' local resource pool to more than 1,900 employees throughout both states, including 700 Johnson Controls employees in Hawaii and southern California alone.

Throughout the United States, Johnson Controls has 23,000 building efficiency employees supporting energy efficiency and building controls projects. Our building efficiency organization holds more than 120 state licenses and employs approximately 90 registered Professional Engineers, equivalent to the top 5 percent of engineering firms in the nation. Beyond the dedicated resources for this project, our team can seek additional support from a variety of certified professionals including the following:

Professional Category	Number of Representatives within Johnson Controls
Project Development Engineers – Energy Engineers	160
Licensed Professional Engineers – PE	90
LEED Certified Engineers	75
National Institute for Certification in Engineer Technologies IV (Certification for Fire Alarm)	12
Certified Energy Managers	185
Certified Energy Auditors	110
Performance Assurance Engineers (Measurement and Verification)	100

3.1.2 Years in the Energy Business.

State the number of years the company has been involved in the energy-efficiency related business.

Johnson Controls has been in the energy efficiency business for more than 120 years. **We have been doing business with customers in the State of Hawaii for more than 47 years**.

3.1.3 Years in Performance Contracting.

State the number of years the company has offered energy performance contracting services.

Johnson Controls has offered energy performance contracting services for 30 years.

3.1.4 Number of Performance Contracting Projects.

State the number of performance contracting projects completed by the company:
Number under $1 million in project cost; Number over $1 million.

Throughout our 30+ year history in performance contracting, we have delivered 1,900 energy efficiency projects throughout the United States – all with honored guarantees. Johnson Controls currently has more than 750 active performance contracts, reflecting more than $4 billion in guarantees in force.

Among active performance contracts, we have 181 contracts under $1 million in project cost and 596 contracts over $1 million.

3.1.5 Summary Listing of Judgments

Summary listing of judgments or pending lawsuits or actions against; adverse contract actions, including termination(s), suspension, imposition of penalties, or other actions relating to failure to perform or deficiencies in fulfilling contractual obligations against your firm. If none, so state.

As a company with over $34 billion in annual sales and over 1,000 facilities around the world, Johnson Controls is involved in litigation or disputes concerning various aspects of the operation of the company. The annual report, a copy of which is included with this response or can be obtained through the company's website, www.johnsoncontrols.com, identifies all litigation that is material to the financial condition of the company. Additional information concerning specific litigation can be obtained by contacting Gus Koutsouvas, Group Counsel, Building Efficiency Americas at (414) 524-4051.

For the sake of this response, Johnson Controls is providing the State of Hawaii with the following list of legal proceedings from the past five years that pertain to performance contracting. Furthermore it is important to mention that Johnson Controls works diligently and feverishly to ensure that when disagreements do arise, they are driven to a speedy and mutually acceptable resolution. Of the four items listed, the first, City of Hubbard, TX has been resolved.

City of Hubbard, TX v. Johnson Controls, Inc. (State Court, Hill County, TX). Johnson Controls, Inc. performed a large energy savings performance contract with this city. Disputes arose over how the guaranteed savings were calculated. The city brought suit in 2003 and the matter was settled in April of 2004.

February 2004, Environmental Protection Agency and State of Florida Department of Environment Investigation: The Company has received requests for information and documents in an investigation into the release of asbestos in a State of Florida building by one of the Company's subcontractors. The Company has cooperated in the investigation, which remains pending.

City of Brazoria, TX v. Johnson Controls, Inc. (State Court, Brazoria County, TX). Johnson Controls performed an energy savings performance contract with this city. The City raises various courses of action in both contract and tort regarding the agreement. The city brought suit in April 2006.

City of Navasota, TX v. Johnson Controls, Inc. (State Court, Grimes County, TX). JCI performed a large energy savings performance contract with this city. The City raises various courses of action in both contract and tort regarding the agreement. The city brought suit in April 2006.

3.2 Financial Soundness and Stability of Company

3.2.1 Financial Soundness

A description of the financial soundness and expected stability of the company. Include Moody's and/or Dunn and Bradstreet rating.

Johnson Controls has a consistent record of financial soundness and stability. Our commitment to exceeding customer satisfaction has contributed to decades of consistent growth and financial success. Since its origins in 1885, Johnson Controls has continued to develop, expanding into a global company listed 72nd among Fortune 100 companies with $34.6 billion in sales in FY2007.

Our Dun and Bradstreet number is 006092860, and we currently have a Dun and Bradstreet rating of 5A3. Our rating with Moody's Investors Service is A3.

Corporate Governance

Johnson Controls received a perfect score for corporate governance in 2006 from GovernanceMetrics International (GMI), a research and ratings agency for corporate governance. This is the second straight year and the third time since 2002 that we achieved this top rating. GMI ranked Johnson Controls among the five companies with the best corporate governance practices, giving us the maximum point rating of 10.0 points and indicated particularly noteworthy performance in Board accountability, financial disclosure and internal controls, and corporate behavior. Among factors contributing to the high rating:

Governance Metrics International ranked Johnson Controls among five companies with the best corporate governance practices.

- Johnson Controls had an Audit Committee charter before the Sarbanes-Oxley corporate reform act required it
- Johnson Controls has no unusual voting requirements
- Johnson Controls has a totally independent compensation committee, and has no takeover defenses that go beyond the norm

Another rating company, Institutional Shareholder Services (ISS), stated that Johnson Controls' governance practices were better than those of 80 percent of all S&P 500 companies and 96 percent of automobile and components companies.

Other Awards and Recognition

The following awards received also demonstrate our company's financial stability and soundness.

Johnson Controls is listed in the FTSE4good Socially Responsible Index, a list of environmentally, socially and economically responsible companies.

In 2005, we were selected as a member of the Dow Jones Sustainability World Index (DJSI World), a global index tracking the financial performance of leading sustainability-driven companies.

Winner of the 2006 World Diversity Leadership Council's global "Corporate Diversity Innovation Award."

One of *Business Ethics* magazine's "100 Best Corporate Citizens."

Johnson Controls is one of only 20 companies included on both the Domini 400 Social Index and the KLD Global Climate 100 Index (GC100). The GC100 promotes investment in companies whose activities offer the greatest potential for mitigating immediate and long-term causes of climate change. The Domini 400 Social index is the first benchmark for U.S. equity portfolios that selects companies based on their environmental, social and governance (ESG) performance. It is widely used to evaluate the impact of ESG factors on risk and returns and to measure the performance of screened portfolios.

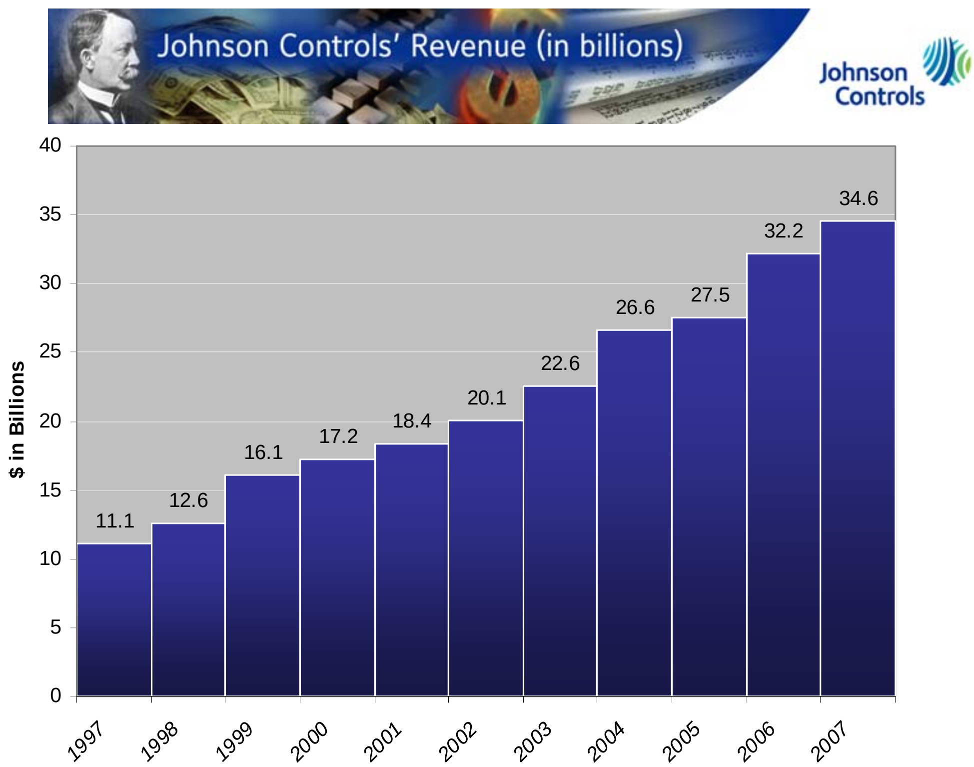
John Barth, then chairman and CEO of Johnson Controls, was honored with the 2006 Leadership Award from the National Minority Supplier Development Council (NMSDC) which is given to executives for their significant long-term achievements in minority business development. NMSDC, a leading business membership organization, provides procurement and business opportunities for minority businesses of all sizes.

3.2.2 Profitability

A description of the company's profitability with supporting documentation covering the past three years.

The chart below shows annual revenues for the past 10 years, demonstrating consistent financial growth and stability. Fiscal year 2007 was our 61st consecutive year of increased sales and 33rd consecutive year of increased dividends. Johnson Controls has paid dividends every year since 1887.

Please refer to the Appendix for annual reports and Form 10-Ks from the past three years as documentation of the company's profitability.



Clients are able to view our strong financial performance as a solid indicator of Johnson Controls' ability to maintain our performance guarantees, no matter the amount or length of contract.

3.2.3 Financial Reports

3.2.3.1 Financial statements and footnotes (audited preferred) for the Proposer for the last completed accounting year within six (6) months of June 30, 2007.

Please refer to the Appendix for Johnson Controls' Form 10-K and our annual report for fiscal year 2007, ending September 30, 2007. (We have also included Form 10-Ks and annual reports from the previous two years to support our response to item 3.2.2 above.)

3.2.3.2 Interim financial statements for the accounting period from the last audited financial statements to February 29, 2008, if the company's year end is other than December 31st.

Please refer to the Appendix for Johnson Controls' Form 10-Q for the periods October 2007 through December 2007 and January 2008 to March 2008.

3.2.3.3 Solvency ratios (Quick ratio, Current ratio, Current debt to equity, Debt to equity, Fixed assets to net worth, and working capital).

Quick Ratio	0.7:1
Current Ratio	1.1:1
Current Debt to Equity	.99:1
Debt to Equity	45:1
Fixed Assets to Net Worth	.45:1
Working Capital	19.9% (working capital as a percentage of revenue)

3.2.3.4 Profitability ratios (Profit margin and Return on assets)

Profit Margin	3.83%
Return on Assets	5.23%

3.2.3.5 Access to financing (Lines of credit and Letters of loan commitment).

The following information is taken directly from Johnson Controls' Form 10-Q for quarter-ending March 31, 2008.

In December 2007, the Company entered into a 25 billion yen ($220 million), three year, floating rate loan agreement. The agreement gave the Company the right to borrow the loan proceeds through January 15, 2008. The Company borrowed the 25 billion yen on January 15, 2008.

On January 17, 2008 and February 1, 2008, the Company retired $500 million and $175 million, respectively, in floating rate notes and fixed rate bonds at maturity. The Company used a combination of cash, commercial paper and the new three year, floating rate yen loan to repay the notes.

In December 2006, the Company entered into a five-year, $2.0 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line during the three months ended March 31, 2008.

In December 2006, the Company entered into a 12 billion yen ($104 million), three year, floating rate loan. The net proceeds of the bank loan were used to repay unsecured commercial paper obligations.

In November 2006, the Company issued commercial paper to repay a $350 million note that matured.

The Company also selectively makes use of short-term money market loans in both U.S. dollars and Euros. The Company estimates that, as of March 31, 2008, it could borrow up to $1 billion at its current debt ratings in money market loans.

The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets to support business growth and future acquisitions. The Company believes its capital resources and liquidity position at March 31, 2008 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal 2008 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

3.2.4 Bonding: Include responses to the following:

3.2.4.1 Current bonding rating

A.M. Best Rating: A – XV

3.2.4.2 Current bonding capacity

$100,000,000 Single Bond Limit
$400,000,000 aggregate

3.2.4.3 Amount or percentage of bonding capacity currently obligated

The amount of bonding capacity currently obligated in relation to energy performance contracts is approximately $250,000,000.

3.2.4.4 Current bonding rate

$3.00/$1,000 of contract work

3.2.4.5 Confirmation that the company is bondable for 100% of a payment bond on a project

Johnson Controls confirms that it is bondable for 100 percent of a payment bond on a project. Beyond regular construction payment and performance bonds, we are also one of the few ESCOs that can obtain bonds for energy savings guarantees.

3.2.4.6 Confirmation that the company is bondable for 100% of a performance bond on a project

Johnson Controls confirms that it is bondable for 100 percent of a performance bond on a project.

3.2.4.7 Letter from a licensed surety as evidence of ability to bond for payment and performance

On the following pages, Johnson Controls has provided a copy of a letter from our licensed surety as evidence of our company's ability to bond for payment and performance.

Safeco Surety
Northern Region Office
2800 W Higgins Rd Ste 1100
Hoffman Estates, IL 60195-5205

Phone: (847) 490-2900
Fax: (847) 490-2231
www.safeco.com

May 21, 2008

State of Hawaii – State Procurement Office
1151Punchbowl Street
Kalanimoku Building – Room 416
Honolulu, Hawaii 96813

RE: Letter of Capacity & Intent; Performance Contracts with various agencies throughout the State of Hawaii

Gentlemen:

SAFECO INSURANCE COMPANY OF AMERICA has been the surety company for JOHNSON CONTROLS, INC., 5757 North Green Bay Avenue, Milwaukee, WI 53209 for over 25 years and as such has provided a single bond limit in excess of $100,000,000 and in the aggregate has a program over $400,000,000.

It is our understanding that JOHNSON CONTROLS, INC. may be submitting proposals for various projects with the State of Hawaii. Should any of these proposals be accepted and a contract awarded to JOHNSON CONTROLS, INC., it is our present intention to become surety on the final bonds or bond that may be required guaranteeing performance of the contract subject to acceptable contract terms and conditions and on bond forms acceptable to JOHNSON CONTROLS, INC. and SAFECO INSURANCE COMPANY OF AMERICA.

JOHNSON CONTROLS, INC. is a valued customer of SAFECO INSURANCE COMPANY OF AMERICA and we recommend them highly. You understand, of course, that any arrangement to provide bid bonds and/or final bonds on a project is a matter between JOHNSON CONTROLS, INC. and SAFECO INSURANCE COMPANY OF AMERICA and we assume no liability to third parties if we do not execute said bond(s).

Sincerely,

SAFECO INSURANCE COMPANY OF AMERICA

Cathy Hutson

Cathy Hutson
Attorney-in-Fact

Safeco Insurance Company of America - Class XV - A

Safeco®

POWER
OF ATTORNEY

Safeco Insurance Company of America
General Insurance Company of America
Safeco Plaza
Seattle, WA 98185

No. 10618

KNOW ALL BY THESE PRESENTS:

That **SAFECO INSURANCE COMPANY OF AMERICA** and **GENERAL INSURANCE COMPANY OF AMERICA,** each a Washington corporation, does each hereby appoint
***************KATHLEEN A. CRARY; LUCY A. HANTZSCH; CATHY HUTSON; DANIEL J. KWIECINSKI; TRACY K. MATTHEWS; WENDY S. MILLER; DANIEL J. SAPIRO; LISA M. SLAKES; Milwaukee, Wisconsin***

its true and lawful attorney(s)-in-fact, with full authority to execute on its behalf fidelity and surety bonds or undertakings and other documents of a similar character issued in the course of its business, and to bind the respective company thereby.
IN WITNESS WHEREOF, SAFECO INSURANCE COMPANY OF AMERICA and GENERAL INSURANCE COMPANY OF AMERICA have each executed and attested these presents

this 22nd day of January, 2008.

Stephanie Daley-Watson　　　　T Mikolajewski

STEPHANIE DALEY-WATSON,SECRETARY　　　　**TIM MIKOLAJEWSKI, SENIOR VICE-PRESIDENT, SURETY**

CERTIFICATE

Extract from the By-Laws of **SAFECO INSURANCE COMPANY OF AMERICA**
and of **GENERAL INSURANCE COMPANY OF AMERICA:**

"Article V, Section 13. - FIDELITY AND SURETY BONDS ... the President, any Vice President, the Secretary, and any Assistant Vice President appointed for that purpose by the officer in charge of surety operations, shall each have authority to appoint individuals as attorneys-in-fact or under other appropriate titles with authority to execute on behalf of the company fidelity and surety bonds and other documents of similar character issued by the company in the course of its business... On any instrument making or evidencing such appointment, the signatures may be affixed by facsimile. On any instrument conferring such authority or on any bond or undertaking of the company, the seal, or a facsimile thereof, may be impressed or affixed or in any other manner reproduced; provided, however, that the seal shall not be necessary to the validity of any such instrument or undertaking."

Extract from a Resolution of the Board of Directors of **SAFECO INSURANCE COMPANY OF AMERICA**
and of **GENERAL INSURANCE COMPANY OF AMERICA** adopted July 28, 1970.

"On any certificate executed by the Secretary or an assistant secretary of the Company setting out,
(i) The provisions of Article V, Section 13 of the By-Laws, and
(ii) A copy of the power-of-attorney appointment, executed pursuant thereto, and
(iii) Certifying that said power-of-attorney appointment is in full force and effect,
the signature of the certifying officer may be by facsimile, and the seal of the Company may be a facsimile thereof."

I, Stephanie Daley-Watson, Secretary of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA,** do hereby certify that the foregoing extracts of the By-Laws and of a Resolution of the Board of Directors of these corporations, and of a Power of Attorney issued pursuant thereto, are true and correct, and that both the By-Laws, the Resolution and the Power of Attorney are still in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the facsimile seal of said corporation

this 21st day of May, 2008.

SAFECO INSURANCE COMPANY OF AMERICA CORPORATE SEAL 1953 STATE OF WASHINGTON

GENERAL INSURANCE COMPANY OF AMERICA CORPORATE SEAL 1923 State of Washington

Stephanie Daley-Watson

STEPHANIE DALEY-WATSON, SECRETARY

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S-0974/DS 4/05　　　　WEB PDF

3.3. Industry Accreditations

Provide information on any accreditations by any industry organizations, such as the National Association of Energy Service Companies (NAESCO). Provide information on any pre-qualifiers for your firm, such as work through the US Departments of Energy or Defense for federal projects. Briefly describe the relevance or importance to the work proposed in this RFP for State of Hawaii clientele.

NAESCO Membership

Johnson Controls is accredited by NAESCO. We are one of only eleven companies in North America to receive the highest accreditation of Energy Service Provider (ESP).

Johnson Controls is pre-qualified to work through the U.S. Department of Energy (DOE) for facilities and pre-qualified by DOE to perform Super ESPCs (Energy Savings Performance Contracts) in multiple regions. We have been selected for six ESPCs, as listed below:

NAESCO ACCREDITED ENERGY SERVICE PROVIDER

Certificate of Accreditation

This is to certify that

Johnson Controls, Inc.

has participated in the Accreditation Program and Review and has been recognized by the National Association of Energy Service Companies to be an Accredited Energy Service Provider.

Bob Dixon, President

Terry E. Singer, Executive Director

May 2005

Certification of Reaccreditation covers a period of 36 months from date of issuance.

NAESCO Certificate of Accreditation

- Army National ESPC (also called 46-State, administered by the US Army Corps of Engineers): All US States (except GA, SC, NC, and VA), DC, Guam, Puerto Rico, and U.S. Virgin Islands
- Department of Energy Southeast Region Super ESPC (FL, AL, GA, SC, NC, MS, TN, KY, AR, VI, PR)
- Department of Energy Northeast Region Super ESPC (NY, CT, RI, MA, VT, NH, ME)
- Department of Energy Midwest Region Super ESPC (OH, IN, IL, WI, MI, IA, MO, MN)
- Department of Energy Central Region Super ESPC (LA, TX, OK, NM, CO, WY, MT, ND, SD, KS, UT, NE)
- Department of Energy Western Region Super ESPC (CA, AZ, OR, WA, ID, NV, AK, HI, GU)

Johnson Controls has secured 73 delivery orders on ESPC IDIQ contracts. Many of these performance contracts were implemented at DOE and DOD sites. In fact, we are the exclusive DOE partner on the DOE Hanford Nuclear site for ESPC work. We successfully completed the two largest DOE ESPC projects – DOE Hanford in Washington State and Twentynine Palms in California.

Johnson Controls also was a leader in the development of LEED NC and LEED EB. Our experience and leadership in renewables and sustainability will give the State of Hawaii access to a team that can truly deliver on the promises of the latest proven practices and technology as well as potential requirements from State legislation for building efficiency and sound facility operations for the future.

Additionally, the State of Hawaii will benefit from our extensive involvement in a wide range of accreditations, certifications, memberships in professional/trade organizations, and licenses. We have our finger on the pulse of the industry and we help drive industry standards and procedures. That knowledge will be instrumental in choosing the most cost-effective energy conservation measures (ECMs), incorporating the latest technology and providing some of the best-trained professionals as part of our Hawaii Solutions Team.

Active memberships and affiliations with many of these organizations show Johnson Controls' dedication to improving our clients operations. For the State of Hawaii, our participation in organizations, such as NASEO and NASFA, ensure that we understand what drives state energy and facility managers.

As a result of our ongoing commitment to exceeding our customers' expectations, we have garnered awards from a host of industry organizations and publications. Below we have identified industry organizations in which our company and employees are actively involved:

Accreditations/Certifications/Memberships

- Active member and sponsor of the American Correctional Association (ACA)
- Active member and sponsor of The Construction and Maintenance Institute for Criminal Justice Agencies (CMI-CJA)
- Accredited by the National Association of Energy Savings Companies (NAESCO). We are one of only eleven companies in North America to receive the highest accreditation of Energy Service Provider (ESP).
- Active Member National Association of Energy Service Companies (NAESCO): Member of Board of Directors
- Active Member American Society of Heating, Refrigeration, and Air-Conditioning Engineers (ASHRAE)
- Active Member of Energy Services Coalition (ESC) - Member of Board of Directors; Johnson Controls members active in 20 states
- National Association of State Energy Officials (NASEO) - NASEO members include government energy officials from forty-nine states as well as representatives from private companies, consumer groups and energy suppliers. NASEO promotes energy efficiency and tracks actions taken by Congress and the White House Administration.
- Active Member International Facilities Management Association (IFMA)

- Edison Electric Institute (EEI) - EEI is an association of investor-owned electric utilities providing the public with information relating to electric energy. It also advocates public policies that foster an adequate, reliable, secure and economical supply of electricity throughout the United States.
- Illuminating Engineering Society (IES): This organization is dedicated to the use of proper lighting principles that address both qualitative and quantitative issues. Johnson Controls is a sustaining member of IES and is active in local chapters.
- National Association of Lighting Management Companies (NALMCO): Johnson Controls, Inc. is a general member of this organization, which is comprised of companies focused on delivering professional lighting services.
- Association of Physical Plant Administrators (APPA): Johnson Controls is a long-standing active APPA member and education partner. The company's major APPA activities include: national, regional and local conventions in forty locations; program and event sponsorships; and providing speakers and/or facilitators for business-education forums and workshops. Johnson Controls, Inc. also sponsors engineering co-op and internship programs, and joint product research projects.
- Active Member American Society of Civil Engineers (ASCE)
- Active Member American Society of Safety Engineers (ASSE)
- Active Member Building Office Management Association (BOMA)
- Active Member American Institute of Architects (AIA)
- Active Member Institute of Electrical and Electronic Engineers
- Active Member National Institute for Uniform Licensing of Power Engineers (NIULPE)
- Active Member American Water Works Association
- Active Member Water Environment Federation (WEF)
- Active Member U.S. Green Building Council: A national coalition representing all sectors of the building industry (architects, environmental groups, engineers, utilities, product manufacturers, universities, building owners, and Federal, State, Local Government); Promote the design, construction and operation of environmentally responsible, profitable, healthy places to live and work; Launched LEED in 2000, the most complete rating system for green buildings; Piloting LEED for Existing Buildings 2002
- Active Member Association of Energy Engineers (AEE)
- Active Member Rebuild America
- Active Member Global Environmental Management Initiative (GEMI): Non-profit organization of leading companies dedicated to fostering environmental, health and safety excellence worldwide through the sharing of tools and information in order for business to help business achieve environmental excellence.
- Energy Efficiency Forum – Founder and Host: 400 industry executives, government officials and news media; Sponsored by the USEA and Johnson Controls

- Active Member National Minority Supplier Development Council
- Active Member National Association of Minority Contractors
- National Summit on Building Performance: 350 top corporate, government and institutional executives in real estate, architects facility managers; Focus on high performance, sustainable buildings and related issues; Sponsors have included AIA, IFMA, NACORE and Johnson Controls

3.4 General Scope of Services

Provide a brief comment (25 words or less is preferred) for each of the items listed to illustrate the company's capability in each area.

Johnson Controls understands and respects the State's request for a brief response regarding our company's capability in each area listed below. We have attempted to respond with approximately 25 words for each area and, in doing so, have consolidated some responses. Please note, however, that we cannot adequately demonstrate our capabilities in each area within this limitation. Please feel free to contact our company representative, Mr. Michael Trovato, at (916) 996-9920 for further information should the State have any questions regarding our capability or experience in any of the service areas listed below.

3.4.1 Energy systems in buildings

Johnson Controls has comprehensive capabilities implementing all energy systems listed in 3.4.1.1 – 3.4.1.18. The table below provides a profile of the work we have done nationally across multiple technology areas, listing the number of ECMs we have developed company-wide among the 1,900+ performance contracting projects we have managed. Our energy project capabilities and experience range from small performance contracting projects to large scale multi-phased projects.

Technology Area	Number of ECMs
Boiler Plant Improvements	403
Chiller Plant Improvements	324
Building Automation Systems/EMCS	862
HVAC Systems	602
Lighting Improvements	1,802
Building Envelope Modifications	145
Chilled Water, Hot Water, and Steam Distribution Systems	727
Electric Motors and Drives	1,533
Refrigeration	26 (+1,532 in non ESPC projects)
Distributed Generation	24
Renewable Energy	9 (+11 in non ESPC projects)
Energy/Utility Distribution Systems	120

Technology Area	Number of ECMs
Water and Sewer Conservation Systems	256
Electrical Peak Shaving/Load Shifting	25
Energy Cost Reduction Through Rate Adjustment	76
Energy Related Process Improvements	30
Commissioning	42
Advanced Metering Systems	8 (+28 in non ESPC projects)
Appliance/Plug Load Reductions	71

ECMs Developed by Johnson Controls – *successful experience in every Technology Area*

Below, we have briefly described our experience in each area. As noted in our introduction to this response, we have consolidated some responses (e.g., 3.4.1.1 - 3.4.1.2, 3.4.1.3-3.4.1.7, etc.) for the sake of brevity.

3.4.1.1 Lighting systems: indoor and outdoor
3.4.1.2 Daylighting

Johnson Controls has full capability to provide lighting design, technology selection and implementation. For the past 25 years, Johnson Controls has been the single largest lighting retrofitter in the U.S. We have experience determining light loads, necessary lighting lumens and building design to capture daylighting for all projects. We also have a strategic partnership for pricing and design with Philips Lighting.

3.4.1.3 Heating systems
3.4.1.4 Ventilation systems
3.4.1.5 Indoor air quality
3.4.1.6 Cooling systems
3.4.1.7 Control and building automation systems

Johnson Controls has full technical capability to work with all types of central plant heating, boilers and related heating, ventilating and air conditioning (HVAC) systems, energy management and controls systems, domestic hot water systems, refrigeration and distribution systems. We have complete design, installation and service capability with in-house staff, and also offer factory-direct pricing for all York HVAC equipment. We have in-house expertise with designing, programming, installing and servicing Johnson Controls, Tridium, Siemens, Honeywell and most all other controls systems on the market today.

3.4.1.8 Water-consuming systems
3.4.1.9 Solid waste, e.g., paper, plastic, glass, aluminum, recycling

Johnson Controls is fully capable of designing and installing plumbing, irrigation, HVAC, water distribution, wastewater and related systems. Water measures are second only to lighting measures in our state government facilities projects.

3.4.1.10 Renewables (solar-electric, solar thermal, geothermal, wind, biomass)

We have full technical capability to assess, design and implement renewable energy technologies. We are currently installing renewable systems for several customers nationwide, implementing such technologies as:

- Cogeneration
- Photovoltaic
- Wind
- Biomass
- Geothermal
- Fuel Cells
- Solar thermal

3.4.1.11 Distributed generation

We have experience designing and installing Cogeneration CHP, solar thermal and related power generation and distribution applications and technologies for projects.

3.4.1.12 Central plants

Johnson Controls has an Advanced Solutions Engineering Team that designs, builds/retrofits, operates and maintains central heating, cooling and generation plants (including biomass and other renewable sources).

3.4.1.13 Kitchens, laundry

We have experience redesigning, replacing and installing major kitchen ventilation, cooking, heating and refrigeration equipment as well as large use washing and drying laundry equipment and other specialty equipment for governmental facilities.

3.4.1.14 Laboratories, laundry

Johnson Controls has experience with fume hood efficiencies, indoor air quality detection and measurement, incinerators, and related lab equipment.

3.4.1.15 Swimming pools and recreational facilities

We have experience with HVAC, indoor air quality, chlorine management, chemical detection and measurement, lighting, locker room water improvements and related equipment.

3.4.1.16 Fuel switching

We have experience analyzing the impact of switching electric to natural gas for HVAC equipment, diesel to clean fuels for vehicles and related projects.

3.4.1.17 Energy management

We employ an array of technical professionals with years of experience in utility bill analysis, load calculation and energy utilization, energy audits, and application of ECMs.

3.4.1.18 Transportation – fleet fuel management, etc.

Johnson Controls supports fuel switching such as natural gas or other technologies as a part of any vehicle fleet management program. By using cleaner and more efficient fuels we can reduce our CO2 foot print and emissions while reducing our need and dependence on oil.

3.4.2 Project Development and Implementation

3.4.2.1 Energy auditing (identify potential energy-saving measures, determine savings projection based on standard energy engineering principles; estimate project costs; present package of measures with cash flow)

Johnson Controls has performed more than 15,000 energy audits. We have worked with more than 1,900 customers over our 30-year history in performance contracting. We currently maintain 750+ active projects providing audits and comprehensive performance contracting services.

3.4.2.2 System design engineering: mechanical, electrical, etc.

Utilizing information gathered during the preliminary audit and investment grade audit, we enter the design and specifications phase where we utilize our skills and knowledge in energy conservation to develop energy efficient facilities, often achieving Energy Star or LEED-certified status for our customers' facilities. We have managed the LEED certification process for more than 20 buildings and have been directly involved with certification for several other projects. Johnson Controls is one of the largest design-build organizations.

3.4.2.3 Procurement, bidding

A competitive procurement process is performed on each measure of every job to ensure cost efficiency. We have worked with more than 1,000 customers over our 30-year history in performance contracting. Johnson Controls has relationships with subcontractors in nearly every installation area, including electrical, mechanical, controls, civil and other building trades.

3.4.2.4 Construction

Johnson Controls is one of the largest design-build organizations. By working with our team, you will work with a single point of contact, minimize project risk, and experience a reduced project delivery schedule. We routinely perform improvements such as lighting, HVAC, central plants, building automation systems, cogeneration and other renewable energy sources for our customers.

3.4.2.5 Commissioning of projects and retro-commissioning of existing buildings

We closely manage the construction process on every project to ensure timeliness and quality. This is imperative as the outcome is guaranteed. We commission all of our projects and typically do some level of recommissioning.

3.4.2.6 Project management

Johnson Controls will have overall responsibility for engineering, design, project management, site coordination of subcontractors, schedule management, and coordination with each individual facility owner's project team. Johnson Controls will manage the installation of all systems, and under our direction and supervision, the subcontractors will perform the work for all mechanical and electrical systems. A Johnson Controls engineer or subconsultant, licensed in Hawaii, will perform design approval for the work. Johnson Controls will perform review and approval of drawings.

3.4.2.7 Identification of asbestos and other hazardous materials and abatement, recycling or disposal as applicable

All employees participate in monthly safety training sessions and are well qualified to identify hazardous materials and take the steps necessary to manage them and take appropriate actions once they are identified.

Johnson Controls' policy on hazardous materials is as follows.

Hazardous materials encountered during the course of the project will likely fall into three categories: (1) chemicals, if any, that Johnson Controls will use to perform the contract, (2) components of electrical equipment that will be replaced (for instance, ballasts and fluorescent lights), and (3) building materials (usually asbestos) that must be disturbed as part of the proposed work. Regarding (1), Johnson Controls will maintain complete responsibility for the management and disposal of hazardous chemicals, if any, which are necessary to perform the services. The company's pricing already includes this responsibility, and it will not have an effect on the cost to the State of Hawaii. Regarding (2), Johnson Controls recycles or disposes of electrical components in accordance with written company procedures at pre-approved recycling and disposal facilities. As long as Johnson Controls is permitted to use its pre-approved facilities, it will accept responsibility for potential liabilities associated with the handling, recycling, and disposal of such components. As with (1), the Company's pricing already includes the assumption that it will retain that responsibility. Regarding (3), Johnson Controls is not a licensed asbestos removal contractor. However, the Company has extensive experience in working with licensed subcontractors to perform necessary work. If Johnson Controls retains the licensed subcontractor to perform the work, it will also accept contractual responsibility for the handling and disposal of the materials. However, if Johnson Controls does not control the subcontractor or the place of disposal, it does not feel comfortable serving as a mere insurer and would request that the State of Hawaii seek protection from liability through its own chosen subcontractors.

3.4.3 Continuing Support Services (Post Construction)

3.4.3.1 Performance guarantee for every year of the financing term

Johnson Controls will provide a performance guarantee for every year of the financing term.

3.4.3.2 Insurance

Our insurance levels are more than adequate to support the projects contemplated for the State of Hawaii. Prior to commencing the work, Johnson Controls shall provide to customer a certificate of insurance showing its insurance coverage as required by the State. We have provided a copy of our current certificate of insurance in the Appendix.

3.4.3.3 Equipment and material warranties*

* Equipment and Material Warranties – contractor will be responsible for new equipment and material and modified existing equipment for length of warranty.

Johnson Controls provides a standard one-year labor and material warranty. This warranty can be extended at the request of our customers. Equipment warranties are transferred directly to the customer upon completion of the installation in the form of binders that include warranties, O&Ms, as built drawings and related documentation as part of our standard construction process.

3.4.3.4 Financing partner with ability to provide a municipal, tax-exempt lease purchase

Johnson Controls will work with the State to identify an appropriate financing partner and negotiate rates for a municipal, tax-exempt lease purchase. We explore several financing alternatives and offer creative solutions to help our customers fund major projects.

3.4.3.5 Hazardous material handling

All employees participate in monthly safety training sessions and are well qualified to identify hazardous materials and take the steps necessary to manage them and take appropriate actions once they are identified.

We have described our policy regarding hazardous materials in response to item 3.4.2 above.

3.4.3.6 Measurement and verification of savings

We offer four general approaches to assessing savings, in accordance with FEMP and IPMVP guidelines:

- Option A – Partially Measured Retrofit Isolation
- Option B – Measured Retrofit Isolation
- Option C – Utility Bill Comparison
- Option D – Calibrated Computer Simulation (rarely used)

3.4.3.7 Training: maintenance staff and occupants

Training to the operating personnel on the proper operation of the equipment is crucial for maintaining reliability and long-term integrity of the systems. This is carried out during the final phase of project commissioning. Formal training will be provided by the manufacturer on-site or at the manufacturer's training facility. Johnson Controls also will customize training to meet the needs of the State. We offer packaged training programs, computer-based training packages, local branch office and on-site instruction, and videotapes of the training for subsequent use.

Johnson Controls also offers a Sustainable Energy Education and Communications (SEEC) program, which educates the customer's building occupants and staff on efficient energy use at work and at home, as well as the environmental impacts of their actions. SEEC is designed to help organizations save money by making their own sustainability efforts more effective

3.4.3.8 Long-term maintenance services on energy systems

We use data from reactive, preventive, and predictive maintenance efforts to assess each system in order to improve overall reliability while controlling costs. We may employ the following techniques in our proactive maintenance program: (1) root cause failure analysis; (2) engineering evaluation; (3) performance specifications; and operational/verification of new and rebuilt equipment.

3.4.3.9 Application for an Energy Star Label and LEED certification.

Johnson Controls is a leader in designing and implementing LEED projects for customers. We have customized tools like Green Compass™ (which is described in more detail in the Appendix) to streamline the Energy Star and LEED application/certification process. We also employ many LEED accredited professionals. Our company has managed, from inception to certification, the LEED application/certification process for more than 20 buildings and has been directly involved with certification for many other projects.

3.4.3.10 Calculation and reporting of emissions reductions

We have built an organization around tracking, reporting and earning credits for emissions reduction. Since January 1, 2000, Johnson Controls has reduced carbon dioxide (CO_2) emissions equating to the following:

- removing the emissions from 135,000 vehicles
- the benefit of planting over 24,441 acres of pine
- the amount emitted by approximately two power plants during one year
- the amount emitted by the generation of electricity for approximately 1,281,941 single-family homes in the US during 1 year

We are able to mitigate environmental impact through our general performance contracting business, our ENERGY STAR and LEED certification process, and other industry standard tools, like those provided through the Environmental Protection Agency (EPA).

We will inventory, track and report Greenhouse Gas (GHG) emissions for State of Hawaii projects using our patent-pending technology. Our technology reduces the effort, complexity and cost of GHG reporting while providing verifiable information. The information allows management to adjust practices and cost and effectively identifies opportunities to reduce GHGs, resulting in multiple economic, social and environmental benefits.

3.4.3.11 Assistance to the facility owner with preparing annual reports for the Hawaii Energy Performance Contracting Program

Our M&V team regularly prepares annual reports as described. We are also happy to formally present these in person to facility management and/or the Hawaii Energy Performance Contracting Program, if desired.

4.0 Technical Approach

4.1 Samples: Preliminary Technical Energy Audit (TEA) and Financial Investment Grade Audit

Under separate cover, provide representative SAMPLE audits of a preliminary TEA and a final IGA that is applicable for an energy performance contracting project in a government facility. (See RFP for proper delivery media.)

In response to this section, provide a brief description of the audits, including energy and economic calculations, and verification that the sample audits were conducted by current members of the company's team proposed for the DAGS Energy Performance Contracting Program (HEPCP). Provide a description of the process your company uses for typical audits (TEA and IGA) in the types of facilities that will participate in the program. Note any changes that will be made to comply with requirements for the program. (Provide the SAMPLE audits under separate cover with an introduction repeating the response for this section.)

Sample Audits

TEA and IGA Samples

Johnson Controls has responded to this solicitation to demonstrate our capabilities as the world leader in sustainability, greenhouse gas emissions reduction, energy management and energy conservation. This is further demonstrated by the Johnson Controls project at Twentynine Palms Marine Corps Air/Ground Combat Center, where various ECMs, a photovoltaic array and a central plant were installed. Submitted under separate cover, the sample preliminary technical energy assessment (TEA), or site survey report as termed under the Army National ESPC, and final investment grade audit (IGA), or detailed energy assessment, for this project are just two of many examples where Johnson Controls has provided integrated solutions and successful projects to government customers that want to implement a complete sustainability strategy.

Project Description

A long-term strategic approach to energy efficiency developed by Johnson Controls is helping the Twentynine Palms military base to secure a reliable energy supply, while saving nearly $7 million per year.

Under a comprehensive facility systems project, Johnson Controls upgraded five chiller plants on the base and installed a $16 million, 7 MW dual-fueled cogeneration system. The existing phase of the project includes a 1.1 MW photovoltaic plant, which is one of the highest-capacity non-utility solar power plants in the world.

Twentynine Palms is located 45 miles north of Palm Springs, California, and is the site of the Marine Air Ground Task Force Training Command (MAGTFTC), which operates the U.S. Marine Air Ground Combat Center, promoting readiness of operating forces. The Command provides facilities, services, and support to meet the needs of Marines, sailors, and their families. The base covers 632 square miles and is home to 11,000 Marines and 814 officers. Its total population, including dependents of service personnel, exceeds 25,000.

Meeting the Energy Challenges

Located at the end of the utility distribution line, the base experienced frequent power disruptions, and the Twentynine Palms facilities management division wanted to increase power reliability and make the base more self-sufficient. The base was also challenged by federal orders to reduce energy consumption and use renewable energy sources.

To meet these challenges, Twentynine Palms began working with Johnson Controls on a facility optimization project that included five chiller plant upgrades. As part of that project, Johnson Controls audited base buildings, developed a comprehensive plan, coordinated funding, and guaranteed results.

Johnson Controls entered into an Energy Savings Performance Contract, administered by the U.S. Army Corps of Engineers and the Naval Facilities Engineering Service Center, to implement a long-term approach to reducing the military base's energy expenditures and increasing its energy self-sufficiency. Among our extensive work at the base, we provided a central utilities plant, which included the installation of a 7 megawatt dual-fueled cogeneration system and, at the time it was built, the largest non-utility solar photovoltaic power plant in the world, at 1.1 megawatt output.

Installation of the cogeneration system included the construction of a 7,200-square-foot turbine hall, a three-mile, high-pressure gas line, and all connections to the electrical substation. The system increases the base's electric power reliability while reducing electricity purchases from the local utility by almost two-thirds, resulting in annual cost savings of approximately $5.8 million.

The base was able to offset existing hot water boilers in their Central Plant with higher efficiency hot water production using gas turbines. The hot water is essentially a useful free byproduct, used by the base's absorption chillers in the summer to produce air conditioning, and by its boilers for heating the base in winter. As a result of efficient system planning and design, the overall cogen system efficiency is estimated to be 75 percent, 2.5 times greater than the average efficiency of the U.S. electric grid, and resulted in a significant decrease in regulated air emissions on base.

The plant's photovoltaic (PV) cell array features 8,000 solar panels covering about 8 acres. The operator monitors the production of power from the PV array and the cogeneration plant with an integrated programmable logic controller (PLC) system. A single axis solar tracking system is used to automatically pivot the solar modules to directly face the sun, increasing the effectiveness of the solar modules. The system's tracking capability generates as much as 25 percent more energy annually than a typical fixed system. As a result, the clean and quiet, renewable power PV system provides power when it is most needed – from about 9:00 a.m. to 3:00 p.m. in the winter and from 9:00 a.m. to 5:00 p.m. in the summer, corresponding to the existing peak load requirements at the base. This system generates approximately 12 percent of the base's electrical power needs.

Overall, Johnson Controls' program improvements produce energy savings of about $6.9 million per year for a total savings of $138 million over the 20-year term. All savings guarantees have been met through Year 5 of Project 1 and through Year 2 of the combined Projects 2 and 3.

Personnel

At this time, since no contract for an energy project has been awarded to Johnson Controls, it is difficult for us to make assumptions regarding the assignment of company project personnel. However, when assigned a project by the State of Hawaii's DAGS Energy Performance Contracting Program (HEPCP), it is possible that personnel assigned to our sample audit project at Twentynine Palms will be assigned to a State of Hawaii project. Appropriate, qualified personnel are assigned to all projects.

Audit Process / Performance Contracting Approach

Conducting Preliminary Technical Energy Assessments and Investment Grade Audits are just one aspect of Johnson Controls' overall performance contracting process. As such, the response to this item not only provides detail of our auditing processes, but also an overview of our overall, four-phased approach to performance contracting. No matter the juncture of the project, the State of Hawaii will have a clear understanding of our performance contracting process since we integrate stakeholder involvement throughout.

The following graphics define the four main phases the State of Hawaii can expect our project team to follow. Effectively, the State of Hawaii will receive greater value at less risk since our process incorporates and takes advantage of the best of the architectural, engineering and contractor disciplines that only the most experienced energy services company can provide.

Please note, any investment grade audit report Johnson Controls provides will be signed and sealed by a professional technical engineer registered in the State of Hawaii, specializing in Energy Management.

PHASE 1 PRELIMINARY ANALYSIS → **PHASE 2 DETAILED ANALYSIS & DESIGN** → **PHASE 3 IMPLEMENTATION** → **PHASE 4 PERFORMANCE PERIOD**

PHASE 1
PRELIMINARY ANALYSIS

Objectives: Identify project goals, target systems for improvement, and determine the potential overall benefit of implementing a performance contract.

Step 1
Interviews with Key Stakeholders

In a workshop environment with key stakeholders, we ascertain:

- The goals and key business drivers including energy savings and renewable energy generation.
- Emission and carbon reduction goals.
- Energy offset potential using renewable energy.
- Existing Leadership in Energy and Environmental Design (LEED) certification and ENERGY STAR opportunities
- Challenges and risks.
- Maintenance and operational procedures.
- Overall spending practices.
- Consistency and standardization between different locations.

Step 2
Site Survey

- Investigate the current budget and study utility bill history.
- Conduct site visits to assess conditions and systems, as well as outline how the facilities are being used.
- Gather preliminary information and assess improvement possibilities and associated costs.
- Determine preliminary payback scenario and provide cash flow data to the customer.
- Identify renewable energy application opportunities and facility integration strategies.

Step 3
Preliminary Proposal

- The preliminary proposal details current energy use and spend and summarizes potential ECMs, renewable energy or cogeneration applications, subcontract and project schedule plans, and projected cost and savings data. This can be described as 80% concept / 20% design.
- During a workshop with stakeholders, we analyze the findings and determine course of action that best meets financial and performance and carbon reduction goals.
- Selection of facility improvement and energy conservation measures and renewable energy or cogeneration opportunities for the Detailed Analysis and Design Phase.

PHASE 2
DETAILED ANALYSIS & DESIGN

Objectives: Determine the project parameters and funding sources for the project, conduct in-depth assessments of the facilities and create the proposal detailing the scope of the project.

Step 1
Determine Final Scope, Pricing and Funding Source

In workshop settings, we finalize:
- Method of establishing project baselines.
- Measurement and verification approach.
- Operations and maintenance and service.
- Construction coordination.
- Financial strategy.

Step 2
Detailed Engineering and Energy Study and Report

- Collect data through utility and facility surveys.
- Develop project baselines.
- Conduct a technical and economic feasibility analysis.
- Perform a lifecycle cost analysis of each ECM and renewable energy applications. The following are considered when developing the model:
  - Energy cost impact and simple payback
  - Useful life
  - Effect on building maintenance and operation cost
  - Implementation timeline
  - The customer's priority list of improvements
  - Positive effects on tenant comfort and system reliability
  - Emission and carbon reductions, along with potential electrical energy offset associated with each ECM or renewable energy application
  - Total renewable energy (thermal or electric) delivered to the facility
- In a workshop setting, determine final selection of ECMs and renewable energy applications for the project. Facility improvement measures are refined to a stage of 100% concept / 90% design to verify that the measure indeed meet the facility and financial requirements.
- Create design and construction documents.

Step 3
Report Delivery and Performance Contracting Agreement

- Conduct a cost avoidance calculation.
- Initiate a competitive bid process with customer-approved subcontractors.
- Negotiate and sign agreements with subcontractors.
- Finalize overall project costs.
- Generate final report.
- Organize a final project review/ workshop.

PHASE 3
IMPLEMENTATION

Objectives: **Complete project scope, closeout project and educate the staff to effectively maintain new systems/equipment.**

Step 1
Construction

- During the implementation phase, the measures are brought to 100% design through a submittal and approval process.
- Equipment procurement and subcontract executions.
- Our project manager oversees the process, our personnel and the subcontractors.

Step 2
Commissioning

- Customer and Johnson Controls representatives will conduct a final inspection to verify compliance to the contract documents.
- Johnson Controls will prepare and submit closeout records and as-built documents to the customer.
- Commissioning all features of the new or upgraded equipment will be conducted using the manufacturer's specifications, as well as the performance criteria established for the specific project.
- Upon completion, Johnson Controls will request final acceptance from the customer.

Step 3
Training

The Johnson Controls Institute will customize additional training to meet the needs of the customer and offers:
- Packaged training programs.
- Computer-based training packages.
- Branch and on-site instruction.
- Videotapes of the training for subsequent use.
- A wide variety of programs that can further enhance energy reduction including Sustainable Energy Education & Communications (SEEC) which educates facility occupants and Green Compass which provides insight into making a building greener.

PHASE 4
PERFORMANCE PERIOD

Objectives: Compare pre-retrofit and post-retrofit conditions, provide technical assistance as contracted and detail overall project performance.

Step 1
Monitoring and Verification

We offer four general approaches to assessing savings, in accordance with FEMP and IPMVP guidelines:
- Option A - Stipulated Savings and Baseline [Verified equipment performance (Watts, kW/ton)].
- Option B - Measured/Stipulated Baseline, Verified Performance (Estimating tool calibrated with end-use data).
- Option C - Comparison of Similar Buildings With and Without ECMs Using Whole Building Data (hourly or monthly) (Utility billing analysis).
- Option D - Stipulated Baseline, Verified Performance (Simulation model calibrated with whole building data).

Using the approach specified in the contract documents, the Performance Assurance Engineer will monitor, track, document and report the savings being generated to the customer's administrative team at specified intervals.

Step 2
Maintenance and Support

We use data from reactive, preventive, and predictive maintenance efforts to assess each system in order to improve overall reliability while controlling costs. We may employ the following techniques in our proactive maintenance program:
- Root cause failure analysis.
- Performance specifications.
- Engineering evaluation.
- Operational/verification of new and rebuilt equipment.

Step 3
Performance Period Closeout Report

In addition to annual performance reports, Johnson Controls will provide the cutomer with a final report summarizing the entire project. We will compare baseline totals with guaranteed totals to show the project's impact in its entirety.

4.2 Standards of Comfort

A description of the standards of comfort the company generally uses for light levels, space temperatures, ventilation rates, etc. in the facilities intended for this RFP and any flexibility for specific Facility Owner needs. Note any changes that will be made to comply with requirements.

The Standards of Comfort will be determined by our customers for their facilities. Energy efficiency is achieved through efficient design and applying efficient technology. The ECMs implemented by Johnson Controls will not compromise the safety, comfort, or reliability of the environment.

When designing and implementing building improvements, we adhere to minimum standards of comfort and functionality established by such widely recognized authorities as ASHRAE (American Society of Heating, Refrigerating, and Air Conditioning Engineers), IESNA (Illuminating Engineering Society of North America) and AIA (American Institute of Architects). Such standards include, but are not limited to, ASHRAE 55-1992 (Thermal Environmental Conditions for Human Occupancy) with addendum 55a-1994, ASHRAE 62-2001 (Ventilation for Acceptable Indoor Air Quality), and the lighting design guide in the Illumination Engineering Society of North America (IESNA) Lighting Handbook.

All projects and equipment will be designed and installed according to all relevant codes, standards, and industry best practices including the Uniform Building Code, the Uniform Mechanical Code, Uniform Plumbing Code, National Electric Code, and local codes.

4.3 Baseline Calculation Methodology

A detailed description of the methodology normally used by the company to compute the baseline of energy, water and solid waste, etc. use for a facility. Include a discussion of how the Facility Owner is engaged for development of and agreement on the baseline. Note any changes that will be made to comply with requirements for this RFP.

Baseline Usage

Because of the different performance strategies available, it is necessary to determine the type of guarantee before a baseline methodology is chosen. The guarantee type is chosen together with our customers based on the type of project, scope and related variables needed to select the right type of guarantee that best matches the project and customer needs. As a key element of our development process, we include a comprehensive Measurement and Verification workshop with the customer, wherein the customer participates in a complete discussion of baseline calculation methodology.

We utilize the International Performance Measurement & Verification Protocol (IPMVP) and the Federal Energy Monitoring Protocol (FEMP). The most common guarantee types that we utilize are summarized below:

Option A – Partially Measured Retrofit Isolation
Option B – Measured Retrofit Isolation
Option C – Utility Bill Comparison
Option D – Calibrated Computer Simulation (rarely used)

When Option A (Partially Measured Retrofit Isolation) is selected, the baseline is derived from the equipment operations with limited measurement. When Option B (Measured Retrofit Isolation) is selected, the baseline is derived with extensive actual measurement of the equipment operation and power consumption. For Option C (Utility Bill Comparison), the baseline is derived from utility billing history. Option D involves calibrated computer simulation models of component or whole building energy consumption to determine measured energy savings. Typically the Option D methodology is used when reliable baseline energy use data is not available and the only reasonable method to determine a baseline is to use computer simulation. Cases where Option D is used are in new construction, or where specific site data is not available as in the case of a small building that is part of a larger campus on a master meter.

In all cases, savings is determined by comparing the actual usage to the baseline as shown below:

Energy Savings = Baseline or Adjusted Baseline – Actual Usage

For all performance options, Johnson Controls will develop a 12-month baseline by analyzing and integrating up to three years of past utility (energy and water) bills, operational characteristics and building system characteristics. Several important variables can change the baseline, such as weather, occupancy, occupied building area, and internal equipment loads. Therefore, the baseline will reflect the current conditions of these important variables to ensure that future savings are measured against an accurate baseline. Obviously, the best source of the most current and accurate information of this type is the customer, and we spend significant time discussing our assumptions that result in final baseline creation.

A detailed description of each of these options will be provided and discussed once selected as part of our project development process for both energy and water savings.

Facility Owner Engagement

Collaboration between the facility owner and Johnson Controls is a key component of the project development process. This holds true for M&V option selection and baseline development. An M&V Workshop with Johnson Controls' Performance Assurance Engineers and the facility owner will occur during the technical audit phase. This may be attended by State of Hawaii consultants if desired. At this meeting, Johnson Controls will present various options and their pros and cons, including applicability, cost, and facility involvement. The outcome of this workshop is the selection of the M&V protocols to be used, which also determine the form of the baselines to be used.

For the development of the baselines themselves, the level of facility involvement is at the discretion of the facility owner. At a minimum, Johnson Controls requires that the facility owner provide the necessary information, such as utility bills, hours of operation, and other data describing the factors affecting baseline energy consumption and other operating costs. Once data collection is complete, our Project Development Engineers and Performance Assurance Engineers prepare the proposed baselines and review these with the facility owner. This process can include State of Hawaii representatives and consultants if desired. Our goal is to obtain buy-in and acceptance of the baselines which is best accomplished when facility owners are involved in the development of the baselines.

4.4 Adjustments to Baseline

A discussion of typical factors that can impact the calculated baseline and the company's general approach to adjusting the calculated baseline if one or more of these factors are present. Include how the Facility Owner is involved for agreement on any adjustments. Note any changes that will be made to comply with requirements for the RFP.

Adjustments to Baseline

After the initial energy baseline creation and during the ongoing performance management of the project, it may become necessary to adjust the energy baseline for factors or unique changes in the building's use, utility or for non-controllable variables. Common adjustments are for items such as:

- Additions or deletions of building space
- Major increases or decreases in building occupancy
- Major changes in the weather
- Major additions or deletions to the non-temperature sensitive loads in the facility such as computers, copiers, printers, etc.
- Changes resulting from the addition or replacement of equipment with more energy efficient equipment
- Changes in production variables
- Major changes in building operations outside of the energy baseline parameters

Approach. Our approach to energy baseline adjustments is to apply adjustments ONLY where it is both fair and equitable for both our company and our client. Our approach is not to claim savings for consumption or demand reduction that did not result from our efforts nor do we believe that we should be financially harmed by changes outside of our control that negatively impact the savings generated. Furthermore, our assured performance guarantee is designed for modifications versus cancellation. Rest assured that our assured performance guarantee will never be canceled due to changes but rather modified to reflect the adjustments to which our clients and we agree.

Methodology. Our methodology to adjust our energy baseline for one or all of the above variables is accomplished as follows:

- Calculate the Impact: Our models change to calculate the impact on the energy baseline.
- If a Utility Bill Comparison Savings Calculation Method was utilized on the project, then we take advantage of the advanced features of the Metrix software to simulate the energy baseline change as a result of the interplay of the occupancy +/-, weather +/- and usage +/- changes.
- If a Measure Specific Comparison Savings Method was utilized on the project, then we compute the energy baseline calculation utilizing the changed variables and compare this with the actual measured calculation to determine the impact of the change(s).
- If a Non-Measured Performance Measure was used, no change to the energy baseline is computed. Non-measured energy savings are agreed upon at contract signing and are considered achieved without any measurements taken.

If planned improvements are made as part of this project, the adjustments will be included in the original baseline. If the improvements are not part of this project, the following adjustments would be recommended:

1. Change in use of the space, as in the occupied hours and run hours of the equipment (no change in connected loads). For this we could base the adjustments on actual field readings and assumptions about run hours or model the facility in one of the programs designed for this and use these results for the monthly adjustments.
2. Additions to the connect loads: here we would require that any significant additional loads (i.e., greater than 3% of the total connected loads) be sub metered. The adjustments would be based then on actual usages as measured each month by the sub meters. If the changes are less than these we would use field readings of the actual usage and base adjustments on engineering calculations. If sub meters are not feasible we would use the modeling method.

Facility Owner Participation and Approval. Once we have computed the impact of all adjustments to the energy baseline, this information is then provided to and reviewed with our clients. Our clients then either accept or reject our proposed adjustments. If our client accepts the proposed adjustments, the energy baseline is adjusted accordingly and savings are computed and reported based upon the adjusted baseline. If our client rejects the proposed adjustments, then our client and our company agree to a proposed course of action to resolve the adjustment issue. This might include utilizing an expert disinterested third party, agreeable to both our client and us, to provide binding direction for adjustments. Upon such direction, we then compute the energy baseline utilizing the agreed upon adjustments and reports savings accordingly.

Escalation Factors

Escalation factors are typically negotiated into the performance contract, and are generally tied to a commonly accepted standard or baseline.

Frequency of Reporting

Typically, M&V reports are provided annually, although clients may negotiate different reporting schedules based on their needs.

Use of M&V Industry Standards

Johnson Controls uses the International Performance Measurement & Verification Protocol (IPMVP) and the Federal Energy Monitoring Protocol (FEMP).

Disclosure of Performance Guarantees

Most contracts with state and local governments fall under existing laws regarding public documents. Johnson Controls complies with all applicable disclosure requirements.

5.0 Management Approach

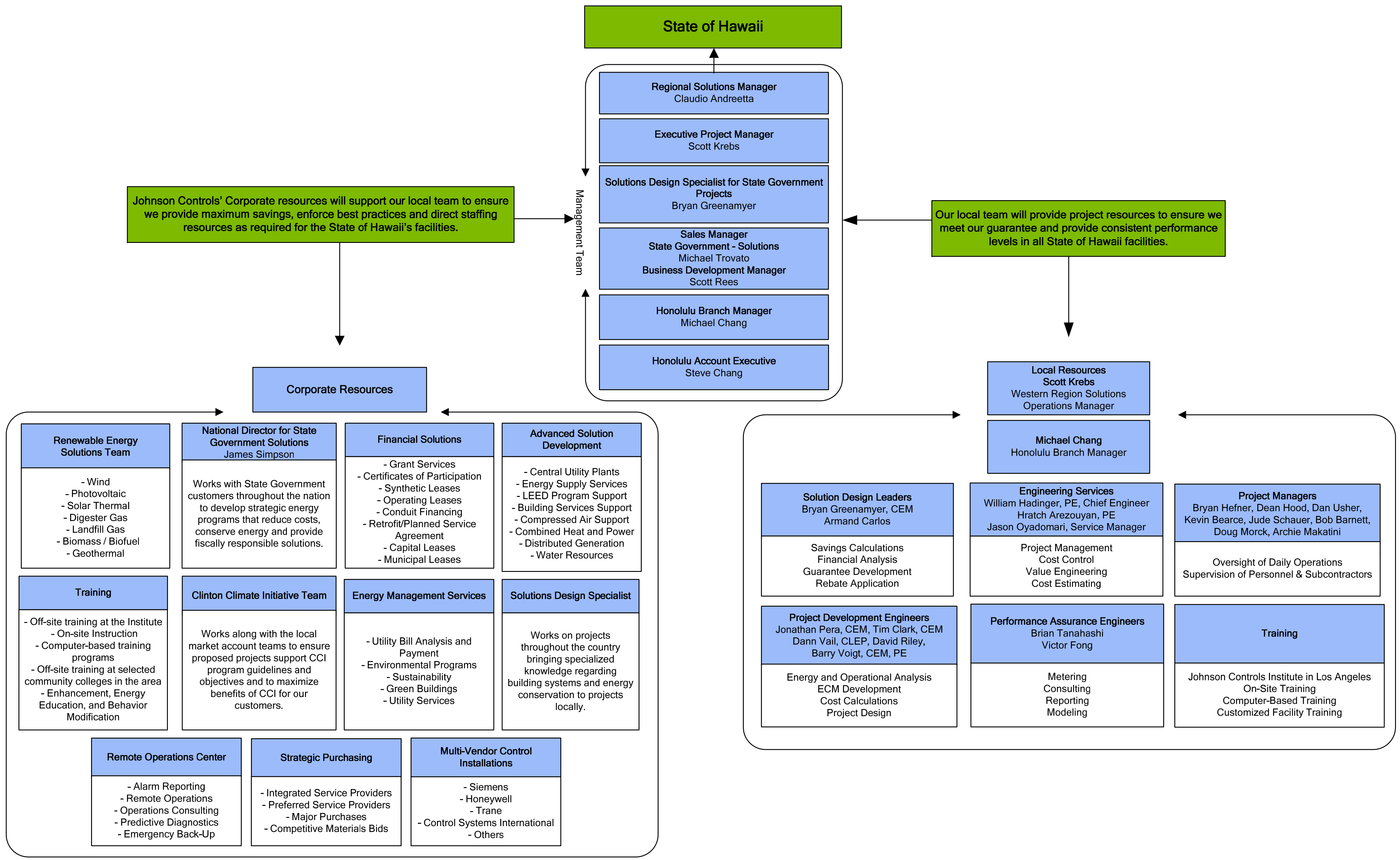
5.1 Project Management and Coordination

5.1.1 Organizational Structure

Show a typical/generic organization chart for implementing and managing a project.

The following figure depicts our typical organizational structure for implementing and managing a project. We have identified local Hawaii and Western Region personnel that may be assigned to State of Hawaii projects.

Johnson Controls Management Team Organizational Structure
for the State of Hawaii



5.1.2 Local Staffing and Support

List the office location (city and state) for personnel proposed for projects under this RFP. Describe the extent of local staffing and support for each phase of a typical project.

Johnson Controls personnel for projects under this RFP will be assigned from our branch offices in Honolulu, Hawaii, as well our California offices in Folsom, Sacramento, and Whittier.

The following table provides an overview of the key project team members who have leadership roles in the various phases of the performance contract. The individuals filling these roles will also be supported by additional resources in our Western Region branch offices. Please also see the organizational chart in 5.1.1 as well as our response to item 5.2 for more information.

Task/Phase	Lead Project Team Members	Location
Technical Analysis	Jonathan Pera, CEM, Project Development Engineer	Whittier, CA
	Tim Clark, CEM, Project Development Engineer	Folsom, CA
	Dann Vail, CLEP, Project Development Engineer	Whittier, CA
	David J. Riley, Project Development Engineer	Folsom, CA
	Barry Voigt, CEM, PE, Project Development Engineer	Whittier, CA
	Steve Chang, Account Executive	Honolulu, HI
	Reid Nakaima, Account Executive	Honolulu, HI
	Delin Rufo, Account Executive	Honolulu, HI
Engineering/ Design	Bryan Greenamyer, Solution Design Leader	Whittier, CA
	Armand Carlos, Project Engineer/Systems Designer	Honolulu, HI
Construction Management	Bryan Hefner, Lead Project Manager	Honolulu, HI
	Dan Usher, Senior Project Manager	Folsom, CA
	Bob Barnett, Senior Project Manager	Folsom, CA
	Archie Makatini, Project Manager	Honolulu, HI
	Dean Hood, Project Manager	Sacramento, CA
	Kevin Bearce, Project Manager	Folsom, CA
	Jude Schauer, Project Manager	Folsom, CA
	Doug Morck, Project Manager	Whittier, CA
Construction	Bryan Hayashi, Foreman	Honolulu, HI
	Rodney Okabe, Lead Systems Specialist	Honolulu, HI

Task/Phase	Lead Project Team Members	Location
Service and Repair	Cameron Pililaau, Lead Controls Technician	Honolulu, HI
	Jason Oyadomari, Service Manager	Honolulu, HI
Post-Construction M&V	Brian Tanahashi, Performance Assurance Engineer	Folsom, CA
	Victor Fong, Performance Assurance Engineer	Whittier, CA

Johnson Controls' organization is structured to support customers from local offices with employees that live and are active in the local community. Our local branch offices in Honolulu have sufficient resources to perform multiple energy projects, but these offices are further supported with resources as needed to ensure project delivery in a timely and professional manner. We have an array of technical personnel resources for energy management at the regional and national level. At any time throughout the fulfillment of an energy performance contract, our local team can call upon our regional and national team of experts specializing in energy solutions for a variety of building types.

Regionally, we have a strong presence throughout Hawaii and the Western region, demonstrated by two primary building efficiency offices in Honolulu and 40 employees dedicated to improving facility performance throughout the State, as well as 19 offices in California available to support State of Hawaii projects. This brings the Johnson Controls' local resource pool to more than 1,900 employees throughout both states, including 700 Johnson Controls employees in Hawaii and southern California alone.

In addition to adequate staffing levels for each unique aspect of the project, our teams utilize company-supported platforms for systems, processes and procedures, platforms that help develop, implement and manage projects. Since all teams use the same tools and processes, it is relatively easy for someone to step in and support the project, in the event additional support is required. Furthermore, our processes and systems are consistently refined through our Continuous Improvement program, allowing us to provide efficient and cost effective world-class solutions to meet and exceed our client's expectations.

Throughout the United States, Johnson Controls has 23,000 building efficiency employees supporting energy efficiency and building controls projects. Our building efficiency organization holds more than 120 state licenses and employs approximately 90 registered Professional Engineers, equivalent to the top 5 percent of engineering firms in the nation. Beyond the dedicated resources for this project, our team can seek additional support from a variety of certified professionals including the following:

Professional Category	Number of Representatives within Johnson Controls
Project Development Engineers – Energy Engineers	160
Licensed Professional Engineers – PE	90
LEED Certified Engineers	75
National Institute for Certification in Engineer Technologies IV (Certification for Fire Alarm)	12
Certified Energy Managers	185
Certified Energy Auditors	110
Performance Assurance Engineers (Measurement and Verification)	100

5.1.3 Approach to Subcontracting

Describe the types of services (both professional and construction services) that your company offers in-house and the services typically offered through subcontractors.

Subcontracted Services

Johnson Controls performs many of the project-related services with our own employees. Dependent on the scopes of work, we may employ subcontractors or consulting engineering firms to provide a portion of the services. Our experience leads us to select the best project team from a combination of internal and external resources that allow us to most effectively manage our risks and deliver our guarantees. The following table is indicative of the services provided by our staff and services typically subcontracted by Johnson Controls to perform portions of the project.

Type of Service	Performed by:	
	Johnson Controls	Subcontractor
Auditing	X	
Design	X	X
Engineering	X	X
Construction Management Services	X	
Procurement/Supply of Equipment from Vendors and Manufacturers	X	
Electrical Installation	X	X
Plumbing Installation		X
Lighting Installation		X
HVAC Systems Installation	X	X
Controls Systems Installation	X	X
Water Distribution Measure Installation		X
Wastewater Measure Installation		X

Type of Service	Performed by:	
	Johnson Controls	Subcontractor
Renewable Energy Project Instillation		X
Water Meters & AMR Installation		X
Measurement & Verification	X	

Subcontractors for State of Hawaii Projects

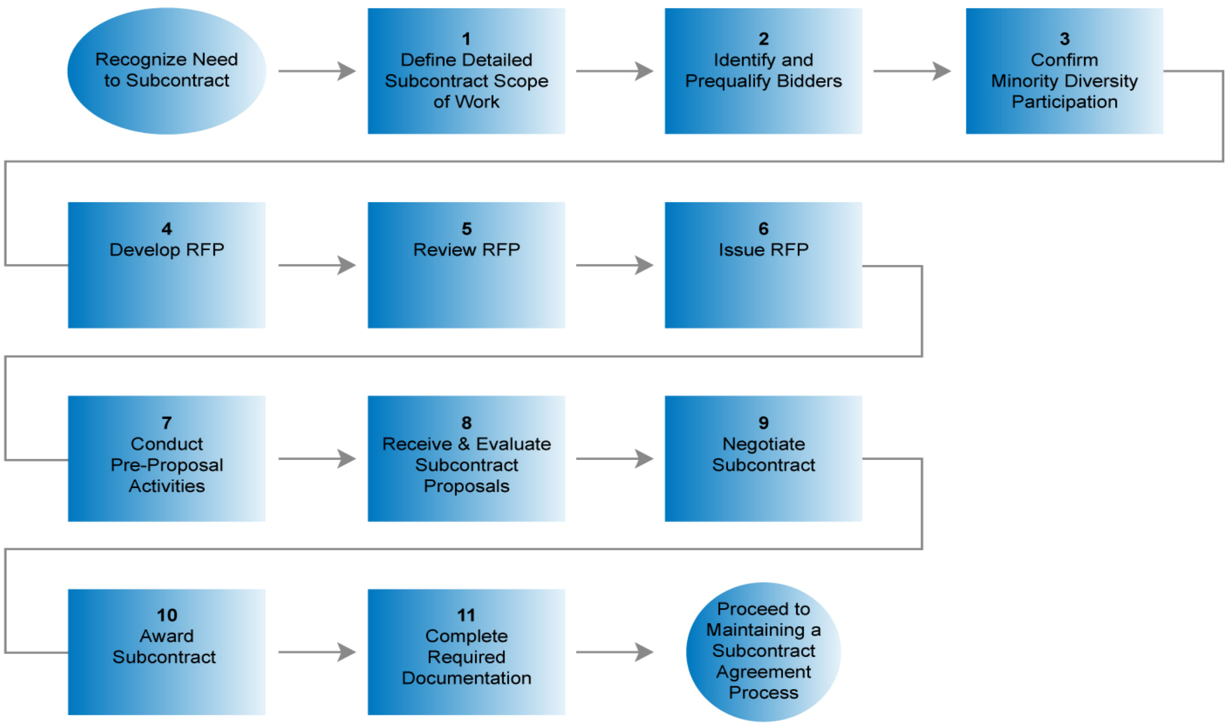
Johnson Controls has not selected specific subcontractors for the State of Hawaii at this point because no specific project is outlined. One key element of our subcontractor plan is the use of local community contractors, professionals, architects and engineers, for major renovation and repair measures. Our Project Managers will make every effort to use local contractors and suppliers, in particular diverse business enterprises, since this ensures that the performance contracting projects implemented by the State of Hawaii are good for the vitality of the community, as well as for the State. Experience has taught us that the best partners and subcontractors are those that have been providing quality service to the State of Hawaii in the past. Recognizing this, Johnson Controls will make every effort to partner and subcontract with those firms that have served the State well, and the State of Hawaii will play a role in the subcontractor selection process.

Subcontractor Selection Process

Selection and management of subcontractors is one of Johnson Controls' best practices, and we are among the largest users of subcontractors in the U.S. for energy-efficiency related projects. We select the supplier that can provide the best value for our clients in terms of quality, cost, and responsiveness. Through years of experience working with subcontractors on a wide array of projects both in Hawaii and around the country, we have developed relationships with a large cadre of subcontractors who have demonstrated the ability to provide quality, cost-effective services and support. We maintain a database of qualified contractors in Hawaii who have the demonstrated capability to perform. This database is driven by the initial and periodic evaluation of potential subcontractors and the development of a Subcontractor Profile.

The following graphic depicts our subcontractor selection process.

Subcontract Management Process



Once we identify particular subcontractors, we negotiate a contract with the terms and conditions that provide the best mechanism for managing the provision of services or materials while being fair to the interests of all parties. We establish performance-based contracts with vendors so we are assured of obtaining quality service. Our vendor management plans enable us to track and control costs and performance as closely as if we were doing the work ourselves. Most importantly, we retain full accountability for all work that our subcontractors perform.

Management of Subcontractors. We manage subcontractors using the same tools we use to manage our own costs: defined scope of work, performance reviews, and budget review and analysis.

Defined Scope of Work/Costs. We negotiate fixed-price or time and material contracts with our subcontractors; depending on the structure of the prime contract, we may include performance-based incentives that are directly connected to contract fees. Our subcontracts include a definitive scope of work and specific contract deliverables as appropriate. These subcontracts also include “flow down” provisions from the prime contract. We incorporate our contract clauses for personnel conduct, security, dress codes, etc. into each of our subcontracts. We include a requirement within all of our subcontracts to establish an internal quality control program and agreement that allows us to conduct periodic inspections of subcontractor designated work areas.

5.2 Personnel and Staffing

Provide a table to show your personnel pool of individuals who will potentially be assigned responsibility for each task and phase of a project under this RFP. Also include any added expertise and capability of staff available through other branch offices, subcontracts, etc., that can provide back-up strengths.

Name	Title	Staff or Subcontractor	Potential Role	Academic/ Professional Qualifications	Level of Expertise	Base Location

Potential role: technical analysis, engineering design, construction management, construction, training, post-construction measurement and verification, support, and other services.
Level of expertise: years in industry or other brief description
Base Location: Permanent office in Hawaii; On assignment from other state; Out-of-state support.

The table on the following pages identifies Johnson Controls' proposed personnel potentially assigned responsibility for State of Hawaii projects. We have indicated Base Location by showing each employee's permanent office locations. As you will see, many employees have permanent offices in Hawaii, while the remainder work from our offices in California.

Name	Title	Staff or Subcontractor	Potential Role	Academic/ Professional Qualifications	Level of Expertise	Base Location
Jonathan Pera, CEM	Project Development Engineer	Staff	Technical Analysis	Bachelor of Science, Mechanical Engineering, University of Manitoba, Winnipeg, Manitoba	14 years experience in energy management	Whittier, CA
Tim Clark, CEM	Project Development Engineer	Staff	Technical Analysis	Associate of Arts, Mechanical Engineering, San Joaquin Delta College, Stockton, CA	16 years experience in energy management	Folsom, CA
Dann Vail, CLEP	Project Development Engineer	Staff	Technical Analysis	Associate of Arts, Fullerton College, Fullerton, CA	16 years experience in energy management	Whittier, CA
David J. Riley	Project Development Engineer	Staff	Technical Analysis	Various training courses in HVAC service	15 years experience in energy management	Folsom, CA
Barry Voigt, CEM, PE	Project Development Engineer	Staff	Technical Analysis	Bachelor of Science, Economics, University of Oklahoma	16 years experience in energy management	Whittier, CA
Reid Nakaima	Account Executive	Staff	Technical Analysis / Customer Coordination	Bachelors, Mechanical Engineering	15 years , HVAC Service & Installation	Honolulu, HI
Delin Rufo	Account Executive	Staff	Technical Analysis	Bachelors, Electrical Engineering	5 years in energy industry	Honolulu, HI
Steve Chang	Account Executive	Staff	Technical Analysis / Customer Coordination	MBA and BS, Mechanical Engineering	19 years energy industry	Honolulu HI

Name	Title	Staff or Subcontractor	Potential Role	Academic/ Professional Qualifications	Level of Expertise	Base Location
Bryan Greenamyer	Solution Design Leader	Staff	Engineering/ Design	Master of Business Administration, University of Phoenix Bachelor of Science, Mechanical Engineering, Washington State University	11 years experience in energy management	Whittier, CA
Armand Carlos	Project Engineer/Systems Designer	Staff	Engineering/ Design	Bachelor of Science, Chemistry	14 years experience in controls engineering and installation	Honolulu, HI
Bryan Hefner	Lead Project Manager	Staff	Construction Management	▪ Numerous training classes and seminars on Energy Management, Direct Digital Control Systems, HVAC Systems, Branch Operations and Branch Financial Management ▪ Associate of Arts in Economics, El Camino College ▪ Studied economics and management, California State University, Dominguez Hills, CA	30 years as Project Manager	Kailua, HI
Dan Usher	Senior Project Manager	Staff	Construction Management	Laney College, Oakland, CA	14 years experience in energy management	Folsom, CA

Name	Title	Staff or Subcontractor	Potential Role	Academic/ Professional Qualifications	Level of Expertise	Base Location
Bob Barnett	Senior Project Manager	Staff	Construction Management	Engineering and Business, California State-San Bernardino	11 years experience in energy management	Folsom, CA
Dean Hood	Project Manager	Staff	Construction Management	Construction Management, University of California-Davis	31 years experience in energy management	Sacramento, CA
Kevin Bearce	Project Manager	Staff	Construction Management	Bachelor of Science, Mechanical Engineering, Rochester Institute of Technology	11 years experience in energy management	Folsom, CA
Jude Schauer	Project Manager	Staff	Construction Management	Associate in Mechanical Engineering, Pennsylvania State University	9 years experience in energy management	Folsom, CA
Doug Morck	Project Manager	Staff	Construction Management	Bachelor of Science, Engineering Technology California State Polytechnic University, Pomona	5 years experience in energy management	Whittier, CA
Archie Makatini	Project Manager	Staff	Construction Management	Masters Engineering Management	14 years Construction management	Honolulu, HI
Rodney Okabe	Lead Systems Specialist	Staff	Construction	Associates, Electrical Technology	20 years controls engineering and installation	Honolulu, HI
Bryan Hayashi	Foreman	Staff	Construction/ Service	General Foreman	18 years, Union Mechanic	Honolulu, HI
Jason Oyadomari	Service Manager	Staff	Service/Support	C52 license	15 years , HVAC Service & Installation	Honolulu, HI
Cameron Pililaau	Lead Controls Technician	Staff	Service	Associates, Electrical Technology	18 years, Controls/Fire and Security	Honolulu, HI

Name	Title	Staff or Subcontractor	Potential Role	Academic/ Professional Qualifications	Level of Expertise	Base Location
Brian Tanahashi	Performance Assurance Engineer	Staff	Post-Construction M&V	Bachelor of Science , Humboldt State University, Arcata, CA, Environmental Resources Engineering with an emphasis in Energy	14 years experience in energy management	Folsom, CA
Victor Fong, PE	Performance Assurance Engineer	Staff	Post-Construction M&V	Bachelor of Science, California State Polytechnic University-Pomona	9 years experience in energy management	Whittier, CA
Claudio Andreetta	Regional Solutions Manager	Staff	Other (management)	Bachelor of Applied Science, University of Toronto	23 years experience in energy management	Whittier, CA
Scott Krebs	Regional Solutions Operations Manager	Staff	Other (management)	Bachelor of Science, Industrial Engineering, University of California – Los Angeles	16 years experience in energy management	Folsom, CA
Michael Chang	Branch Manager	Staff	Other (management)	MBA and BS, Mechanical Engineering, University of Hawaii at Manoa, Honolulu, Hawaii C15 License	15 years energy industry	Honolulu, HI
Michael Trovato	Sales Manager	Staff	Other (management)	Bachelor of Arts, Business Administration, California State University, Los Angeles	6 years experience in energy management	Folsom, CA
Scott Rees	Account Executive	Staff	Other (management)	Utah Technical College	25+ years experience in energy management	Folsom, CA

6.0 Maximum Fees

The Hawaii State Procurement Office intends to establish acceptable maximum audit costs, mark-ups, and fees for use in all projects that result from the use of this vendor list of pre-qualified ESCOs by State and County Agencies. These will be the maximums that may be applied in any Investment Grade Energy Audit and Project Development Contract or Energy Performance Contract developed and executed under this RFP. Each responding company shall provide its proposed maximum cost for performing an Investment Grade Energy Audit as well as schedules illustrating proposed maximum project mark-ups and fees for pre-defined categories.

ESCO audit costs, mark-ups, and fees for individual Energy Performance Contract projects shall not exceed the maximums established in the ESCO Contract.

6.1 Mark-ups

Provide your company's proposed maximum allowable mark-ups in the schedule below for each category listed on the schedule. This format is required and must be completed in its entirety.

Mark-ups represent a percentage added to the base cost for the project (the use of margins in lieu of mark-ups is not acceptable). Use only the categories provided. Ranges for mark-ups are not acceptable.

MARK-UPS		
CATEGORY OF *MARK-UP*	***MARK-UP*** *APPLICATION*	*% MARK-UP*
Overhead		15
Profit		10
Labor – Internal	*	
Equipment Purchased **	*	
Materials Purchased	*	
Subcontract Labor	*	
Subcontract Material	*	

Clearly describe how self-performed work will be charged (billed hourly, billed as a mark-up of equipment and labor costs, etc.). If self-performed work will be billed hourly, include mark-ups proposed to be applied to the hourly rate.

If a proposal is from a joint venture partnership, include proposed maximum allowable mark-ups in the schedule format above for each participating company.

* All of these categories are marked-up by our overhead and profit percentages.

** Depending on the specific measure(s) implemented and the complexity of the technical solution, we may be flexible on the maximum. Also, Johnson Controls utilizes the GSA Federal Government Model for its Metasys Controls System and York equipment pricing.

6.2 Fees

Provide your company's proposed maximum allowable fees in the schedule below for each category listed on the schedule. This format is required and must be completed in its entirety. Use only the categories provided. Ranges for fees are not acceptable. If a proposal is from a joint venture partnership, provide proposed maximum allowable fees in the schedule format below for each participating company.

FEES		
CATEGORY OF FEE	*HOW DETERMINED AND USED*	*YEARS APPLIED (One-time, Annual, etc.)*
Investment Grade Energy Audit and Project Development	$ 0.12 per Square Foot	One time
Solicit & Evaluate Project Financing Proposals	We do not perform	
Design	7% of cost	One time
Contingency Design = 3% Construction = 3%	6% of cost	One time
Permits	1% of cost	One time
Performance Bond	$3.00 per $1,000 of sell (HI)	One time
Project Management	4% of cost	One time
Commissioning	1.25% of cost	One time
Training	Project/site specific*	Client driven
Monitoring and Verification	Depends on option selected, A, B, C, or D**	Ongoing
Warranty Service	0.75% of cost	Ongoing
Maintenance on Installed Measures	4% of cost	Ongoing

Provide the proposed maximum fee for Investment Grade Energy Audit and Project Development projects on a cost per square foot basis. The company agrees that the proposed maximum fees shall incorporate its responsibility to adhere to and complete the full scope of work as presented in investment grade audit and energy performance contracts.

For each fee category listed on the schedule describe how that fee is determined, how the fee is charged to the project and when it is applied. For example, fees might be based on a percentage of project cost. Mark-ups on fees are not allowable under this RFP.

NOTE: Johnson Controls recognizes and is providing the maximum fee amount requested by the State. However, please understand that Johnson Controls has done thousands of Investment Grade Audits and energy project developments ranging from very simple to extremely complex. These differing conditions can have a major impact on such a fee. Additionally this fee is further impacted given the amount and quality of customer data furnished.

* Many parameters are required to determine both the needs and price for training. But certainly this will be decided in concert with our client. Every measure has its own training requirements from simple, i.e., lighting, to more complex, i.e., controls. We will work hand and hand with our clients to determine their training needs which will take into account the capabilities of the client's existing staff and their particular needs for each and every measure implemented.

** Every M & V option has its own maximum fee associated with it. These fees are a percentage of the savings guarantee:

Option A	15% Installation 5% Ongoing
Option B	15% Installation 12% Ongoing
Option C	15% Installation 10% Ongoing
Option D	15% Ongoing 15% Ongoing

6.3 Contingency

Describe your company's typical level of contingency budget for lighting, electrical, mechanical, controls projects, and other projects and how it proposes to apply contingency to cover changes in work scope and subcontractor change orders. Note that all unused contingency funds will revert to the Facility Owner or be applied to additional work scope through a change order approved by the Facility Owner.

Excess contingency dollars can be used for additional work at the facilities, divided between State of Hawaii and Johnson Controls, or returned to State of Hawaii in its entirety.

6.4 Equipment/Labor Cost Competition

Describe your company's process to solicit bids on equipment/labor or to ensure price/cost competition and the best value for the Facility Owner.

Process to Solicit Bids on Equipment/Labor

A competitive procurement process is performed on each measure of every job to ensure cost efficiency. Johnson Controls has relationships with subcontractors in nearly every installation area, including electrical, mechanical, controls, civil and other building trades, as well as numerous manufacturers and suppliers.

Best Value

Johnson Controls has been implementing performance contracts for over 30 years with tremendous success. No other firm can make a similar claim. Furthermore, Johnson Controls has never rested on its success, but continues to reinvest in itself to ensure that we have the most qualified and experienced resources, processes and products to meet our client's energy needs. Below we have highlighted a few examples of what makes Johnson Controls a "best value" for the State of Hawaii.

- Company Capabilities
- Experience
- Purchasing Power

Combined, these advantages provide our organization with a means of cutting down on the cost of any substantial project for the State of Hawaii. We pass these savings directly on to you as a way to create additional value.

Johnson Controls Company Capabilities

Our team is able to cut installation and service costs for the State of Hawaii facility owners because of the inherent capabilities that our business is structured to possess. These include:

- In-house energy performance contracting team – We have full time employees dedicated to account management, project development, project management and measurement and verification. Many competitors hire consultants to perform these functions then mark-up their work. Furthermore the consultants are not entirely familiar with the ESCo's processes and business which can lead to inefficient projects and more costs to customers.
- In-house mechanical and control installation business – We have a team of mechanical and control systems installation professionals in Hawaii and surrounding areas to install projects. Because we do not have to hire subcontractors for this

business, we are able to pass on savings to our customers in the form of fewer mark-ups.

- Local Service, Global Resources – Johnson Controls has branch offices in Hawaii with full time employees that are available to support the State of Hawaii with the ability to respond quickly and effectively. We can also enlist the services of the professionals in our California offices to increase our manpower and reduce the need for subcontractors and consultants. Additionally, subject matter experts can be added to the team as project requirements dictate.

Experience

Our proposed team members' combined hundreds of years of experience developing, implementing and measuring and verifying performance contracts provides the State of Hawaii two additional key benefits:

- Lower costs to the State of Hawaii due to the efficiency, knowledge and experience that our team possesses in undertaking each individual task that makes up a project. Less time completing tasks means less cost to the State.
- Experience provides assurance to the State of Hawaii that we will get the job done right the first time.

Joining Forces Leads to Great Opportunities for our Customers

Johnson Controls acquired York International (York) in December 2005. At the time of announcement, Johnson Controls' CEO said: "The transaction will enable us to become a single source of integrated products and services. We will have enhanced HVAC&R, controls, fire and security capabilities. Bringing together our two organizations will also create the largest building services force in the world."

Prior to the acquisition, Johnson Controls performed most of its service on HVAC equipment and York performed most of its service on chillers. Together, we offer customers the broadest spectrum of maintenance services among any of our competitors. The addition of York to our technical service business:

- Brings deeper expertise into the "heavy" chiller market
- Offers a platform for equipment integration and system bundling
- Increases the number of strong relationships we enjoy with our customers
- Significantly augments our geographic footprint on a national and global scale

Johnson Controls/York is the world's largest HVAC service organization. We are also the global leader in building management systems, large tonnage chillers, and an industry leader in central plant operations and maintenance. Here are some vital statistics from our North American service business.

Number of mechanics and technicians	4,600
Number of service branch offices	115

Number of maintenance contracts	25,000

Local Depth and Breadth

Following the acquisition of York, we made significant improvements to our service organization. The changes enable us to provide faster service and be more responsive:

- We established dedicated local service agents in each of our branches who will handle all scheduling and dispatching. They will personally know our customers' business and get the job done right the first time.
- We strengthened the skill base of our service professionals so that our customers' service needs can be resolved quickly and correctly.
- We established dedicated project teams with specialized expertise to tackle complex repair or replacement jobs. This group will work together to ensure that our customers' receive the right level of expertise faster.

Purchasing Power

Each year, Johnson Controls purchases over $6 billion in goods and services externally. The company has continuously increased dollars spent with diverse vendors, from $2 million in 1993, to more than $1 billion in goods and services in 2003. As a $34 billion company, we leverage the more than 400 purchasing partners we have formed business relationships with around the world through our central purchasing team. Additionally, we have numerous long-term business relationships with local businesses and regional contractors and partners that we leverage to further decrease project costs and keep us competitively priced in the marketplace. Our global and local purchasing power combine to lower the cost of projects, which ultimately mean we pass more savings on to our customers.

Vendor Neutrality

The full value of our purchasing power is delivered with our vendor neutrality commitment. The State of Hawaii facility owners will have the advantage of Johnson Control's direct pricing on our products, our purchasing power with our provider network as well as the ability to choose the equipment they prefer for each application. Our goal and commitment is to provide the most value for our clients.

Pursuit of Rebates & Grants

Johnson Controls provides a value-added service for State of Hawaii through the development of customized searches of government, foundations, and utility grant and rebate programs that are applicable to this project's specific needs. Johnson Controls has its own national grant writing team that has long term relationships with the Federal Department of Energy and other private grant opportunities. After researching funding opportunities, a Johnson Controls Grant Manager will collaborate with State of Hawaii administration in the submission of competitive grants.

6.5 Open Book Pricing

Open book pricing is full disclosure by the contractor to the Facility Owner of all costs and mark-ups for materials, labor, and services received during the project development, implementation, and performance period phases. Open book pricing will be required such that all costs, including all costs of subcontractors and vendors, are fully disclosed. Describe your company's approach to open book pricing and its method for maintaining cost accounting records on authorized work performed under actual costs for labor and material, or other basis requiring accounting records.

Johnson Controls has extensive experience providing global open-book pricing. Having conducted projects for hundreds of school districts, state agencies, local governments and higher educational facilities, we are familiar with open book pricing as it is becoming a norm. Additionally as a Department of Energy Super ESPC provider for over 20 years, Johnson Controls has provided global open-book pricing for government ESPC contracts. Thus we have a structured process and system for tracking and reporting job costs, maintaining cost accounting records on authorized work performed under actual costs for labor and material, or other basis requiring accounting records that we will utilize for the State of Hawaii projects. As we work to provide the best solutions to the State, our tested and proven open-book pricing process and systems will be supported by Johnson Controls for the mutual success of our teams.

Johnson Controls will comply with all of the requirements requested by the State of Hawaii regarding Open Book pricing.

Offeror Exceptions

Johnson Controls takes no exceptions to the Request for Proposal, its terms, conditions or provisions at this time.

Appendix

- Annual Business and Sustainability Reports (2007, 2006, 2005)
- Form 10-Ks (2007, 2006, 2005)
- Form 10-Qs (October 2007-December 2007 and January 2008-March 2008)
- Certificate of Insurance
- Green Compass
- Sustainability Energy Education and Communications Program (SEEC)

2007 Business and Sustainability Report

2007 BUSINESS AND SUSTAINABILITY REPORT

A more comfortable, safe and sustainable world.

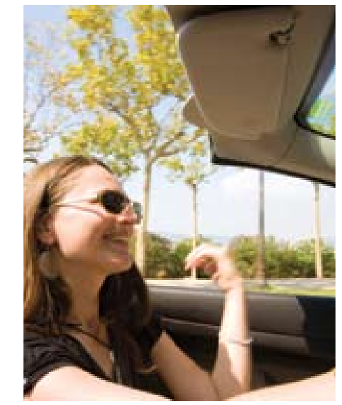
Johnson Controls

INGENUITY WELCOME

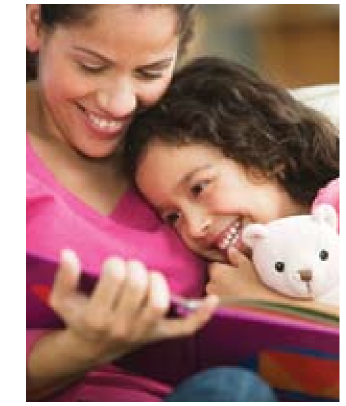
Whether you're at home, in a car, or in an office or workplace, chances are there's a Johnson Controls product or service nearby, helping to make your environment more comfortable, safe and sustainable.

Johnson Controls creates smart environments that improve the places where people spend most of their time. We anticipate consumer needs, and then integrate technologies, products and services to make life better and easier.

Comfort



Safety



Sustainability

Financial Highlights

In millions, except per share data
Year ended September 30,

	2007	2006	% Change
Net sales	$34,624	$32,235	7%
Income from continuing operations	$1,295	$1,033	25%
Diluted earnings per share from continuing operations*	$2.16	$1.75	23%
Cash dividend per common share*	$0.44	$0.37	

*Reflects 3-for-1 stock split effective October 2, 2007

Letter to Stakeholders

Stephen A. Roell
Chief Executive Officer

Keith E. Wandell
President and
Chief Operating Officer

Johnson Controls enjoyed many successes in 2007. We became more global and strengthened our market leadership positions. Sales increased for the 61st year in a row to $34.6 billion and we achieved our 17th straight year of record earnings. Strong cash flows enabled us to increase our dividend for the 32nd consecutive year. These accomplishments were rewarded with total shareholder returns that significantly exceeded stock market averages.

We expanded global community initiatives, focusing on the environment and leadership receiving recognition from leading socially responsible investment indexes.

Our world-class businesses continue to outpace the growth of their underlying industries. Building Efficiency experienced strong double-digit top and bottom line growth as we leveraged our broadened offerings and geographic reach. Power Solutions continued to increase its global market share and profitability. Automotive Experience continued investing in technology and emerging markets that will increase our competitive advantage in the years to come.

I want to acknowledge that our achievements were only possible with our 140,000 dedicated employees around the world. I thank them for their effort and dedication.

A MORE COMFORTABLE, SAFE AND SUSTAINABLE WORLD — OUR PATH FOR CONTINUED GROWTH

For nearly 125 years, Johnson Controls has grown by focusing on helping our customers be more successful and by continually changing to meet their emerging needs. As we look to the future, we see new ways of responding to those needs. Rapid advances in technology are driving demand and affecting consumer choices. In addition, an understanding of how everything we do affects the planet and its future is becoming more critical every day.

People want surroundings that are "smarter" – environments that are more comfortable, safe and sustainable. Johnson Controls is uniquely qualified to deliver solutions to meet these expectations.

This is why we've adopted our new Vision: a more comfortable, safe and sustainable world. Our new Vision better defines the value our company delivers globally as well as the essence of what will enable us to grow in the future.

Our Vision of making the world more comfortable, safe and sustainable provides limitless opportunities for growth. We'll deliver on our Vision through ingenuity—by finding unique and innovative ways to create new value and new solutions.

Johnson Controls' culture of ingenuity goes back to company founder Warren Johnson's invention of the electric room thermostat in 1883, a product that forever changed building comfort. Today, our culture and our significant presence in car, home and workplace environments provides us with a unique opportunity to create smart environments. It's at the heart of our businesses.

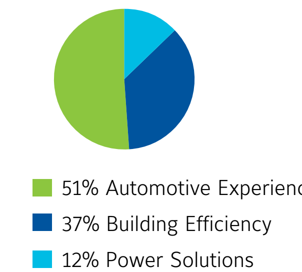
In office buildings, schools, hospitals, factories and stores, our building management systems and variable speed chillers conserve fuel and electricity. We also help building owners keep indoor air clean and healthy, use environmentally safe supplies, recycle materials and equipment, and handle waste safely and responsibly. Our energy-efficient residential air conditioning and heating systems keep homes comfortable year-round.

We build automotive interior systems that improve safety, are lighter to help improve vehicle fuel economy and are easier to recycle when they wear out.

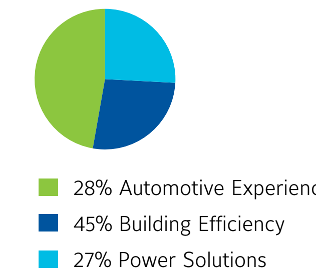
Automotive batteries are the most-recycled consumer product, and we're positioned to become the leading supplier of battery systems for the next

"Today, our culture and our significant presence in car, home and workplace environments provides us with a unique opportunity to create smart environments. It's at the heart of our businesses."

Sales



Earnings



2007

The 61st consecutive year of increased sales.
The 17th year of higher earnings.
The 32nd year of higher dividends.

generation of hybrid vehicles.

Our focus on improving comfort, safety and sustainability applies to our operations as well. In every place we do business, you'll find clean manufacturing processes, investments in pollution reduction, attention to waste reduction and recycling and the safe, healthy work practices. Our employees and the world expect and deserve nothing less.

Our growth and competitive advantage is increasingly driven by our ability to integrate our ideas and technologies in ingenious ways to develop unique, practical solutions that improve the relationships between people and their surroundings.

By collaborating across the businesses on common technologies and competencies, we're leveraging our best-in-class methods, processes and programming. These efforts are enabling us to create higher degrees of smart environments. For example, employees researched how our Metasys® system user interface could be made significantly easier to use by applying techniques of our automotive interiors business, where driver information systems need to be simple and intuitive.

LEADERSHIP CHANGES AND OUTLOOK

On October 1, 2007, I was honored to succeed John Barth as Chief Executive Officer of Johnson Controls. My priorities remain aligned with our current direction to further strengthen our global leadership positions. We have a strong leadership team; a team that has worked closely together for a long time. I am confident we will continue to build Johnson Controls' reputation as a world-class organization.

On behalf of the entire Johnson Controls organization, I would like to thank John for his leadership. John led with great passion for our customers and our company. He demanded personal integrity and responsibility and taught us to truly understand and value diversity. John helped transform Johnson Controls into a global leader with three world-class businesses, positioned for success in the years to come.

I would also like to thank John Fiori, president of Johnson Controls International, and board member Paul Brunner for their many years of valued leadership, insight and support. They both retired in 2007.

Other leadership changes in 2007 included Alex Molinaroli, who was named as president of Power Solutions. He most recently served as vice president for the Building Efficiency business. Susan Kreh joined Johnson Controls as corporate controller and was elected a corporate officer.

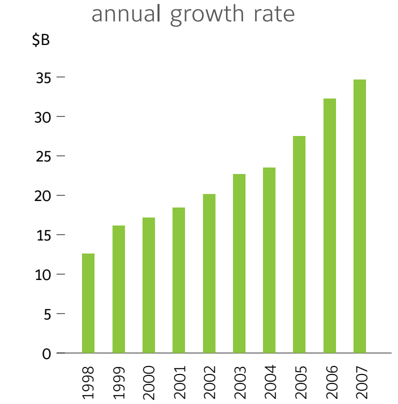
In the years ahead, our sales and earnings will continue to diversify. This diversification enables us to withstand short-term downturns in any single business or region.

We will continue to deliver new value to our customers, increase globalization, introduce new and enhanced technologies and improve our cost structure through increased quality and productivity. Executing on these commitments will enable Johnson Controls to continue our track record for success.

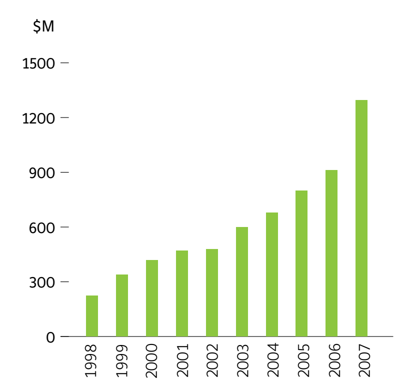
Thank you for your support.

Sincerely,
Stephen A. Roell
Chief Executive Officer

Sales
13% compounded annual growth rate



Earnings
15% compounded annual growth rate



John M. Barth

In Appreciation

John M. Barth retired as Chief Executive Officer of Johnson Controls on October 1, 2007.

John joined Johnson Controls in 1969 and served as CEO since 2002. He will retire as Chairman of the Board in January 2008, but will continue to serve as a board member.

John's vision and leadership helped transform Johnson Controls into a global diversified manufacturing company with leadership in our industries.

During his five-year tenure as CEO, Johnson Controls sales grew from $19 billion to $34.6 billion with consecutive years of record earnings. Johnson Controls market capitalization increased from $7 billion to approximately $23 billion during the same period.

Under John's management, our automotive experience business developed a diversified customer base to include virtually every automaker in the world and became the primary seating supplier to Japanese and European automakers operating in North America. It established a strong presence in emerging markets, including China, India, Eastern Europe and Russia – places that will be increasingly important to our growth in the years to come.

The size of our building efficiency business more than doubled in 2005 with the acquisition of York International, tripling our market opportunity for HVAC and building controls products and services to $175 billion.

In our power solutions business, we significantly expanded our global presence, extending our market leadership position from North America to South America, Europe and Asia. We are positioned to benefit from the growth of hybrid vehicles by investing in our lithium-ion battery technology.

John led the company with a strong adherence to integrity and personal responsibility. He demanded excellence from himself and the entire organization with a focus on customer satisfaction, operational excellence, workforce and supplier diversity, and the development of global leaders to sustain Johnson Controls' success.

John established a strong foundation upon which our company will continue to grow and deliver outstanding results to all of its stakeholders.

Business Profile

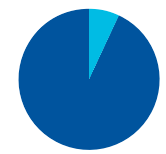
2007 was a record year for Johnson Controls with increases in both sales and earnings.

Building Efficiency

Creating quality indoor environments that are energy efficient, comfortable, safe and productive

SALES:
$12.7 billion, up 24%

SEGMENT INCOME:
$850 million, up 56%



7% Residential
93% Commercial

OFFERINGS:

Integrated heating, ventilating and air conditioning (HVAC) systems, including building management systems, controls and mechanical equipment. Technical services, energy management consulting and operations of real estate portfolios. Residential heating and air conditioning.

MARKET POSITION:

Leading supplier of systems (45% of sales) and services (55% of sales), for healthcare, education, government, office, industrial and retail buildings worldwide. Customers in 125 countries.

STRATEGIC ADVANTAGES:

Diverse customers with large global installed base; unmatched product and service capabilities. Energy management expertise.

2007 HIGHLIGHTS:

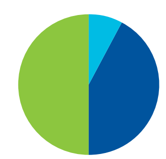
- Increased customer demand for energy efficiency / green solutions
- Increased momentum in selling our full range of offerings
- Margin expansion
- Residential HVAC distribution expansion

Automotive Experience

Delivering world-class interior technologies that improve the driving experience and are environmentally friendly

SALES:
$17.6 billion, down 4%

SEGMENT INCOME:
$519 million, down 14%



8% Rest of World
41% North America
51% Europe

OFFERINGS:

Systems that extend into every area of the interior including seating and overhead systems, door panels, floor consoles, instrument panels, cockpits, integrated electronics.

MARKET POSITION:

World's largest supplier of seating (60% of sales). Major global supplier of interior systems, including electronics (40% of sales). Customers include virtually every automaker worldwide.

STRATEGIC ADVANTAGES:

Deep, long-term customer relationships; market and innovation leadership; expertise in components, modules, electronics, systems integration; global capability; strong presence in emerging markets – Asia, Eastern Europe; diversified customer base.

2007 HIGHLIGHTS:

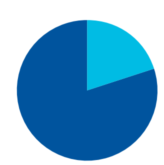
- Increasing backlog of new business
- Significant wins in emerging markets across multiple auto makers
- Innovation leadership: over 30 new products introduced in 2007
- Improved cost structure

Power Solutions

Providing dependable starting power for cars today and the energy efficient hybrid vehicles of tomorrow

SALES:
$4.3 billion, up 17%

EARNINGS:
$515 million, up 12%



20% Original Equipment
80% Aftermarket

OFFERINGS:

Wide range of automotive battery technologies including flat plate and spiral wound lead acid batteries as well as nickel metal hydride and lithium-ion batteries for hybrid vehicles.

MARKET POSITION:

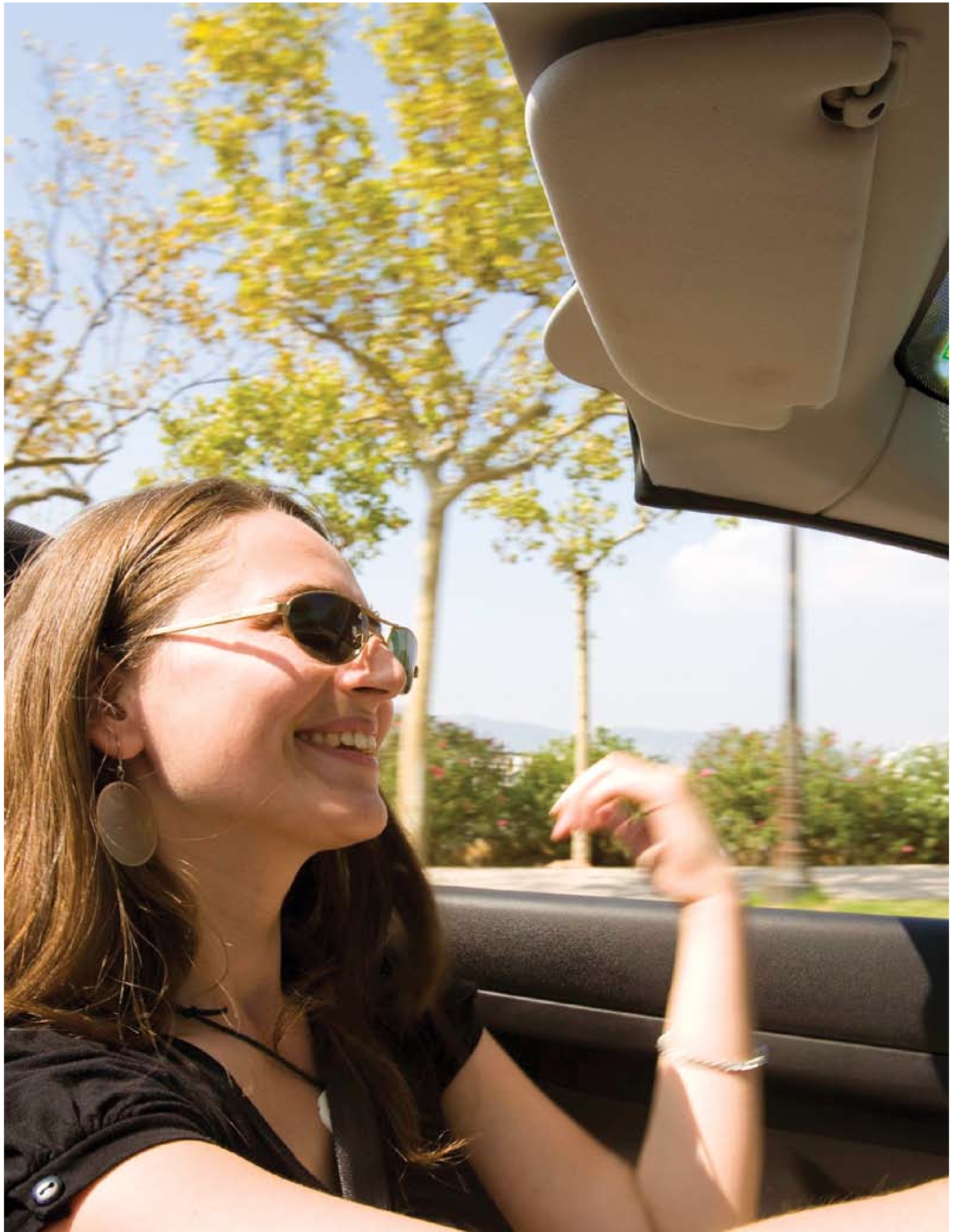
World's largest supplier of lead-acid batteries for both aftermarket and original equipment applications. Batteries sold under customer brands as well as our own Varta®, Heliar®, LTH® and Optima® brand names.

STRATEGIC ADVANTAGES:

Market leadership globally; highly recognized brands, strong customer base; cost and quality leadership, world-class product and process technology.

2007 HIGHLIGHTS:

- Increased Optima battery manufacturing capacity to meet growing consumer demand
- Launched PowerFrame plate-making technology in Europe, improving quality while reducing costs
- Began strategic partnership with China's largest battery company
- Awarded lithium-ion hybrid battery development contracts



A More Comfortable World

There's no limit to consumer demand for more comfort and convenience from their vehicles and the places where they work and live. By applying our knowledge and technology, we create innovative solutions that make people's lives easier and better, creating new market demand.

In buildings, we ensure comfortable temperatures, humidity levels and indoor air quality while simultaneously reducing energy use. We create automotive seating using technology that ensures comfort even during a long drive. Our auto interiors are built with superior craftsmanship with conveniently located features that are easy to use. We also provide the comfort that comes with the peace of mind you get from knowing your battery will start your car dependably.

COMFORTABLE BUILDINGS

Comfort in buildings has a tremendous impact on our customers – the owners and operators of non-residential buildings. Many studies establish a relationship between the physical comfort conditions in schools and the learning capacity of students. In the workplace, improving comfort has been shown to increase overall productivity and job satisfaction. In retail buildings, comfortable shoppers have been shown to stay longer and purchase more.

Making indoor environments more comfortable is not an easy task because no two buildings are alike. Size, construction, use, occupancy, weather, utility rates, organization goals and customer priorities combine to make the comfort solution for each building unique.

Johnson Controls has more knowledge of facilities and greater capabilities to improve their performance than any other company. Our HVAC systems are delivering comfortable conditions in tens of thousands of buildings around the world, and we provide full-time onsite staff to operate a portfolio of more than one billion square feet of customer facilities.

We're continually expanding our technical capabilities and applying our ingenuity, creating new ways to serve customer needs by improving the comfort of their buildings.

Our Metasys® building management system, for example, monitors and automates the heating, ventilating and air conditioning systems in buildings to ensure maximum occupant comfort with a minimum of energy costs. Metasys integrates building systems such as lighting, access and fire/safety systems, providing customers with a better view of all the aspects of their buildings and the related costs. This enables them to make more informed operating and management decisions. Metasys systems are installed in more than 30,000 buildings worldwide.

Johnson Controls HVAC mechanical equipment leads the industry in dependability and energy efficiency, delivering consistent indoor conditions throughout the year.

In 2007, we won the largest single order for chillers in company history. Qatar Cool, the district cooling authority for the Pearl Island of Qatar in the Arabian Gulf, awarded a contract to us for 46 of our largest water-cooled chillers. When completed, the district cooling system will be the largest in the world.

The new Internal Revenue Service Campus in Kansas City, Missouri stays comfortable thanks to a Johnson Controls Metasys building management system that monitors and controls 26,000 individual points throughout the building. Our FlexSys underfloor distribution system delivers the conditioned air to the facility's 1.14 million square feet of office space.

Photo: © Assassi
Design by BNIM | 360

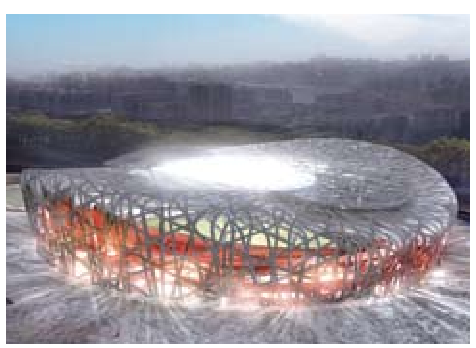
Johnson Controls has more knowledge of facilities and greater capabilities to improve their performance than any other company.

A More Comfortable World

continued

PERSONAL CHOICES

Johnson Controls offers central air conditioning systems in colors to match a home's exterior or with the logos of favorite college sports teams. In 2007, we also introduced high efficiency and dual-fuel heating systems that provide new opportunities for reducing utility costs.



COMFORTABLE COMPETITION

Johnson Controls has been selected to install its York chillers and air conditioning equipment in more than a dozen sites now under construction for the 2008 Olympics in Beijing, China.

The College of William and Mary in Williamsburg, Virginia took advantage of our full controls and equipment offering for their new integrated science building. We're providing our building management system, laboratory controls and chillers. The multiple contract wins were the result of leveraging our existing relationship with the college as well as our unique ability to provide a one-stop solution for the new building's comfort needs.

The Johnson Controls team of 13,000 front-line service providers is more than double that of any of our competitors. Our service capabilities extend beyond maintaining control systems and mechanical equipment. We remotely monitor HVAC, fire and security systems in hundreds of customer facilities, enabling us to take action to correct problems before comfort is impacted, and before they become emergencies. Our predictive technologies can even detect impending failures in mechanical equipment so we can provide repairs before building comfort is affected. We capture operating data from thousands of buildings around the world, and use it to analyze and optimize the condition of customers' mechanical equipment, to extend equipment life and maximize energy efficiency.

For global corporations, such as IBM and Exxon Mobil, Johnson Controls operates and manages entire facility portfolios. Our global workplace solutions capabilities include portfolio management, property acquisition and divestiture consulting, design and construction services and information management solutions.

Our global workplace solutions business grew in 2007 through contracts with new customers as well as expanded relationships with existing customers. Motorola turned to Johnson Controls this year to operate its office complex in China, for example, where we will also provide project management services and have fire-safety responsibilities. With the addition of this fifth site, we now manage close to four million square feet of Motorola facilities across Asia.

COMFORTABLE HOMES

Our residential comfort systems improve home comfort and energy efficiency. For the North American residential market we provide air conditioning and heating systems under the York®, Luxaire® and Coleman® brand names. We have introduced several new technologies that are creating competitive advantage for our residential business. For example, Johnson Controls' innovative MicroChannel™ air conditioning technology is 30 percent smaller than competing systems and reduces installed costs.

Our new Affinity® variable-speed air handler is 24 times quieter than conventional single-speed air handlers and uses one-fifth the energy. A new gas furnace modulates airflow to closely match the amount of heat needed, creating more consistent air temperatures and lower noise with a 95 percent energy efficiency rating.

New tools we have developed for our dealers are also helping Johnson Controls gain market share. For example, a new computer program helps identify homeowner needs and preferences for residential systems – things like consistent comfort, sound, warranty and indoor air quality. Another tool enables distributors to provide homeowners with better price estimates through a full range of options. With these tools, our dealers are well-equipped to help homeowners make smart choices for their home environments.

We added new distribution outlets throughout the United States in 2007, including the conversion of US Airconditioning, the largest distributor in the United States, to carry our York residential air conditioning and furnace systems.

INNOVATION THAT CROSSES OVER

In 2007, Johnson Controls helped General Motors launch its popular and successful new line of crossover utility vehicles which includes the Buick Enclave, the Saturn Outlook and the GMC Acadia. The vehicles have received consumer acclaim for the comfort and quality of their interiors. Johnson Controls supplies seats, electronics, overhead systems, and starting batteries for the vehicles.

COMFORTABLE CARS

Studies show people are spending more time in their vehicles than ever before, making the comfort and convenience of vehicle interiors increasingly important.

Every year, we hold extensive consumer research clinics and host focus groups around the world to improve our knowledge of consumer comfort preferences and emerging needs. The opinions and reactions of thousands of consumers guide our technology development resulting in ingenious new offerings that make the driver and passenger experience better.

The ability to improve interior comfort is a science as well as an art. Johnson Controls utilizes specialized

A More Comfortable World
continued

We excel at creating integrated interfaces between the car and the driver that accommodate ever-changing consumer electronics without sacrificing safety.

MORE POWER IN THE SAME SIZE PACKAGE
Increase the surface area of the electrodes in a battery and you'll get more power and longer life. Our Optima battery uses innovative spiral-wound electrodes, creating a surface 50 to 100 percent larger than those in traditional flat-plate battery designs.

software and laboratories around the world to develop vehicle seats that are more comfortable. We build simulations to adjust for vibration isolation and body pressure points before seat prototypes are even built. The simulations help determine optimal seating positions for vehicle occupants based on their posture, height, and other physical factors.

We also design for optimal temperature distribution and air circulation, as well as ergonomic relationships with the rest of the interior. These efforts result in products that consumers desire.

Vehicles featuring three rows of seats continue to be popular with consumers. But getting in and out of the back row quickly and easily can sometimes be challenging for consumers, especially when their hands are occupied carrying children or groceries. In addition, consumers increasingly want to fold down the third row for added cargo space—but without sacrificing back row seat comfort.

Johnson Controls developed innovative seat solutions to address this concern. With an easy pull of a lever, the second row seat cushion pivots up and forward, providing easy access to the back row. At the same time, the design provides extra leg room for passengers in the back rows and provides increased storage space. The third row seats offer all the comfort and styling of the front rows with comfort-enhancing side bolsters that fold completely flat when the seat is stowed. With one fluid motion, the third row becomes a spacious flat cargo floor.

We also improve driving comfort through innovative interior electronics solutions. We excel at creating integrated interfaces between the car and the driver that accommodate ever-changing consumer electronics without sacrificing safety. Our technology ensures that our systems display the right information to the user at the right time.

For example, our Mobile Device Gateway is an electrical architecture that enables mobile consumer devices, including portable navigation systems, cell phones, and music players, to be used in the vehicle as though it were a built-in system.

Our BlueConnect® hands-free system automatically connects to Bluetooth devices for handsfree operation using voice recognition, allowing drivers to

TESTING TO EXTEND LONG BATTERY LIFE
By testing in real-life situations, we can consistently develop long lasting, high quality batteries to meet the daily demands of driving. We test batteries in taxis, trucks and patrol cars under the most extreme temperatures including the heat of Las Vegas, Nevada and the cold of the polar circle in Europe. These tests continue to help us identify ways to improve battery technology, life and dependability.

keep their hands on the wheel and their eyes on the road.

Our entertainment systems open up exciting new opportunities for rear seat entertainment. Integrated in the overhead system or in the back of the front row seats, the systems utilize full color video displays to offer superb in-car entertainment programs for rear seat passengers.

COMFORTABLE STATE OF MIND

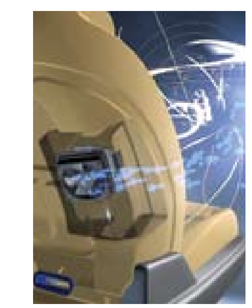
Consumers want a battery they can depend on to start their auto engines day after day, no matter what the weather brings. Our highest-quality batteries give consumers that peace of mind, which is one reason why consumers and automakers buy Johnson Controls batteries more than 120 million times each year, making us the largest automotive battery supplier in the world. We go to great lengths to continue improving our batteries. We've tallied 200 million miles of ongoing tests with thousands of batteries subjected to the rigors of real-life driving situations. These tests continue to help us identify ways to improve battery technology, life and dependability.

Our PowerFrame™ grid technology represents a revolutionary advancement in the quality and performance of our batteries. This patented grid-stamping technology significantly improves component consistency and production efficiency, over traditional manufacturing methods. As a result of PowerFrame, the positive grid in a battery is electrically more efficient, delivering more power to the terminals. PowerFrame technology is used in all of our United States and Mexican manufacturing plants and was introduced in Europe starting in late 2007.

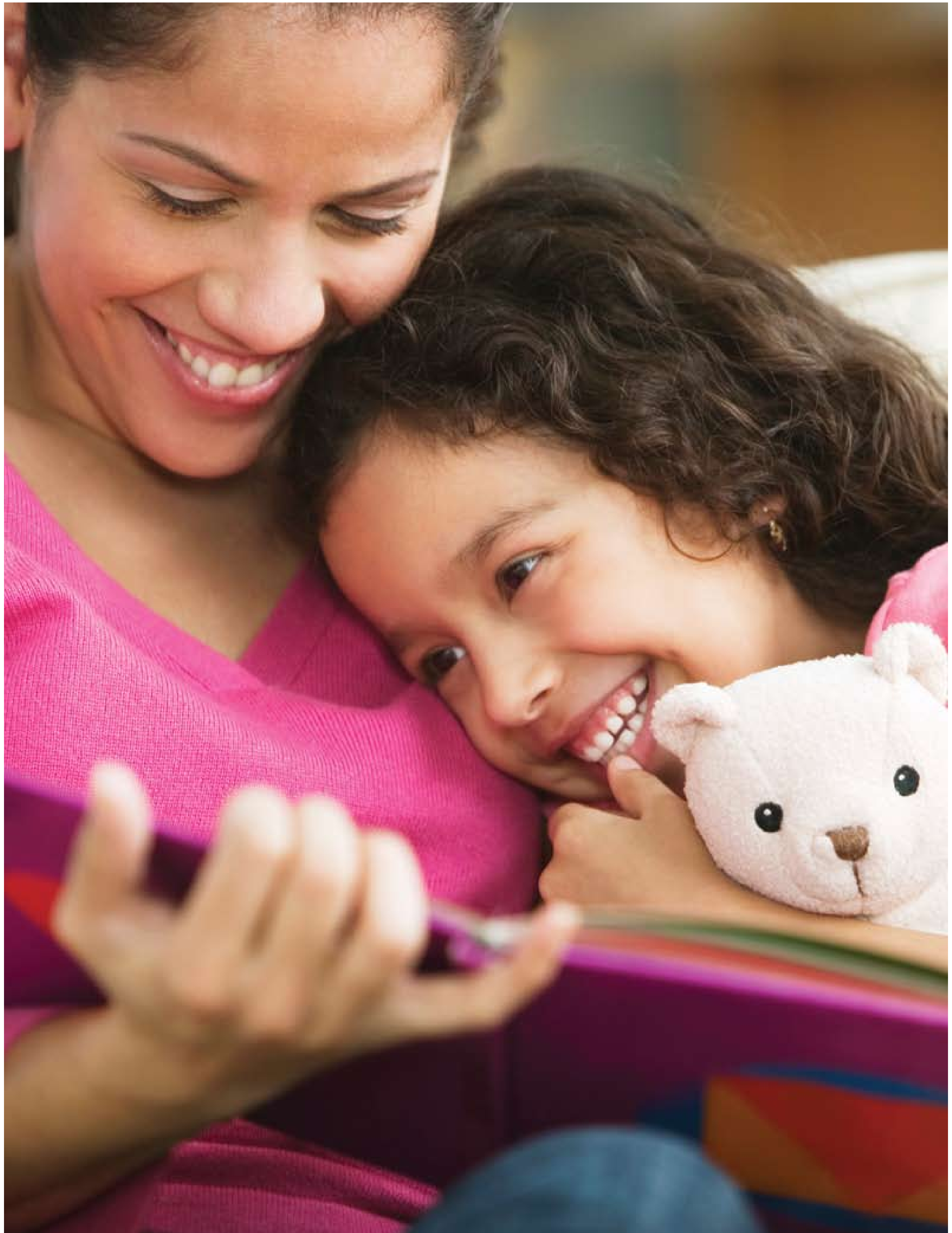
Our spiral-wound premium Optima® battery continues to experience rapidly increasing consumer demand and loyalty. This smart technology is specially designed for vehicles with high electrical loads, off-road vehicles and marine applications.

Consumer satisfaction with the Optima battery is very high—more than 90 percent of the consumers who own an Optima battery report that they intend to buy one again. To meet strong consumer demand, we doubled our Optima manufacturing capacity in 2007 while continuing to expand the number of retail outlets selling the battery line.

MORE ROOM FOR YOUR KNEES
Our slim seat technology gives second row passengers more leg room without compromising front-row comfort.



COOL AND COMFORTABLE
Our VentSys™ technology's unique combination of fans, air channels, and specially-designed materials provides the occupant with industry-best thermal comfort. Its unique design reduces noise, weight and cost compared with other luxury ventilation systems.



A Safer World

Everyone is concerned about safety—for themselves and those they care about. Consumers consider safety first when choosing a new vehicle. They expect safety and security in the places where they work and visit. Our ability to create higher levels of safety and security gives customers another reason to turn to Johnson Controls.

SAFER BUILDINGS

Johnson Controls safety and security technologies protect people and physical property. We're improving safety for more than 50,000 companies worldwide, making us one of the world's largest security companies.

For our buildings customers Johnson Controls offers a comprehensive approach to creating and delivering safety and security solutions tailored to specific needs, including fire and smoke detection, access control, video surveillance, perimeter protection and emergency response. We provide customers with integrated systems as well as with security consulting services.

By integrating our card access systems with closed circuit video, intruder alarms, perimeter protection systems, fire detection/extinguishing systems and Metasys systems, customers can monitor all building functions from a single location or device. This increases staffing efficiency and emergency response effectiveness.

Our new digital video technology that can quickly store and search months of images, enabling security staff to better track people entering a building, identify the length of their stay and monitor the location of assets.

Our integration capabilities create higher levels of security and safety. In the case of a fire, for example, our building management system automatically notifies the fire department with the exact location of the fire. It closes the fire doors around the area and pressurizes the floors above and below the fire to contain the smoke. Water sprinkler systems are activated. Ventilation fans in the stairwells are turned on to full speed in order to evacuate any smoke, making it easier for occupants to exit. The elevators are returned to the ground floor to await firefighters. And our access control system lets them know who had badged into the area, making it easier to account for occupants. All of these actions happen automatically in mere moments after the fire is first detected.

Security is vital at the Chicago Board of Options Exchange, the world's largest options exchange. When looking to significantly improve safety and security in 2007, it chose Johnson Controls to provide a comprehensive solution. Each key card used in the system is integrated with a memory chip that stores the fingerprint of the card holder, preventing the card from being used by anyone else. It also interfaces with U.S. Federal Government systems and protocols used in security background checks.

The Metropolitan Water District of Southern California is depending on Johnson Controls to design the overall security solution for more than 60 of its sites. The integrated system includes an access control system with several hundred readers and cameras, digital TV recording and software, and wireless closed circuit TV systems.

In 2007 we began offering an ingenious new video technology

The Chicago Board of Options Exchange selected Johnson Controls to improve safety and security throughout its landmark facility.

A Safer World

continued

CONVENIENT INTEGRATION

We sold our first Mobile Device Gateway system in 2007 for an upcoming vehicle. The system can integrate the latest consumer electronics, such as cell phones, MP3 players and personal navigation systems to be seamlessly connected to automotive controls and displays. This integrated information makes it easier for the driver to recognize and operate the electronic devices, reducing distractions.

REMOTE SUPERVISION

Monitoring security camera images from a wireless PDA is just one of the customer benefits of our digital video technology.

that helps detect fires sooner, while at the same time avoiding false alarms. The system continuously analyzes the video image of the space pixel by pixel, looking for characteristics of smoke or flame. Visual sensing can detect a fire several minutes sooner than traditional smoke detectors. This early warning allows for corrective action to be taken before the fire sprinkler system activates, preventing unnecessary water damage.

Our new location management system, introduced in 2007, uses radio frequency tags to protect property. In healthcare facilities, for example, the system can locate and track medical assets such as infusion pumps, wheelchairs, beds and monitoring devices. Facility-wide tracking enables more rapid response and efficient use of equipment and devices, improves patient care and staff productivity and reduces lost, stolen or misplaced equipment.

SAFER CARS

Safety improvement technologies are an important growth driver for Johnson Controls as market studies show that consumers consider safety a primary differentiator when selecting which vehicle to purchase.

Our auto interior technology focuses on avoiding accidents as well as minimizing injuries when accidents occur.

In a collision, the safety technology in the auto's seating system can make a significant difference to the vehicle occupants.

To reduce the risk of whiplash in rear collisions, for example, our Ri-ACT active head rest system moves forward at the moment of impact to support the head and neck. In front collisions, our anti-submarining technology slightly lifts the front of the seat cushion to stop the occupant from sliding forward and under the seat belt, reducing knee and lower body injuries.

We go beyond regulations and industry standards to improve safety. At our test laboratories around the world, each individual component of an interior system is studied to ensure its safety performance. The findings are used to further fine-tune product developments.

KEEPING DRIVERS FOCUSED ON THE ROAD

Our new instrument cluster technology provides drivers with simultaneous analog and digital information to improve recognition times and reduce the amount of time spent looking away from the road.

Following government safety regulations and guidance from groups like the Insurance Institute for Highway Safety is critical to the manufacturing of safe products. We are a member of the European Advanced Passive Safety Network (APSN) to gain a greater understanding of how we can create products that provide the highest possible level of driver and passenger safety.

Our safety improvement efforts also focus on avoiding accidents by reducing driver distraction. Our BlueConnect® hands-free cellular phone system, for example, allows drivers to make and receive calls using the vehicle's audio system and our voice recognition technology while keeping both hands on the steering wheel. The system creates a wireless connection to mobile phones using Bluetooth™ technology. It helps keep the driver's attention focus on the road.

Responding to the rapid growth in handheld portable consumer devices, we introduced the Mobile Device Gateway, which enables a driver to seamlessly integrate digital music players, USB storage devices, navigation systems, PDAs and cell phones into a common voice-activated interface in the vehicle.

In addition to increased convenience, this product has been shown to reduce driver distraction, an attribute that will be especially important as consumer electronics are increasingly added to the interior.

Drivers benefit from harmonious design, user-friendly ergonomics, readability, and the ability to customize the way information is presented, helping them to stay appropriately informed. We introduced a new dual-mode instrument cluster in 2007 that superimposes digital data such as speed and engine status on top of analog dials. Tests have shown that this dual-form information significantly improves driver recognition and reaction times.

Our radio-controlled tire pressure monitoring system displays the current tire pressure for all four tires and provides automatic warning of any loss of pressure, meaning the driver is made aware of tire problems in a

TESTING FOR MAXIMUM SAFETY

Every seat frame we design is thoroughly tested for crash-worthiness at our testing facilities to ensure it meets all safety standards.

A Safer World
continued

We require each Johnson Controls location to develop, implement, monitor, and continuously improve its safety performance.

timely fashion and can react accordingly.

Consumers use our key fob for keyless locking and unlocking of their vehicles. Triggering the locking system also engages our immobilizer technology, providing safety of a different kind by delivering active, highly effective anti-theft protection.

SAFER WORKPLACES AND EMPLOYEES

The safety and health of Johnson Controls employees is of the utmost importance.

We require each location to develop, implement, monitor, and continuously improve its safety performance. With our web-based Corporate Health, Environmental and Safety System (CHESS), we report and monitor data on regulatory compliance, waste disposal, energy consumption, and work-related injuries. CHESS allows executives and managers to monitor company-wide performance.

We also emphasize prevention of repetitive stress injuries. We integrate ergonomics into all new automotive product launches. Before turning a product over to manufacturing, we perform at least three reviews of the manufacturing process using a potential ergonomics issues list.

Controlling lead exposure is a priority in our battery manufacturing plants. Employee blood levels are routinely measured to assure that lead levels have not exceeded acceptable levels.

Industry standards call for an acceptable blood-lead level of 40ug for employees exposed to lead. Our power solutions business has set a much more aggressive target. Our goal for 2007 was to have 90 percent of employees below 25ug. We exceeded this goal with 98 percent of employees under the target.

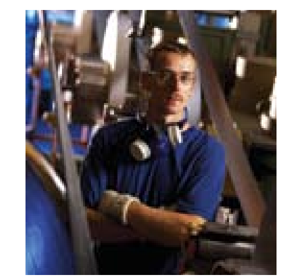
All of our locations around the world show the benefits of our health and safety programs. Results like these show what happens when safety and health are part of everyone's job – every working day.

TRAVEL SECURITY
We are installing a new security network, fire alarm, closed circuit television and sophisticated access controls at the Louis Armstrong New Orleans International Airport. The $14 million contract is scheduled for completion in 2008.

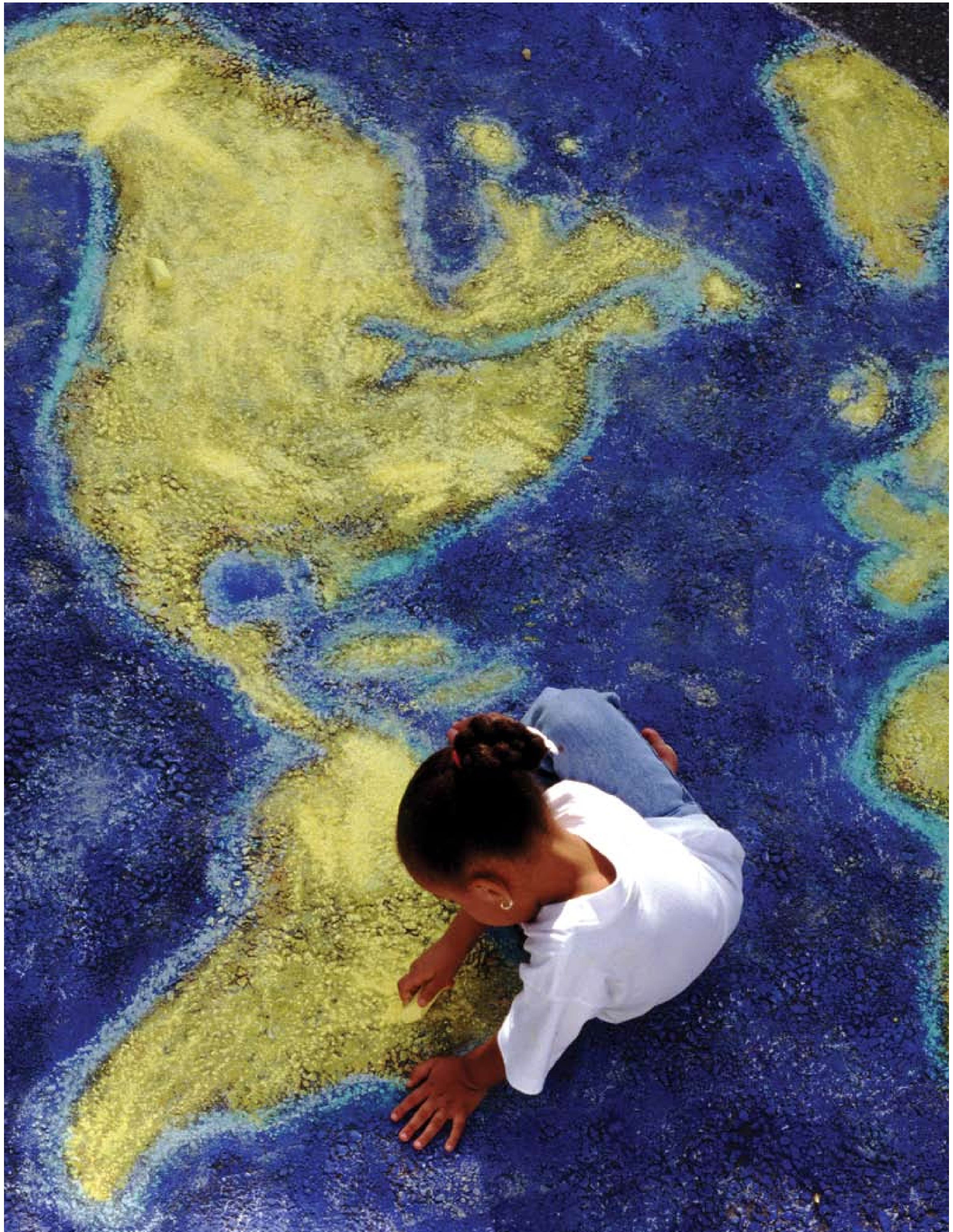
PRESIDENTIAL SAFETY
Our team in Argentina recently won a project to install a fire detection and warning system for the presidential palace in Argentina, La Casa Rosado ("The Pink House"). It is home to the Argentinian president's offices and living quarters. Johnson Controls is installing a fire system with 400 detectors, emergency audio amplifiers with pre-recorded evacuation instructions, infrared barriers, pull stations and remote sensors. Our intelligent fire workstation will let building operators and firefighters view graphic displays and floor plans to reduce response times in case of emergency.

MOVING TO SAFETY
The State of Virginia selected Johnson Controls to help with its hurricane evacuation improvement program. The plan calls for installation of 298 evacuation gates along the state's main interstate highway. Under the contract, Johnson Controls is installing the gates and traffic controls. The system will allow for the orderly evacuation of traffic from the region in the event of an emergency.

EXXONMOBIL MAKES A SAFE DECISION
Thanks in part to our outstanding safety record at other ExxonMobil sites, our customer expanded our relationship in 2007 to include global workplace solutions at its Beaumont, Texas site. The customer's decision to change suppliers was prompted by less than acceptable safety performance by the previous contractor. In 2007, ExxonMobil recognized Johnson Controls for its safety performance at its facilities in Malaysia, where our team has worked one million hours without a single recordable incident.



WORLD-CLASS SAFE WORKPLACES
Improving and ensuring safety in our own locations is the responsibility of every Johnson Controls employee. Managers are rated on health and safety improvements as part of their annual job performance evaluations.



A More Sustainable World

Increasingly, consumers are giving preference to companies with a strong commitment to sustainability, both in the products they buy as well as the companies where they choose to work. This is driving our customers to put a greater emphasis on their own sustainability performance.

Johnson Controls is a company that was founded more than 122 years ago with a product that reduced energy use in buildings. We've been helping to create a more sustainable world for a long time and we're helping our customers to do the same.

We have long considered ourselves to be environmental stewards. Our businesses, by their very nature, contribute to environmental quality. The products we make and the services we deliver help customers save energy, reduce pollution, waste less and recycle more. We educate employees to become better guardians of the environment on the job as well as in their communities. We are focusing on our own operations, looking for ways to produce products in more earth-friendly ways and to make our factories and offices environmentally benign.

We are dedicated to making cars more fuel efficient through advanced battery technology and environmentally friendly interior components. We make buildings "greener" through technologies and services that consume less energy, cause less pollution and use resources efficiently.

ENERGY EFFICIENCY AND "GREEN" BUILDINGS

Johnson Controls is the world's largest energy efficiency provider, saving billions of dollars of energy costs for customers. When energy efficiency increases, it's not only the utility bill that decreases – so do the greenhouse gas emissions associated with the burning of fossil fuels. Our core building efficiency offerings help customers reduce energy use. Our HVAC systems integrate hundreds of components in a building, providing comfort and safety while using the minimum amount of energy possible. Mechanical equipment with variable speed motors use one-third less energy than it did just five years ago. Our services ensure that everything in the building continues running at optimal efficiency.

Customers such as school districts and government buildings often don't have the budgets to pay up-front for energy efficiency improvements. We provide them with performance contracting solutions under which the facility improvements are funded over time out of the energy and operational savings generated by the project. We guarantee the savings, so the customer can be assured of reaching the promised reductions. Improvements can reduce energy consumption by as much as 50 percent.

In 2007, Johnson Controls was selected to expand its performance contracting expertise to key cities globally under a new program created by the Clinton Climate Initiative. The Initiative is dedicated to working with cities worldwide to positively impact climate change by reducing carbon emissions.

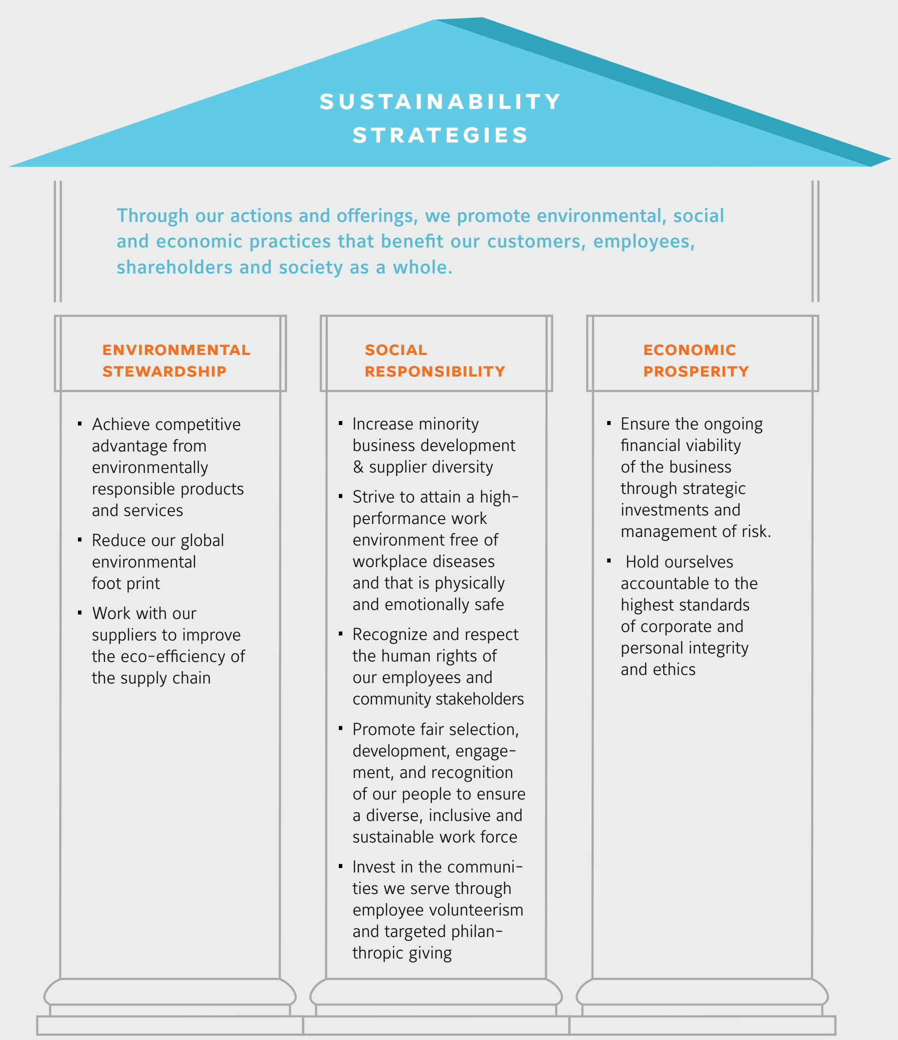
In targeting large cities for its efforts,

We have long considered ourselves to be environmental stewards. Our businesses, by their very nature, contribute to environmental quality.

A More Sustainable World

continued

We define sustainability as the "triple bottom line," measuring our performance against three indicators: economic, social and environmental.



the Initiative is looking to make the most impact with concentrated resources.

Under the program, Johnson Controls will work with municipalities to identify opportunities for energy-efficiency performance contracts. It is expected that private and public buildings in the 40 largest cities will take advantage of the program.

Our participation in the Clinton Climate Initiative is an excellent platform for educating developers, owners and building managers on ways to reduce greenhouse gas emissions and contribute to a more comfortable, safe, and sustainable world.

Johnson Controls is a long recognized leader in developing environmentally friendly "green" buildings that are energy efficient, use less water and reduce waste. Our involvement with green buildings enables us to redefine building performance in terms of environmental and economic returns.

FUEL-SAVING TECHNOLOGY

Johnson Controls will launch production of lithium-ion batteries for the Mercedes S-class hybrid vehicle in 2008. The S-class will be the first production vehicle on the market to use lithium-ion technology.

Our Building Efficiency headquarters in Milwaukee, Wisconsin was one of the world's first certified green buildings when it opened in 2002, and we've continually made improvements to its energy and environmental performance. Today, it serves as a proof site to show our customers and members of the community how a building can be comfortable and productive, yet still be economical to build and operate.

We apply our energy efficiency expertise to our own facilities as well. In our automotive experience business, for example, we've recently implemented energy efficiency upgrades at 46 manufacturing plants, generating millions of dollars a year in reduced utility bills and reducing greenhouse gas emissions. Our absorbent glass mat (AGM) battery technology was used in nearly a million mild hybrid vehicles produced in Europe in 2007. Our multi-chemistry batteries will enable us to remain the leading independent supplier of advanced energy storage solutions.

HYBRID VEHICLE BATTERY

Our commitment to improving energy efficiency doesn't stop at buildings. We are positioned to be the leading supplier of lithium-ion battery technology for the next generation of hybrid vehicles. Lithium-ion batteries will begin to replace the nickel-metal-hydride battery chemistry found in hybrid vehicles on the road today.

In 2007, we were awarded a lithium-ion development contract by General Motors for its Saturn Vue Green Line, which may launch as the industry's first plug-in hybrid vehicles after 2010. Plug-in hybrids promise significant fuel savings, even over today's full hybrids, as they would travel the first 20 to 30 miles on pure electric energy.

RENEWABLE ENERGY

The global demand for onsite renewable energy by building efficiency customers is increasing as fossil fuels increase in price and concern grows about the economic and environmental impact. Johnson Controls is responding by combining renewable technologies such as biomass, geothermal, solar and wind power with innovative energy efficiency strategies. The result is more environmentally friendly and economical energy supply options for our customers.

MATERIAL RECYCLING AND RE-USE

Through the sourcing, recycling, and re-use of automotive interior materials, we ensure that the performance of our engineered materials is compatible with protecting the environment. Johnson Controls has developed a portfolio of substrates, upholstery, and surface materials for interior components that always takes into consideration the specific needs that each of these materials must fulfill.

Every material must meet functional requirements, such as resistance to wear and tear and easy care. And the look and feel of the materials – plus the way they are combined with one another – play an important role in helping to make vehicle occupants feel comfortable.

At the same time, we are dedicated to using our natural resources in a responsible way that always complies with environmental regulations. This is especially true in the initial development stages of new products, when we develop product assembly processes that focus on easy-to-disassemble structures using recyclable and reusable materials.

The expertise of our materials specialists enables us to proactively meet emerging environmental standards and legal requirements. In this way, we remain focused on helping our customers' meet their environmental performance goals. In this way, we can achieve optimal conditions in production and at the end of our products' life cycles.

In several 2008 model-year vehicles, Johnson Controls is supplying seat foam pads made partially from soybean oil. By using an abundant, renewable material

IMMEDIATE HELP
In Siemianowice, Slaskie Poland, a Blue Sky program team from our automotive experience facility teaches children first-aid skills. The project includes children of the Johnson Controls employees and students from local schools. After successful completion of the learning experience, the students are able to provide basic first-aid, assess injuries and assure injury scene safety, as well as efficiently inform professional service providers about the details of the accident when they arrive.

VARTA
Automotive lead-acid batteries are one of the world's most highly recycled consumer products.

source, this new proprietary technology decreases the use of petroleum products with their inherent market price fluctuations and negative environmental effects.

To the consumer, there's no difference between our soy-based seat and one using traditional materials except for the environmental benefits. Our engineers put the soy technology through rigorous comparison testing to evaluate durability, shape and comfort levels. We are continuing to develop ways to increase the amount of soybean composition in our pads, and are applying lessons learned today to create more earth-friendly products of the future.

BATTERY RECYCLING – ACTIVE ENVIRONMENTAL PROTECTION

Lead-acid automotive batteries are one of most highly recycled consumer products, with return rates frequently exceeding 95 percent in the United States.

In the United States, closed loop battery recycling is well established. Here's how it works. A Johnson Controls truck leaves one of our battery manufacturing plants with a load of new batteries. When those batteries are dropped off at a customer site, the truck picks up the old, spent batteries. Those batteries are delivered to a smelter, where the plastic cases are ground down for later re-use in new battery cases, the lead plates are removed and melted down into ingots. The truck leaves the smelter with a load of recycled lead, and delivers it back to our battery plant where the lead is turned into a key component of a new battery.

While the process is somewhat different in Europe, the result is much the same: re-use of the major battery components again and again.

Asia's auto battery industry is quickly developing as more and more autos are produced. Currently, there is a fragmented infrastructure for the recycling of the increasing number of used batteries. In 2007, Johnson Controls led a delegation of Chinese officials on a two-week tour of battery recycling and production sites in Europe and North America to help educate them on the cost saving and environmental benefits of these proven recycling processes.

EMPLOYEE ENGAGEMENT AND DEVELOPMENT

As Johnson Controls continues to grow, we believe that attracting, developing, motivating and retaining leaders are key elements of our sustainable and profitable growth. As our business has become more global, we must develop leaders from every part of the world.

We understand that like customers, our employees and potential employees have choices of where to work, and we must compete for the best talent. We invest significantly in being an employer of choice, and have developed a system to promote our people's career and personal development while seeking their engagement in our vision, values and objectives.

We ensure that our work environments promote excellent performance, teamwork, inclusion, leadership, safety and growth. We encourage community involvement and volunteerism with leadership and environmentally related causes.

Employees in North America were given the opportunity to improve their understanding of how they can impact sustainability in their own lives, by participating in our Sustainable Energy Education and Communications (SEEC) program. SEEC is a 10-module series of online lessons that teaches employees to create environment and social benefits at work and at home. It provides information on how saving energy and water, keeping indoor air clean and other sustainable strategies can save money, reduce emissions and help them stay healthy.

Johnson Controls sponsors a variety of formal programs to recognize, reward and motivate employees:

Extreme Learning Program: Each year a group of 40 high-potential leaders are challenged with solving real-world business problems while building new relationships and experiencing global business issues. The program is in its fifth year.

Leadership Edge Program: Launched in 2007, this program annually engages 100 managers from China, Europe and Mexico in a comprehensive active learning program.

Expertise in alternative and renewable energy

Johnson Controls designs, engineers, installs and commissions renewable energy solutions. We have been involved in many renewable projects, including:

Wind
Erie, Illinois Community Unit School District. A 1.2 megawatt wind turbine and tubular wind tower, along with an electrical distribution system, was designed to reduce purchased electrical energy consumption by 87 percent. The installation is expected to deliver $9.1 million in total energy savings over 30 years.

Solar
29 Palms Marine Base, California. We installed a 1.1 megawatt photovoltaic plant at the Marine Air Ground Task Force Training Command.

Biomass boilers
University of South Carolina. A biomass gasification plant burns waste wood for fuel, providing an added 60 million pound/hour steam capacity to the central utility plant, and nearly 2 megawatts of electric generation. The plant will cover approximately 85% of the University's annual consumption. The self-funding performance contract guarantees long-term reductions in energy and operational costs.

Geothermal
Utah Department of Corrections. An onsite geothermal well provides heat for multiple buildings and hot water for showers, kitchen and laundry systems.

Landfill gas to energy
City of Little Rock, Arkansas. A methane gas recovery system for the city's landfill is expected to collect 90 billion BTUs of usable energy from landfill gas, which will be purchased by an area manufacturer.

Digester gas cogeneration
Back River Wastewater Treatment Plant. A 3-megawatt combined heat and power plant will generate more than 2.4 megawatt hours of electricity per year, generate steam to offset process heating requirements and produce hot water for boiler use.

We follow formal processes to achieve diversity goals around the world and to build a culture receptive to diverse ideas, experiences, perspectives and practices.

Chairman's Award for Customer Satisfaction and Employee Ingenuity: The company's highest honor, the award reflects our increased focus on ingenuity, recognizing the best examples of how an employee or team effort had an impact on helping to create a comfortable, safe and sustainable environment for customers. The awards are given personally by the company chairman at special ceremonies throughout the world. 14 teams won Chairman's Awards in 2007. Chairman's Awards for leadership are also given each year to employees who exemplify leadership, employee development and community involvement. *(see page 27).*

WORKFORCE AND SUPPLIER DIVERSITY

We follow formal processes to achieve diversity goals around the world and to build a culture receptive to diverse ideas, experiences, perspectives and practices. We offer workshops to help employees embrace and realize the benefits of workforce diversity. Our people also benefit from opportunities to work outside of their home countries.

Our employees help create an inclusive workforce through initiatives like the African American Affinity Network (AAAN) in the United States and the Women's Resource Network (WRN) in Mexico. Both groups are organized by employees and chartered and funded by the company.

The mission of the AAAN is to improve the recruitment, retention and employee development of African American employees within Johnson Controls. The group sponsors summer student robotics workshops, professional development seminars, cultural awareness events, holiday community projects and new hire/new executive welcome receptions.

The WRN works to foster professional development and mentoring for women, cross functional networking, relationship building, non-traditional leadership and advancement of women's issues.

Johnson Controls is committed to supplier diversity because it helps us expand our business and strengthens our vendor base.

We have continually increased the amount we spend with diverse vendors. We first achieved $1 billion in annual spending with diverse suppliers in 2002, resulting in our 2003 induction into the Billion-Dollar Roundtable. Only 17 companies in the United States have achieved the $1 billion diverse spending milestone.

Our spending with diverse suppliers exceeded $1.5 billion in 2007. Much of this year's increase is attributable to the launch of a new U.S. joint venture with a minority-owned supplier to produce automotive seats and interior systems for Toyota. We are targeting $2 billion in diverse supplier spending in 2008.

ETHICS

Johnson Controls and its people uphold the highest ethical standards in every aspect of our business. Behaving ethically underlies the relationships we have with our customers, our shareholders our communities and each other. Our ethics policy serves as the foundation for providing specific guidance to Johnson Controls employees on expected behavior that allows us to implement our beliefs globally.

Every year, we require a commitment to our ethics policy by employees worldwide. Employees use a Web-based education program—translated into 15 languages –with training modules and tests tailored to their specific responsibilities. Since its launch in 2001, 100 percent of management employees have completed the annual on-line ethics training.

Compliance with our ethics policy is a condition of employment at Johnson Controls. We annually review the policy to ensure it remains relevant as the company grows and confronts new business issues in the various geographies in which we operate. Updates to the Ethics Policy are approved by the Board of Directors. Our stakeholders offer valuable insight and guidance relative to our ethical performance. We consistently engage with organizations that can provide critical and constructive feedback on our ethics policy and performance. We also dialogue with our shareholders on a regular basis.

An anonymous ethics hotline is available to anyone who suspects unethical behavior at the company. The hotline, available 24 hours a day in all major languages, is operated by an independent third-party vendor. Through the ethics hotline monitoring system, we capture all information, investigate, audit and implement improvement actions accordingly.

To ensure our processes are working properly and that employees, customers and shareholders understand our ethics policy, we systematically gather feedback and take action to improve our work environment. We track, analyze and communicate ethics performance outcomes quarterly.

GLOBAL COMMUNITY INVOLVEMENT

Our people give freely of their time, skills and energy to improve and strengthen the hundreds of communities we call home. Johnson Controls contributes millions of dollars annually in support of our communities as well.

NO BARRIERS TO LEADERSHIP

In addition to contributions to the YMCA of Japan through our Blue Sky Involve program, Johnson Controls donated $25,000 for a leadership development program focused on helping people with disabilities.

2007 EMPLOYEE RECIPIENTS OF CHAIRMAN'S AWARD FOR CUSTOMER SATISFACTION AND EMPLOYEE INGENUITY

The company's highest honor, the Chairman's Award recognizes employees who help the company achieve our mission. The awards are given personally by the company chairman at special events held around the world.

Jamie Pounders, United States

Mick McGavin, United States

Europe Profitability Improvement Team, Belgium, Denmark, France, Germany, Italy, United Kingdom, United States

Microchannel Coil Innovation Team, United Kingdom, United States

Hannover Fire Recovery Team, Czech Republic, France, Germany

Daimler AG New Business Team, Germany

Honda Ridgeline Door Panel Team, Canada, United States

Steel Tube Sourcing Team, United States

Value Improvement Program Team, France, Germany, United Kingdom

Complete Interior Global Program Team, Belgium, China, Germany, United States

Siemianowice Metal Plant Launch Team, Poland

Guangzhou Joint Venture Launch Team, China

BMW E60CHL DP Localization Project, China, Germany

Japan x-Trail Seat Launch Team, Japan

CHAIRMAN'S AWARD FOR LEADERSHIP

Guenther Dziuvenis
Systems VP and General Manager
Kansas City, Kansas, USA
Building Efficiency

Thomas Lowery
VP, Building Services and Commercial Refrigeration,
Diegem, Belgium
Building Efficiency

Pamela Dow
Director, NA CF-JIT
Supply Chain Management
Plymouth, Michigan, USA
Automotive Experience

Jose Cuautle
Raw Materials and Components Manager
Cienega de Flores, Mexico
Power Solutions

A More Sustainable World
continued

BALTIMORE ADDED TO CONSERVATION LEADERSHIP CORPS PROGRAM
In 2007, we expanded our successful Conservation Leadership Corps (CLC) program to the youth of Baltimore, Maryland. The program provides summer jobs for high school students as well as learning opportunities focused on environmental protection.

Blue Sky Involve is Johnson Controls' global employee volunteer program. Its objective is to align our employee volunteerism efforts with two of our corporate priorities: protecting the environment and developing people. It combines our employees' time, talents and expertise to benefit the local communities where we have a presence. Blue Sky Involve teams at Johnson Controls locations around the world select a local charity to participate in the program. Our employees work with the charity as volunteers, focusing on projects that benefit the environment or build leadership skills. In 2007, more than 300 Johnson Controls locations participated in Blue Sky Involve, with 7,500 employees volunteering in more than 40 countries around the world.

In 2007, we expanded our successful Conservation Leadership Corps (CLC) program to the youth of Baltimore, Maryland. The program provided meaningful conservation summer jobs for 87 local high school students working on projects such as removing invasive plant specials, building hiking trails and planting trees. The program also includes an educational curriculum.

The CLC program originated in 2006 in Milwaukee and now constitutes a $600,000 annual commitment by the company. We plan to add a third city to the CLC program in 2008.

In the United States, Johnson Controls grants more than $6 million annually to community organizations focused on the arts, education and social service.

The Johnson Controls Foundation also matches employees contributions to these organizations dollar-for-dollar.

The Foundation awards college scholarships to the children of employees to prepare the students for meaningful and productive professional careers.

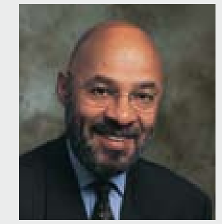
Scholarship recipients are selected by a panel of university educators who look for a balance of academics, leadership and civic involvements. In 2007, the Foundation selected 25 students for four year scholarships grants of $2,000 per year with an additional 20 students receiving one-year grants of $2,000.

Sustainability Recognition

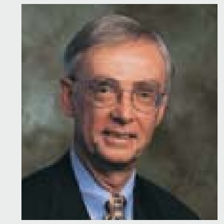
Johnson Controls' sustainability performance has been recognized by its inclusion on several of the most respected corporate social responsibility and sustainability investment indexes, including:

DJSI World
DJSI North America
FTSE4Good
Domini 400 Social Index
KLD Dividend Achievers
KLD Global Climate 100
KLD Broad Market Social Index
KLD Large Cap Social Index
KLD Select Social Index

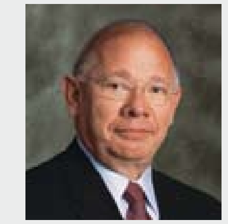
Directors



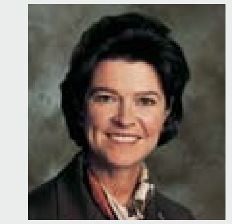
Dennis W. Archer, 65
Chairman
Dickinson Wright PLLC
Director since 2002. [3,4]



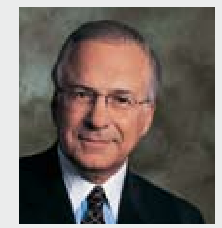
Robert L. Barnett, 67
Retired Executive Vice President of Motorola, Inc.
Director since 1986. [1,3,5]



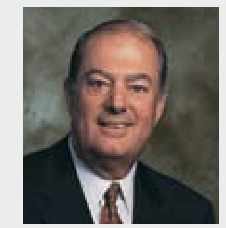
John M. Barth, 61
Chairman
Johnson Controls, Inc.
Director since 1997. [1]



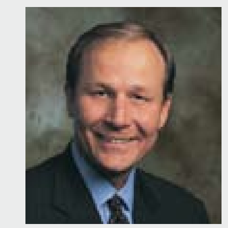
Natalie A. Black, 57
Senior Vice President,
General Counsel and
Corporate Secretary
Kohler Co.
Director since 1998. [3,5]



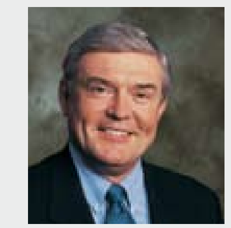
Paul A. Brunner, 72
President and
Chief Executive Officer
Spring Capital, Inc.
Director since 1983. [2,4]



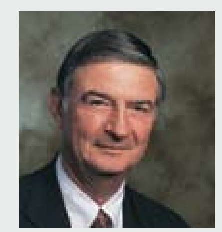
Robert A. Cornog, 67
Retired Chairman and
Chief Executive Officer
Snap-on, Inc.
Director since 1992. [1,2,3]



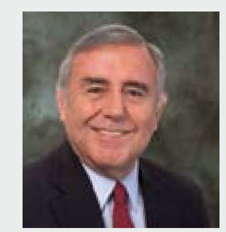
Jeffrey A. Joerres, 48
Chairman,
Chief Executive Officer
and President
Manpower, Inc.
Director since 2001. [2,4]



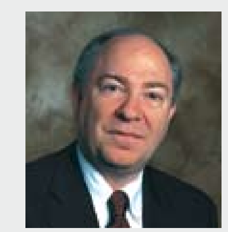
William H. Lacy, 62
Retired Chairman and
Chief Executive Officer
MGIC Investment Corp.
Director since 1997. [1,4,5]



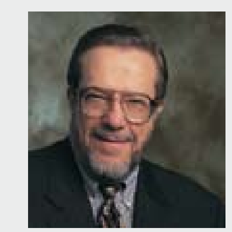
Southwood J. Morcott, 69
Retired Chairman,
President, and
Chief Executive Officer
Dana Corp.
Director since 1993. [1,3,4]



Eugenio Clariond Reyes-Retana, 64
Retired Chairman of the Board and Chief Executive Officer,
Grupo IMSA S.A.
Director since 2005.



Stephen A. Roell, 57
Chief Executive Officer
Johnson Controls, Inc.
Director since 2004. [1]



Richard F. Teerlink, 71
Retired Chairman of the
Board, President and
Chief Executive Officer,
Harley-Davidson, Inc.
Director since 1994. [2,5]

Committees:
1] Executive 2] Audit 3] Corporate Governance 4] Compensation 5] Finance

Executive Offices

Johnson Controls, Inc.
5757 N. Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201
(414) 524-1200

Detailed Reports

Further details on the company's 2007 performance, as well as historical information, can be downloaded from www.johnsoncontrols.com

• Financial (Annual Report on Form 10K)
• Global Reporting Initiative Matrix:

Officers

Stephen A. Roell
Chief Executive Officer

Keith E. Wandell
President and
Chief Operating Officer

Jefferey G. Augustin
Vice President,
Building Efficiency

Beda Bolzenius
Vice President
and President,
Automotive Experience

Susan F. Davis
Executive Vice President,
Human Resources

Jeffrey S. Edwards
Vice President,
Automotive Experience

Giovanni "John" Fiori
Executive Vice President and
President,
Johnson Controls International

Charles A. Harvey
Vice President, Diversity
and Public Affairs

Susan M. Kreh
Vice President and
Corporate Controller

R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

Alex A. Molinaroli
Vice President and
President,
Power Solutions

C. David Myers
Vice President and
President,
Building Efficiency

Jerome D. Okarma
Vice President,
Secretary and
General Counsel

Subhash "Sam" Valanju
Vice President and
Chief Information Officer

Frank A. Voltolina
Vice President and
Corporate Treasurer

Denise M. Zutz
Vice President, Strategy,
Investor Relations and
Communication

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2006 Business and Sustainability Report

CREATING SMART ENVIRONMENTS

WORKPLACE VEHICLE HOME

2006 Business Review & Sustainability Report

AT JOHNSON CONTROLS WE CONTINUOUSLY LOOK FOR NEW WAYS TO ENHANCE THE RELATIONSHIP BETWEEN PEOPLE AND THEIR SURROUNDINGS. WE COMBINE OUR TECHNOLOGIES, SERVICES AND KNOWLEDGE IN INNOVATIVE WAYS TO CREATE SMART ENVIRONMENTS THAT IMPROVE WORKPLACES, VEHICLES, HOMES AND THE WORLD.

JOHNSON CONTROLS: IMPROVING COMFORT, EFFICIENCY, SAFETY AND PRODUCTIVITY FROM FOUR WALLS TO FOUR WHEELS AND TO THE FOUR CORNERS OF THE EARTH.

136,000 employees in

1,000 locations serving customers in

125 countries

Financial Highlights

In millions, except per share data Year ended September 30,	2006	2005	% Change
Net sales	$32,235	$27,479	17%
Operating income	$1,282	$1,066	20%
Income from continuing operations	$1,033	$757	36%
Diluted earnings per share from continuing operations	$5.25	$3.90	35%
Return on average shareholders' equity	15%	13%	
Cash dividend per common share	$1.12	$1.00	

TO OUR STAKEHOLDERS

“WE CREATE SMART ENVIRONMENTS BY INTEGRATING TECHNOLOGIES, PRODUCTS AND SERVICES — BY ANTICIPATING CHANGING NEEDS AND DEVELOPING PRACTICAL SOLUTIONS THAT IMPROVE THE PLACES WHERE PEOPLE SPEND MOST OF THEIR TIME.”

John M. Barth (C)
Chairman and Chief Executive Officer

Stephen A. Roell (L)
Vice Chairman and Executive Vice President

Keith E. Wandell (R)
President and Chief Operating Officer

I am pleased to report that 2006 was a record year for Johnson Controls. Through the dedication and support of our 136,000 employees, we achieved our 60th consecutive year of record sales and 16th consecutive year of record earnings. Our sales reached $32 billion, and earnings reached the $1 billion mark for the first time. We also increased our dividend for the 31st year in a row.

This was also a year in which we transformed Johnson Controls into a diversified industrial growth company, with each of our businesses undergoing significant change. Through our $3.1 billion acquisition of York International, we doubled the size of our building efficiency business, tripled the market opportunity, and created multiple new platforms for growth. Our power solutions business continued to increase its market share, and we received the industry’s first order for a lithium-ion hybrid vehicle battery. We took action to strengthen our automotive experience business by improving its cost structure and increasing our focus on innovation.

In 2006 our company became more global. We found new opportunities to integrate our technologies and to invest in the growth of each business. Our earnings stream continued to diversify. We improved operational efficiencies and quality, enhancing our competitiveness.

Environmental and Social Performance

At Johnson Controls we define success more broadly than just by financial results. We also define it by our environmental and social performance. These three components are often called the “triple bottom line” of sustainability.

Our efforts include improving energy efficiency and reducing waste in customer facilities as well as our own locations. We also focus on the development of our employees as global leaders who will support our future growth and make positive contributions to our local communities.

In 2006, we launched our Blue Sky Involve program. Through the program, Johnson Controls supported employees at more than 135 locations around the world as they volunteered their time and energy to improve the local communities where they work and live.

Creating Smart Environments

In this year’s business review and sustainability report, we focus on how Johnson Controls will extend its global leadership position by creating smart environments.

We create smart environments by integrating technologies, products and services — by anticipating changing needs and developing practical solutions that improve the places where people spend most of their time — their homes, workplaces and vehicles.

We improve the home environment with our York® heating and cooling systems, which keep families comfortable and maximize energy efficiency. Our popular HomeLink® system conveniently integrates controls for garage door openers, home lighting, and security devices into the automotive interior.

As electronics in the home become more sophisticated, we may find new growth by leveraging our wireless network and systems integration expertise to create entirely new convenience functions.

In the vehicle, we have an excellent vantage point to continue improving the driving experience. Voice activated interfaces, electronics integration and enhanced telematics will all combine in better, smarter ways to create new levels of convenience and safety for drivers and occupants.

In the workplace, our products and services reduce energy and operating costs and make indoor environments more safe, comfortable and productive. Over the past 15 years alone, we helped customers save more than $32 billion in energy costs. Still, we’ve barely scratched the surface of how our technology and expertise can improve their facilities.

Smart environments are not just about the things we make, but also result from the way we make them. We’re committed to manufacturing processes that are environmentally friendly by reducing raw material, waste and regulatory costs. Our hybrid battery technology will help lower vehicle emissions and reduce fuel consumption. Our energy management and battery recycling activities throughout the world are helping to make important contributions to environmental protection.

Ultimately, creating smart environments enables us to maximize the advantages of our diversification, innovation, customer relationships and scale, to drive sustainable, profitable growth.

Leadership Changes

We continue to develop the leadership we need to sustain our growth. In 2006, we announced new appointments for several of our corporate officers.

- Steve Roell was named chairman of the executive operating committee in addition to his role as vice chairman and executive vice president
- Keith Wandell was elected president and chief operating officer
- Beda Bolzenius became president of the automotive experience business
- Dave Myers was named president of the building efficiency business
- Susan Davis and Bruce McDonald were both elected executive vice presidents.

I would like to express my deep appreciation to Willie Davis, who retired from the Board of Directors.

Outlook

Johnson Controls enters 2007 with sound growth strategies, a strong balance sheet and a dedicated team of employees. We believe we can grow at double the rates of our underlying markets and increase our global leadership in each business. We will be more diverse in terms of our business portfolio and employee base as well as geographically. Our environmental and social performance will continue to improve and increasingly become a competitive advantage.

We are committed to profitable growth. Through our disciplined focus on helping customers succeed, Johnson Controls will continue to deliver greater value to all of our stakeholders.

Thank you for your support of Johnson Controls.

Sincerely,

John M. Barth
Chairman and Chief Executive Officer

AUTOMOTIVE EXPERIENCE

People spend more time in their vehicles than ever before. Our comprehensive consumer research gives us unique insight into how people interact with vehicle interiors. We apply our knowledge and technology in new ways to create smart environments that make the driver and passenger experience better.

WHAT DRIVES A CONSUMER'S DECISION TO PURCHASE ONE VEHICLE OVER ANOTHER? IN MANY CASES, IT'S THE VEHICLE'S INTERIOR — THE STYLE, THE CRAFTSMANSHIP, THE COMFORT OF THE SEATS AND THE CONVENIENCE FEATURES.

We help each of our automaker customers deliver the right combination of style, comfort and convenience in their vehicles' interiors – at an appropriate price to consumers. This creates consumer preference and differentiation for our customer brands.

In 2006, our automotive experience business generated sales of $18.3 billion. We provided seat systems, overhead and door systems and integrated electronics to 34 million vehicles and to virtually every major automaker in the world. More than 50% of our revenues are generated outside of North America and we have the most diversified customer base in the industry. We also have the leading market share for seating systems in China, one of the world's fastest growing markets.

The 2006 North American automotive market was marked by lower overall production, rising commodity costs and financial distress for many suppliers. In this environment, our automaker customers are looking to increasingly partner with suppliers like Johnson Controls, who are financially strong and have the ability to continue investing in innovation and quality.

Even with the North American market's short-term challenges, the overall automotive industry remains a growth market. In the next 10 years alone, thanks mostly to emerging markets like China, India, Eastern Europe and Russia, global vehicle production is expected to increase by 16 million units – the equivalent of the entire North American market today. Our international diversification and manufacturing footprint positions us to take advantage of the increasing globalization of our automotive customers and vehicle platforms.

China is a dynamic, fast-growing market. Johnson Controls has been a key supplier to Chinese automakers like BAIC, SAIC and FAW for more than a decade. We operate 12 manufacturing plants to support our customers there. Recently, new, independent Chinese automakers are quickly gaining market share, and they're looking for suppliers to help them grow and to provide them with advanced technology. These potential customers represent significant new growth opportunities for Johnson Controls. In December 2006, we announced a new joint venture with Chery, one of the largest independents, to provide interior systems starting in 2008.

We're taking advantage of our financial strength by continuing to invest in the growth of our interiors business, adding capacity in emerging markets and driving innovation. We believe these investments, as well as the actions we are taking to reduce costs and stay ahead of market changes, strengthen our leadership position.

Growing with Customers

In 2007 we will launch major new interior programs in every geographic market. In North America, for example, we'll begin delivery of seats, overhead systems, instrument panels and door systems for the new Toyota Tundra. We'll provide seating, electronics, door panels, overhead systems and the instrument cluster for the Saturn Outlook crossover vehicle. These programs are in addition to more than a dozen other launches during the year.

In Europe, launches include seating, overhead systems and trim for the Volvo C30, and seating, overhead systems and door systems for the Kia CEED. We've also been awarded future business with European automakers where, historically, we've had lower than average market shares.

Major 2007 launches in China include seating, overhead systems and instrument panels for the Mercedes E-Class, as well as for the Volkswagen Bora.

Differentiated technology is key to our ability to create smart environments.

riACT™ active head restraint

Disappearing floor console

Mobile Device Gateway

IN THE NEXT 10 YEARS, GLOBAL VEHICLE PRODUCTION IS EXPECTED TO INCREASE BY 16 MILLION UNITS — THE EQUIVALENT OF THE ENTIRE NORTH AMERICAN MARKET TODAY.

Differentiated Innovation and Winning Products

Innovation is essential to our future growth. It is key to our ability to add new value for customers and to gain competitive advantage.

We have three main priorities:

Innovations that sustain our competitiveness...
...such as our improvements in core technologies, like metals, mechanisms, trim and foam. We're working to make them perform better while reducing their cost.

Innovations that differentiate Johnson Controls...
...such as our riACT™active head restraint technology, which reduces the risk of whiplash in low-speed, rear-end collisions. At the moment of impact, the headrest moves forward to better support the head. We've developing environmentally-friendly green interiors that can be more easily recycled through innovations like our new soy-foam seat cushions. Our disappearing floor console can slide from the front row to the back and even into the trunk to increase seating space.

Innovations that change the rules...
...and create new markets like our Mobile Device Gateway. The system allows the latest consumer electronics, such as cell phones, MP3 players and personal navigation systems to be seamlessly connected to automotive controls and displays. This leading edge technology helps to reduce driver distraction caused by the ever-increasing amounts of information and features available to the driver.

Our formal product development process continuously harvests innovative ideas from throughout our global organization. Innovation summits bring people together from our technology centers around the world to focus on identifying new applications, technologies and new ways to create smart environments. In 2006 alone, Johnson Controls introduced more than 50 innovative new products and enhancements for the automotive interior.

Integrated electronics is the fastest growing segment of the auto interiors industry. We continue to expand our electronics portfolio and increase electronics integration into seats, door panels, overhead systems and automotive cockpits.

But developing innovative products is just the start. We also offer our Value Product Planning (VPP) process to help customers decide what their targeted consumers will value most in a vehicle. We leverage our extensive consumer research to compare possible interior options and predict market demand. Using the VPP process, automakers can make informed decisions about what features to offer consumers at their targeted cost.

Continuous Improvement in Quality and Cost

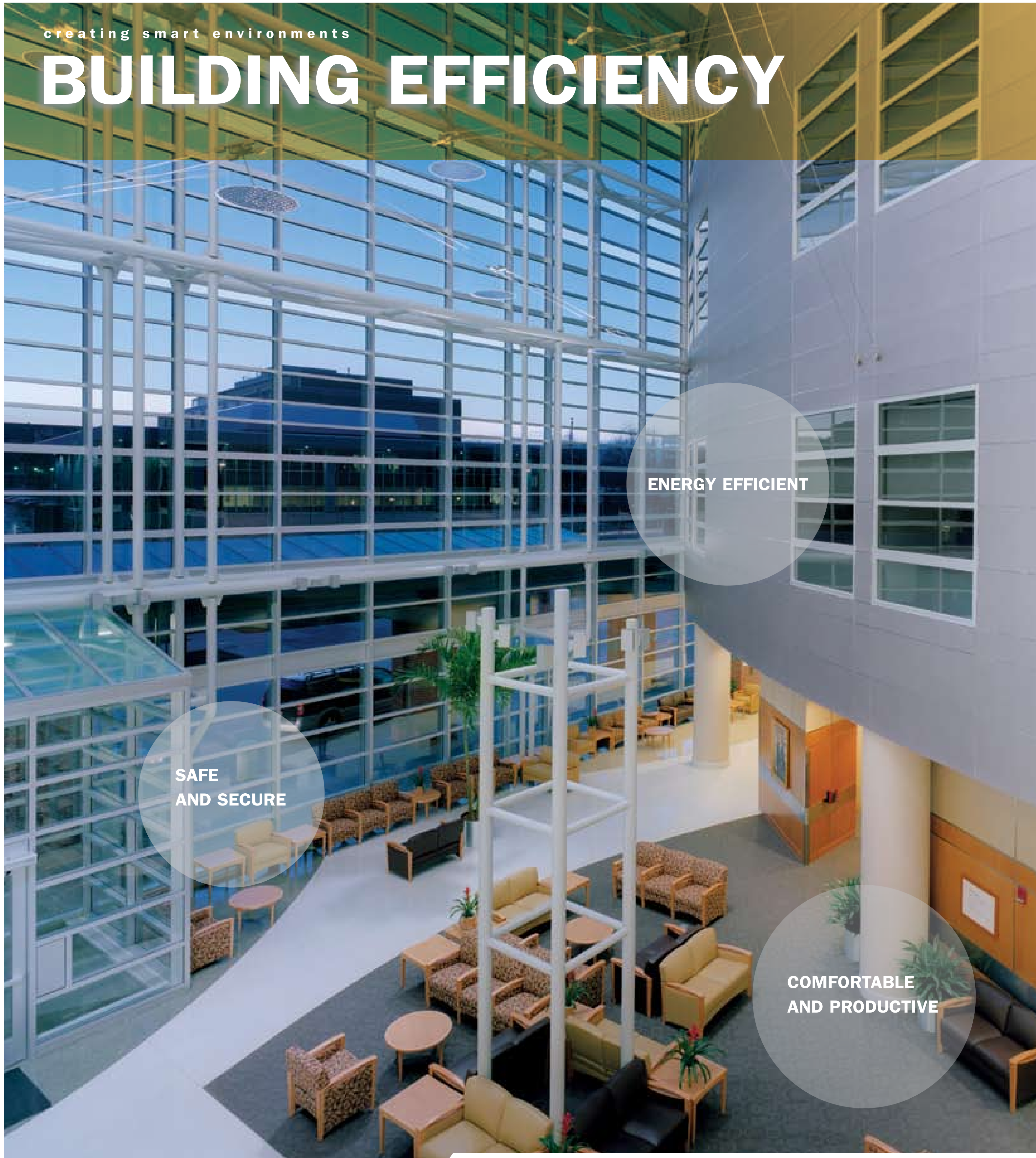
We are committed to continuous improvement in quality and cost in every product and process.

One way we're improving our efficiency is through commonizing interior components. Our Gemini Track and MS Frame, for example, provide us with a common seat track and a common frame structure that can be used across multiple seating programs, providing a best-in-class seat at a cost significantly lower than custom-designed components. We're also commonizing our manufacturing processes, leading to lower costs and improved quality. Over the past three years, we've consolidated the number of core processes more than 25 percent by leveraging our global best business practices.

While we have made significant progress, we see no end to our ability to further improve our operational efficiency. Our Six Sigma and best business practices initiatives have enabled us to identify more than $1 billion in additional savings that can be achieved over the next several years.

creating smart environments

BUILDING EFFICIENCY



When energy efficiency in a building increases, it's not only the utility bill that goes down. So do the greenhouse gas emissions associated with the burning of fossil fuels. The smart environments we create for customers are efficient, safe and comfortable. That makes building occupants more productive. And that's good for business.

JOHNSON CONTROLS MAKES BUILDINGS IN 125 COUNTRIES MORE COMFORTABLE, PRODUCTIVE, SAFE AND ENERGY EFFICIENT.

We are the global leader in providing building automation systems and heating, ventilating and air conditioning (HVAC) equipment for non-residential buildings. We provide technical services to maintain and repair building systems. We also manage and operate thousands of facilities for Fortune 500 firms around the world.

Our customers include thousands of hospitals, schools, airports, office buildings, data centers, government facilities, high-tech manufacturing sites, pharmaceutical laboratories and other non-residential buildings.

We partner with customers for the long-term, often over the entire life of a building. Many of our customer relationships span decades. For the residential buildings market, we provide air conditioning and heating systems.

Acquisition of York International

In 2006, the building efficiency business recorded sales of $10.2 billion including the revenues from York International, a leading global supplier of HVAC equipment and services, which we acquired in 2006. The acquisition provides Johnson Controls with competitive advantage through our unique capability to provide a single source of integrated controls, HVAC equipment and services to optimize building comfort and energy efficiency anywhere in the world. We believe this gives us significant new growth opportunities. The acquisition also enabled Johnson Controls to enter the residential HVAC market for the first time.

Expanded Offerings, Expanded Markets

Johnson Controls and York have a combined existing customer list numbering in the tens of thousands. Selling our full range of systems, equipment and services to existing customers is a significant opportunity for growth. At the Hong Kong Science Park, we leveraged our existing building controls relationship to win a project to install York chillers. At the Gaylord National Hotel in Washington DC, the York relationship helped to win new controls business. Our ability to provide a single-source for controls and HVAC equipment was key in Johnson Controls winning one of the largest single contracts we have ever been awarded – the $50 million contract at the new Children's Hospital at the University of Pittsburgh Medical Center.

Technology to Improve Efficiency

Automating and integrating critical building systems such as HVAC equipment, security and lighting improves the comfort and safety of buildings while increasing energy efficiency and reducing costs. It also provides customers with a better view of all the aspects of their buildings and the related costs, enabling them to make more informed operating and management decisions.

We continue to enhance the performance of our industry-leading Metasys® building automation system, particularly in the area of wireless monitoring and control. A few years ago, building operators would monitor and control building conditions through a dedicated desktop computer. Today, an operator can fully access and control the Metasys system from any place in the world through a PDA, cell phone or the Internet, allowing building personnel to be more mobile and productive.

In addition, our growing set of wireless networking applications continues to drive down installation costs.

Energy efficiency in buildings is also significantly impacted by the performance of their HVAC equipment. The York brand chillers that we provide today use only half the energy of a generation ago while products like the new York OptiSpeed™ variable speed drive can reduce energy costs of existing chillers by nearly 30 percent.

We are also developing technology that will enable our chillers and refrigeration equipment to make greater use of environmentally friendly alternative refrigerants.

Service Leadership

Our team of 10,000 front-line service providers is more than double that of any of our competitors. Our service capabilities extend beyond maintaining control systems and

mechanical equipment. We remotely monitor HVAC, fire and security systems in hundreds of customer facilities, enabling us to take action to correct problems before they become emergencies. Our predictive technologies can detect impending failures in mechanical equipment. We capture operating data from thousands of buildings around the world, and use it to analyze and optimize a customer's mechanical equipment.

For global corporations, Johnson Controls operates and manages entire facility portfolios – totaling more than one billion square feet. We have expanded our facility management capabilities to include portfolio management, property acquisition and divestiture consulting, design and construction services and information management solutions. Coupled with our operations expertise, these services give Johnson Controls an unmatched ability to lower a customer's overall real estate portfolio costs. In 2006 we broadened our relationship with Agilent by taking on additional facilities and responsibilities. We were also awarded major facility management contracts with new customers such as Shell, where we are supporting more than 12,000 company locations world-wide, and Ericsson.

Growth in Emerging Markets

Markets like China, the Middle East and Eastern Europe represent significant growth opportunities for Johnson Controls. A growing number of world-class buildings are being built in these emerging markets, and energy efficiency is an increasing priority for both governments and businesses.

In China, we are helping with the audit of government facilities to identify energy efficiency improvement opportunities. Just two years ago we served six cities in China. Today, we have operations in 29 cities. The World Financial Center in Shanghai, which will be the tallest building in the world when completed in 2008, will feature our Metasys system and wireless network.

We are continuing to increase our leading HVAC equipment share in the growing Middle East market. In 2006, we were awarded a contract to provide the equipment to create 90,000 tons of cooling for the new Marina Financial Center in Bahrain.

These emerging markets are expected to experience sustained double-digit growth in new construction over the long term as their economies continue to expand.

Johnson Controls provides a single source for automated controls, HVAC equipment and expertise to improve the performance and comfort of our customers' buildings.

YORK® centrifugal chiller

Metasys® building automation system

Heating and Cooling for the Residential Market

Johnson Controls designs and manufactures a complete line of heating, ventilation and air conditioning systems for the residential and light commercial markets under our York® brand name.

We expect to grow our market share in the coming years by expanding our network of distributors and home builders as well as by offering innovative new products.

Our new MicroChannel air conditioner technology is 30 percent smaller than comparable units, uses less refrigerant, and can lower installed costs for consumers. We also offer central air conditioning systems in colors to match a home's exterior or with the logos of favorite sports teams. We believe these offerings will drive increased consumer demand for our York residential systems.

YORK Affinity® residential air conditioning system

In 2006, the HVAC distributor F. W. Webb signed an agreement to exclusively carry York residential heating and cooling products. The company is one of the largest HVAC distributors on the Eastern coast of the United States. Also in 2006, Pulte Homes, a multi-billion dollar new home builder, agreed to install York products in all of the houses it builds in the western half of the U.S. over the next five years.

POWER SOLUTIONS

Our lead-acid automotive batteries last longer and are more dependable than ever before. And every part of a battery can be recycled, making them environmentally friendly. Our new hybrid battery technologies will help deliver improved fuel efficiency and reduced emissions by powering the next generation of vehicles.

JOHNSON CONTROLS MANUFACTURES ABOUT ONE-THIRD OF THE LEAD-ACID AUTOMOTIVE BATTERIES PRODUCED IN THE WORLD. WE ARE THE GLOBAL INDUSTRY LEADER, NOT JUST IN MARKET SHARE, BUT ALSO IN QUALITY, TECHNOLOGY, DELIVERY AND VALUE.

We extended our global leadership in 2006 by adding new customers and making existing customers more successful in North America, Europe and Asia. In addition, we were awarded the industry's first order for a lithium-ion hybrid vehicle battery, extending our technology leadership. Sales for the year totaled $3.7 billion, an increase of 27 percent over the prior year, primarily reflecting the impact of the Delphi battery business acquisition.

Global Growth in Lead-Acid Batteries

About 80 percent of the batteries we manufacture each year are sold through the automotive aftermarket, which is resistant to changes in the economy. Our North American aftermarket customers include the largest retailers and distributors such as Advance Auto, AutoZone, Interstate Battery, Sears and Wal-Mart. In Europe, aftermarket customers include Carrefour and Auto-Tiele-Unger.

We make original equipment batteries for many of the world's largest automakers including BMW, DaimlerChrysler, Ford, General Motors, Honda, Nissan, Renault, Toyota and Volkswagen.

Globally, the automotive battery market grows only 1 to 2 percent annually. Johnson Controls expects to grow at a pace twice as fast.

We continue to win new business even in mature markets like North America. In 2006, we were awarded new contracts for batteries sold at Sam's Clubs and won additional business from DaimlerChrysler for original equipment batteries. We're adding manufacturing capacity in North America to accommodate the new business.

In North America, we primarily produce batteries under our customers' brand names. In other parts of the world, we provide batteries under our own brands such as the market-leading LTH® brand in Mexico, the Heliar® brand in South America and the Varta® brand in Europe and Asia.

In Europe, our growth strategies focus on increasing penetration of the independent aftermarket segment and streamlining distribution processes.

While Asia is a growth market for our power solutions business overall, China is projected to have the fastest growth at approximately 8 percent annually. We entered the Chinese market in late 2005 through the acquisition of the Delphi battery business. We expect strong growth in China as we introduce differentiating new technologies and leverage the existing relationships we have with Chinese automakers through our automotive experience business.

Consumer demand for our spiral-wound OPTIMA® battery continues to increase. The patented technology is specially designed for deep-cycle applications and is highly vibration resistant.

Quality and Technology Leadership

Maintaining our global leadership requires us to continuously find new ways to improve our batteries while reducing our costs. Our PowerFrame™ process improves quality and lowers manufacturing and warranty costs. The process is fully launched in our North American plants, and is planned to be introduced in Europe in late 2007. It will be expanded to Asia in the coming years.

Through best business practices and Six Sigma methodologies we continue to find opportunities for improving quality and reducing costs. Through these programs, we currently have over $200 million of cost savings identified.

Emerging Opportunity: Hybrid Battery Technology

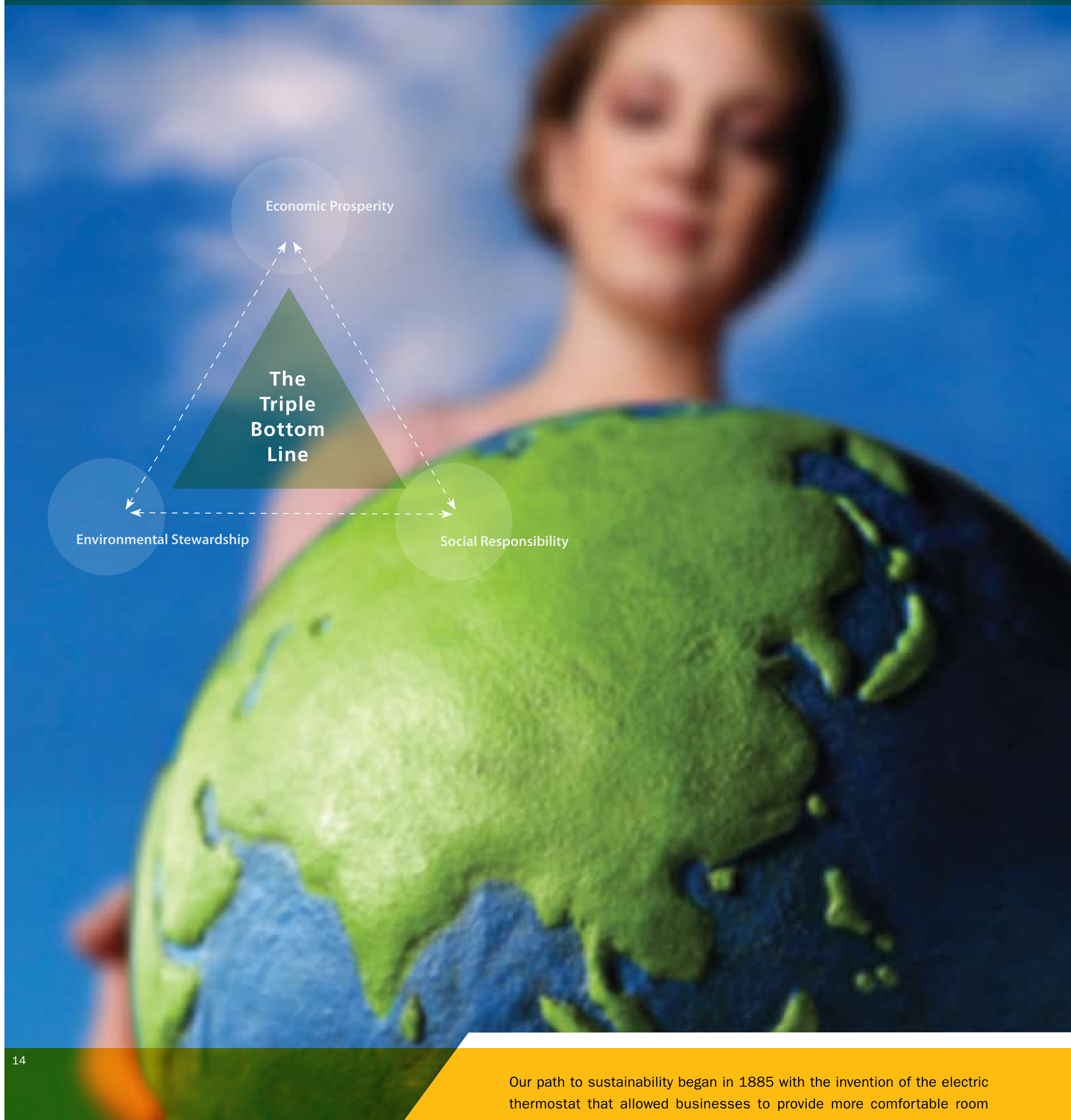
Johnson Controls is well positioned to become the leading western supplier of hybrid electric vehicle batteries. In 2006, we opened a lithium-ion battery development lab and formed a joint venture with the European advanced battery expert Saft, both designed to accelerate our participation in the hybrid vehicle market. Those actions were rewarded, with Johnson Controls receiving the industry's first award for a lithium-ion battery program. Production is expected to launch in Europe in late 2008.

Johnson Controls was also awarded its second major research grant for lithium-ion batteries by the United States Advanced Battery Consortium, an organization funded by the U.S. Department of Energy and administered by DaimlerChrysler, Ford, and General Motors.

We continue to pursue hybrid opportunities with virtually every automaker around the world.

creating smart environments

SUSTAINABILITY AS A COMPETITIVE ADVANTAGE



Our path to sustainability began in 1885 with the invention of the electric thermostat that allowed businesses to provide more comfortable room temperatures while improving energy efficiency. It continues today in all our businesses and with a balanced approach to economic, social and environmental performance.

SUSTAINABILITY IS OUR BUSINESS. WE DEFINE SUSTAINABILITY AS THE "TRIPLE BOTTOM LINE," WHICH MEANS WE MEASURE OUR PERFORMANCE AGAINST THREE INDICATORS: ECONOMIC, SOCIAL AND ENVIRONMENTAL.

We view our commitment to sustainability as a competitive advantage. It has helped us achieve decades of sales and earnings growth. It impacts our rankings as a best-managed company. It is why we are one of only 12 companies on the Billion Dollar Roundtable for our purchases from minority- and women-owned businesses.

Our strategic focus on sustainability has allowed us to better anticipate our customers' needs, attract and retain top talent, seize global challenges and make them opportunities, and uphold our core values. In doing so, we are providing products and services that address risks and opportunities that contribute to long-term social, financial and environmental success for Johnson Controls and its customers.

Sustainability is critical for all our stakeholders. Our customers expect good value, ethical behavior and products that help them to be successful. Our employees expect development opportunities, open communication, safe working conditions, and a commitment to diversity and inclusion. Our investors expect fiscal responsibility, good governance, sustainable practices and transparent reporting. Our communities expect environmental stewardship and reinvestment in local needs and programs.

Johnson Controls is committed to delivering on our stakeholder expectations. We engage with our largest shareholders on a continuous basis. The discussions often include Chairman and CEO John Barth and other key senior managers.

We take affirmative steps to collaborate with non-government organizations. Recent discussions include supply chain management and programs to ensure human rights compliance.

Through our participation in various sustainability groups, such as the Global Environment Management Initiative and the UN Global Compact, we are working to better understand and address stakeholder concerns facing many multinational companies.

OUR VALUES

Our Values, while written and formalized decades ago, reflect today's focus on sustainability as a competitive advantage. Here's how our values relate to sustainability.

Integrity – Annual reporting and transparency enable us to demonstrate our integrity and ethics.

Customer Satisfaction – By helping our customers meet their sustainability goals, we contribute to their success.

Our Employees – Through leadership development, employee engagement, diversity and inclusion, and our involvement in the community, we strive to be an employer of choice.

Improvement and Innovation – Our commitment to continuous improvement extends to our social and environmental performance.

Safety and the Environment – The very nature of our business supports the commitment of Johnson Controls and our customers to environmental stewardship and product safety.

SUSTAINABILITY

ENVIRONMENT

Johnson Controls is listed with several financial investment indexes that rate companies for environmental, economic and social criteria, such as corporate governance, environmental policy and management, environmental and social reporting, philanthropy and stakeholder engagement. These include Dow Jones Sustainability World Index, FTSE4Good, KLD Dividend Achievers Social Index and Domini 400 Social Index.

Johnson Controls has applied to receive the highest certification level as a green building — LEED Platinum — for our global headquarters. Focusing on energy efficiency at our buildings is part of our Climate RESOLVE commitment to reduce greenhouse gas emissions by 18 percent in the United States by 2012.

Creating Smart Environments in Our Own Facilities

Our commitment to environmental performance starts with our facilities and extends to our customers. For more than 120 years we have worked under the premise that to help our customers achieve their environmental goals, we need to raise the bar at our own facilities first.

As an example, the headquarters for our building efficiency business in Milwaukee, Wisconsin was one of the first 12 buildings in the United States to be certified as Leadership in Energy and Environmental Design (LEED®) Silver level for new construction. Just a few years later it was the first building in the country to be re-certified at the Gold level for existing buildings. Currently, our corporate headquarters, also located in Milwaukee, is expected to achieve Platinum certification, the highest level possible.

At our manufacturing facilities in 2006 we launched a comprehensive energy services program focused on identifying opportunities for energy improvement. The program includes a five-phase assessment focused on the following areas: energy supply management, energy asset management, utility bill management, energy information management, and regulatory compliance and sustainability.

In the program's first year, we audited five of our U.S.-based manufacturing facilities. Best practices are being identified for global implementation as the program moves into the regulatory compliance and sustainability phase.

In addition, we are piloting our own Sustainable Energy Education and Communications (SEEC) program to teach employees what can be done in their homes and workplaces to reduce their individual and collective environmental footprints.

Our proprietary Utility Bill Payment and Management Reporting Service has been implemented throughout the majority of our North American facilities. The system, also available to our customers, consolidates utility bills into one central database enabling us to establish and maintain budget predictability and accountability, cut utility invoice processing costs, improve management reporting, eliminate late fees and billing errors, reduce commodity costs, and improve utilization practices.

Recycling and waste reduction are also critical components of our internal environmental objectives. We were a leading company in the development of a recycling process for automotive batteries, making them the most recycled consumer product in the United States — 99 percent recycled versus 45 percent for aluminum cans and 50 percent for paper. We are taking that expertise global through a partnership with the National Development and Reform Commission (NDRC) in the People's Republic of China, where we are working together to develop an improved process for environmentally-friendly recycling of automotive batteries.

In Europe, we have developed processes for reusing glass-fiber reinforced plastics from automotive instrument panels into air ducts and mouldings for engine compartments, adding up to savings of approximately 400 tons per year of glass fiber reinforced plastics. Additionally, natural products like coconut husk fibers are used in high-end car seats resulting in economic and ecologic savings.

Memberships and Partnerships

In addition to memberships in several state organizations, Johnson Controls is active in key national and international organizations and partners with industry and government entities that promote environmentally responsible business. They include:

- **World Environment Center,** a nonprofit organization working to advance sustainable development. The center presented Johnson Controls with the 2004 Gold Medal for International Corporate Achievement in Sustainable Development.
- **Global Environmental Management Initiative,** comprised of companies dedicated to environmental, health and safety excellence through best-practice sharing.
- **U.S. Energy Association,** a group of energy-related companies, organizations and agencies; co-sponsor with Johnson Controls of the annual Energy Efficiency Forum in Washington, D.C.
- **UN Global Compact,** comprised of industry leaders dedicated to fostering the United Nations' Ten Principles, which include environmental stewardship, worker safety and human rights.
- **Supplier Partnership for the Environment,** an innovative partnership between automobile original equipment manufacturers, their suppliers and the U.S. Environmental Protection Agency (EPA) to develop strategies that improve the environment while increasing value throughout the automobile supply chain.
- **ENERGY STAR,** a voluntary EPA energy efficiency program. We have helped dozens of customers earn the prestigious ENERGY STAR label for buildings through our energy efficiency efforts.
- **World Business Council for Sustainable Development,** a coalition of approximately 180 international companies from more than 30 countries sharing a commitment to sustainable development.

ENVIRONMENT
CONTINUED

General Motors honored Johnson Controls with its first-ever Environmental Excellence Award. The award was designed to recognize a GM supplier that supports the automaker's environmental initiatives, exhibits transparency in its environmental performance, and brings new technologies to GM that improve environmental performance of the company's facilities or products.

Our advanced lithium-ion battery technology was the focus when U.S. President George W. Bush visited our development lab in Milwaukee. The president also visited our building efficiency business headquarters, where he introduced new energy initiatives including increased support for hybrid vehicle development.

Helping Our Customers

Our businesses by their very nature are designed to help our customers save energy. Nearly half the world's energy consumption is attributed to buildings and vehicles. Our efforts to improve their efficiency makes a significant contribution to reducing their environmental impact.

A 2006 report from the independent Leonardo Academy calculated that the energy efficiency projects implemented by Johnson Controls in its own operations and for its customers between 1990 and 2005 have resulted in $32.7 billion in energy cost savings. The projection for projects implemented from 2006-2025 is an energy cost savings of $129 billion.

We help our customers achieve their environmental goals through a variety of energy-efficient methods. For example, through a performance contract with the Indiana Department of Correction in the United States, we are guaranteeing more than $7 million in savings over the next decade while providing $25 million in facility capital infrastructure upgrades. Some of the buildings will be heated by new biomass boilers that are fueled by corn grown in Indiana. In Kuala Lampur, Malaysia, the Securities Commission Headquarters will include our Metasys system to improve the building's energy management and lighting control.

We helped the United States Green Building Council (USGBC) develop its Leadership in Energy and Environmental Design (LEED) rating system for existing buildings in 2000. In 2003, we helped with the development of LEED for new construction. Our Green Compass™ software helps our customers assess their real estate portfolios to analyze environmentally friendly green features, evaluate the return on investment for implementing green strategies, assess and manage new green building projects, build a database of best practices, and prepare for LEED certification. We have assessed more than 200 customer buildings for LEED compliance and certified many of them, including Janssen Parmaceutica Inc., headquarters campus; Goizueta Business School at Emory University; KeyBank Campus in Brooklyn, Ohio; and Westwood Elementary School for the Elk River Independent School District, Minnesota.

For our customers who aren't sure about how sustainability fits into their business plan, our Sustainability Solutions Navigation sessions provide a structured, interactive process for quickly assessing sustainability needs and practices. The sessions help our customers address a wide range of sustainability issues ranging from the design and construction of a green building, the efficiency improvement of a portfolio of facilities, or the development of an organization-wide sustainability strategic plan.

We are also providing tools for our customers to help their employees understand sustainability. Our Sustainable Energy Education and Communications (SEEC) program is a 10-module series of online lessons that shows how employees can find financial, environmental and social benefits at work and at home. It shows them how saving energy and water, keeping indoor air clean and other sustainable strategies can save money, reduce emissions, and help them stay healthy.

Beyond education about sustainability, we are developing innovative products, including an advanced lithium-ion battery with longer life and a much higher power-to-weight ratio than current hybrid vehicle batteries. The battery improves fuel efficiency and reduces emissions. As a result of these efforts, in 2006 Johnson Controls was awarded the industry's first development contract to supply lithium-ion batteries to a major vehicle manufacturer.

For more than a decade, we have been developing interior components that lower vehicle weight and make them more environmentally friendly. Recently we developed the Genus™ seat and low profile seat, both of which demonstrate how light weight designs and recyclable materials can still deliver world-class comfort and performance.

Employee Development

Johnson Controls sales have more than tripled from $10 billion to $32 billion in the past decade, while the number of employees has grown from 65,000 to 135,000. Chairman and CEO John Barth emphasizes that the company could not have achieved such growth, and will not achieve future growth, without talented people "up, down, and sideways," throughout the company.

"My goal as CEO is to continue growing the business. I know we will not succeed without a continued emphasis on corporate citizenship and on developing a global, diverse team," Mr. Barth said in a 2006 book published by Diversity Best Practices, called "CEOs Who Get it: Diversity Leadership from the Heart and Soul." Mr. Barth was one of 20 CEOs featured in the book.

Leadership development is a core component of the company's growth strategy. The Blue Sky Leaders Program supports our strategy by ensuring that managers and employees are equipped with the tools necessary to continue to learn, grow and develop throughout their careers. Blue Sky Leaders includes the following elements:

· **Leader Expectations Model.** The Leader Expectations Model (LEM) is a description of 11 leadership behaviors characteristic of high-functioning leaders at Johnson Controls. Research has demonstrated the relationship between these behaviors and success in our company. Every leader in Johnson Controls has been provided with the LEM list and a set of descriptors that enables them to clearly analyze strengths and developmental areas for themselves and their employees. Each manager also has been provided a Johnson Controls LEM Development Guide, a comprehensive 120-page reference book filled with development suggestions to learn, grow, and develop in each area of the model.

· **Global Performance Management System.** This system cascades annual performance goals from the CEO through each division of the company, allowing employees to ensure that their work and their development are tightly aligned with corporate strategy. It allows them to see the goals of the larger organization and where there may be opportunities for growth and advancement. It also increases the working alliance between manager and employee by ensuring a process that requires performance effectiveness conversations.

· **Annual Development Plan.** Johnson Controls expects 100 percent of our

The 2006, Johnson Controls Leadership Development class (XLP) focused on topics including integrated profit planning; merger and acquisition integration; worldclass service; and employer excellence. Here, a group of team members is in Beijing, China for one of the five global meetings.

non-bargaining-unit staff to complete annual development plans.

· **Coaching/Training.** As employees develop by doing, it is critical that managers are able to adequately support them. Mandatory training was instituted in 2005 to provide managers with the skills necessary to coach and provide relevant development feedback to their employees.

· **E-Learning.** Self-paced learning modules are available to enable employees and managers to increase competence in performance management, development planning, the LEM, and other important development topics.

· **Access.** All learning and development content is available to all employees, regardless of location, via a Web portal.

· **Translations.** Blue Sky Leaders content is available in 18 languages: English, Chinese (Simple and Traditional), Japanese, Korean, Thai, Czech, Dutch, French, German, Italian, Polish, Portuguese (European and South American), Romanian, Slovene and Spanish (European and South American).

For the company's next generation of senior leaders, our eXtreme Learning Program (XLP) brings together a diverse, global class of approximately 40 "students" to address several key issues the company is facing. Challenged with real business problems to solve, the XLP teams have seven months to bring back a solution. During that time, they formally meet five times at different global locations. Reflecting the company's focus on diversity and inclusion, the 2006 XLP class of 37 people included 20 nationalities and 13 minorities. The class also mirrored our employee population with 65 percent from outside the United States.

Employee recognition is also an important part of our leader development strategy. Our Chairman's Award for Exceeding Customer Expectations recognizes employees who help the company achieve our mission: to continually exceed our customers' increasing expectations. The award was established in 1985 to recognize employees who exceed customer expectations through quality, service, productivity and time compression. In 2006, 14 teams and individuals spanning 21 countries were recognized with Chairman's Awards.

In 2006, we launched a new category of recognition, the Chairman's Award for Leadership Excellence. It recognizes individuals who embody the Johnson Controls

Employees at our plant in Juarez, Mexico have worked more than 4.2 million hours without a recordable injury. At our plant in Tlazala, Mexico, the record is 4 million hours. In Torreon, Mexico employees have gone more than 2.1 million hours injury-free.

The World Diversity Leadership Council recognized Johnson Controls with its Corporate Diversity Innovation Award. We received the award for our supplier diversity joint-venture program and for excellence in collaborating with partners in urban, diverse communities. The award ceremony was held in Prague, Czech Republic where the Honorable Edvard Ostrada, (R) head of the Czech Republic Senate presented the award to Vice President of Diversity and Public Affairs, Charles A. Harvey (L).

leader expectations criteria and who demonstrate a high level of community involvement.

Daniel Yamamoto was the first recipient of the Johnson Controls Chairman's Award for Leadership Excellence. Yamamoto, vice president of our Toyota business unit global sales, received the award for his extraordinary leadership skill within the company and his community.

Diversity and Inclusion

The Diversity and Public Affairs Department was launched at Johnson Controls in January 2006. The department was created at the recommendation of an XLP team, which also recommended the addition of a corporate officer-level executive position reporting to the chairman and CEO. The initial focus of the vice president of diversity and public affairs and his team includes the following areas: workforce diversity, supplier diversity, community relations, individual and team recognition, and sustainability programs.

In fiscal 2006, Johnson Controls purchased more than $1 billion in goods and services from minority– and women-owned firms. We are one of 12 companies on the Billion Dollar Roundtable, an organization comprised of U.S. corporations that annually spend more than $1 billion with minority- and women-owned firms. Our commitment to supplier diversity earned us numerous awards in 2006, including Corporation of the Year from both the Michigan Minority Business Development Council and the Tennessee Minority Supplier Development Council, and the Corporate Diversity Award from the World Diversity Leadership Council.

Our employees are active in creating an inclusive workplace through initiatives like the African American Affinity Network (AAAN) and a Women's Resource Network (WRN). Both groups are organized by employees and chartered and funded by the company. The mission of the AAAN is to improve the recruitment, retention and employee development of African American employees for the overall benefit of improving the diversity within Johnson Controls.

The group sponsors programs such as a summer student robotics workshop, professional development seminars,

2006 Employee Recipients of Chairman's Award for Exceeding Customer Expectations

The company's highest honor, the Chairman's Award for Exceeding Customer Expectations, recognizes employees who help the company achieve our mission. The awards are given personally by the company chairman at special events held around the world.

European Plastics Footprint Restructuring Team
Germany, France, Sweden, Netherlands, Belgium, Slovak Republic, South Africa and South America

Expanded Metal Plate Production Team
Mexico, United States

Foam Launch Team
China, Asia Pacific and Japan

Gulf South Hurricane Relief Team
United States, Mexico

Hear the Voice of the Customer Team
Mexico

Honda Civic Global Floor Console Team
Japan, Thailand, Brazil, North America

Jesse Doyle
United States

Juarez Trim Plants Flood Response Team
Mexico, United States

Kia New Product Development Team
South Korea, Germany, Netherlands, France, Slovak Republic, China South Africa and South America

President Bush Visit Team
United States

Service Growth Initiative Team
United States, Canada, Mexico, India

Trim Fabric Supply Recovery Team
Germany, UK, Belgium, Sweden, France, Spain, Portugal, Czech Republic, Slovak Republic, Romania, Slovenia, Mexico, United States South Africa and South America

York Integration Team
United States, Canada

Daniel Yamamoto received the 2006 Chairman's Award for Leadership Excellence. Yamamoto, the first recipient of the award, was honored for his extraordinary leadership skills within the company and his community. He is vice president of our Toyota business unit global sales.

cultural awareness events, holiday community projects, and new hire/new executive welcome receptions.

The WRN's mission is to harness the power, influence and intelligence of Johnson Controls women employees to establish a community that fosters professional development and mentoring, cross-functional networking, relationship building, leadership outside of traditional roles, and corporate awareness and advancement on women's issues.

SAFETY

Nationally, the U.S. Bureau of Labor Statistics reported that there were 4.8 recordable injury cases per 100 full-time workers in the private sector in 2004 (the most recent data available). Our 2006 average was 1.4 cases per 100 full-time workers, a 14 percent improvement over fiscal 2005, and less than one-third the national average.

Our lost-time rate also improved in 2006. We finished the year with a lost-time rate of .56 cases per 100 full-time workers, an 18 percent improvement over 2005 and less than half the national average of 1.4.

SUSTAINABILITY

SUPPLY CHAIN

Each year Johnson Controls provides executive-level training for managers of diverse firms at Dartmouth College's Tuck School of Business. This weeklong, MBA-style program provides practical strategies on how to rapidly grow diverse firms to compete at a world-class business level.

Johnson Controls works with more than 100,000 direct and indirect suppliers throughout the world.

We expect our suppliers to conduct their operations in a sustainable manner — economically, environmentally and socially. Our goal is to work collaboratively with suppliers to encourage compliance with applicable laws and regulations; integration of environmental, occupational health and safety, human rights, and labor policies into the decision-making process based on a sound management system; and clear and accurate reporting.

Our businesses use a variety of tools to assess prospective and existing suppliers based on our sustainability expectations. The assessment often includes background checks, self-assessment surveys, site visits, third-party audits, and internal discussions with personnel from other internal and external organizations.

Additionally in 2006, each business began implementation of processes to track the following metrics:

· Confirmation that all suppliers abide by the Johnson Controls ethics policy or equivalent

· Percentage of direct material suppliers audited by Johnson Controls or a third party

· Number and type of suppliers terminated due to social and environmental performance issues.

Our ethics policy provides general guidance about our expectations for our suppliers. In addition, in 2006 we implemented a company-wide supply chain standard that provides additional guidance to procurement and other personnel regarding the environmental and social performance of suppliers. Each business has established processes to ensure compliance with the standard. It includes details about labor, discrimination, freedom of association, health and safety, the environment, management systems, and ethics. The standard was developed in partnership with key customers, socially responsible investment funds and non-government organizations.

Data indicate that all suppliers have complied with the guidance provided by our ethics policy. No supplier has been terminated due to poor social or environmental performance areas. There have been past instances where suppliers with good environmental and/or social performance records were awarded contracts over those with less favorable records.

SUSTAINABILITY

GLOBAL COMMUNITY INVOLVEMENT

Forty high school students worked to improve their home town through Milwaukee's Conservation Leadership Corps, sponsored by Johnson Controls in partnership with the Student Conservation Association and the Private Industry Council of Milwaukee County.

The communities where we do business are an important stakeholder for Johnson Controls. We promise to make the community a better place, and we are committed to delivering on that promise.

Our community involvement is a combination of philanthropy and employee volunteerism.

In the United States, Johnson Controls grants approximately $7 million annually, focused on three areas: arts, education and social services. We also match our employees dollar for dollar for contributions to the arts, education and the United Way.

In 2006, Johnson Controls announced a $3 million grant over five years to support the development of Discovery World Museum's Techno Jungle Exhibit, in Milwaukee. We also contributed more than $2 million to the United Way of Greater Milwaukee, which included $1 million from employees and $1 million matching grant from the Johnson Controls Foundation. We are one of only three Milwaukee-area firms whose combined employee and corporate United Way contribution exceeds $2 million annually. In the United States, our total United Way giving exceeds $4 million.

In partnership with the Student Conservation Association and the Private Industry Council of Milwaukee County, Johnson Controls sponsored the creation of Milwaukee's Conservation Leadership Corps. The program provided meaningful conservation summer jobs for 40 city of Milwaukee high school students. The students worked in county parks on projects such as removal of invasive species, building trails and bridges, planting trees, digging ditches, and other activities. The program also included an educational curriculum.

In 2007, the company will be expanding some of these Milwaukee-based programs into other targeted cities including Detroit, Baltimore, New Orleans, Atlanta and Chicago.

Nationally, our scholarship program awards $240,000 in college scholarships annually to 45 outstanding children of Johnson Controls' U.S. employees, including 25 four-year grants and 20 one-year grants. The competitive awards, funded by the Johnson Controls Foundation, are based on academic, extracurricular and community excellence.

Globally, our Blue Sky program supports organizations and programs that focus on the environment and leadership development. Examples include scholarship programs for University of Skopje in Macedonia, and Fudan University in Shanghai, China, and mentoring programs at Mobile Creche in India, Project Hope in China, and Special Olympics in China.

SUSTAINABILITY

BLUE SKY

In Europe alone, employees at more than 50 Johnson Controls locations participated in the Blue Sky Involve program.

On endangered space adjacent to our facility in Whitby, Canada, our team helped pick up garbage and remove invasive plant species.

Our employees presented to school children in Shah Alam, Malaysia, about the importance of recycling.

Fourteen employees volunteered nearly 200 hours conducting skills-based workshops for children and adolescents at risk in the poorest regions near our plant in São Paulo, Brazil.

By cleaning roads and paths, our employees helped to prevent forest fires in Portalegre, Portugal.

In Lucenec, Slovakia, we partnered with the town council and a kindergarten to plant trees, pick up trash, and teach children about the importance of protecting the environment.

In 2006, Johnson Controls launched Blue Sky Involve, a global volunteer program focused on Blue Sky's two priorities: leader development and protecting the environment.

Blue Sky Involve helps Johnson Controls employees share their passion and expertise through community volunteer activities to protect the environment and to strengthen their professional and leadership skills.

The program reinforces our corporate values and brings them to life through service to the community. It helps to define a culture of leadership within the company and the community.

Each Johnson Controls location is eligible for one Blue Sky Involve grant of USD$1,000 per year based on the following criteria: the project must support leader development or protecting the environment, it must support a charitable or educational organization, and it must include an employee volunteer component.

In the program's first year, we made 137 grants to charities selected by employees in 33 countries. Nearly 5,000 employees volunteered through Blue Sky Involve in 2006, contributing approximately 50,000 hours globally.

Examples of Blue Sky Involve projects around the world include:

· Johnson Controls locations throughout Japan worked together to support the YMCA of Japan. As a result, the company granted $9,000 to support YMCAs located in Yokohama, Nagoya, Kobe, Osaka, Saitama, Tokyo, Hokkaido, Kitakyushu and Sendai. These employees are volunteering for the Challenged Children Program, which supports children with physical disabilities.

· In Taiwan, a group of 10 employees is volunteering with the Wild Bird Society of Taipei. They will work with the Society to raise public awareness of bird and environmental protection.

· Employees at our plant in Straz pod Ralskem, Czech Republic, decided to partner with Junák, an ecological program and game preserve. Approximately 60 employees removed garbage, scrap and other waste; planted trees; painted buildings; and repaired fencing around the game preserve.

· We are helping young people understand environmental issues in Bierun, Poland, where employees are volunteering with the Youth Community Centre. These employees are working with the children to teach them about the environment through activities such as planting trees, seeding grass, and renovation of a natural area destroyed by sports activities.

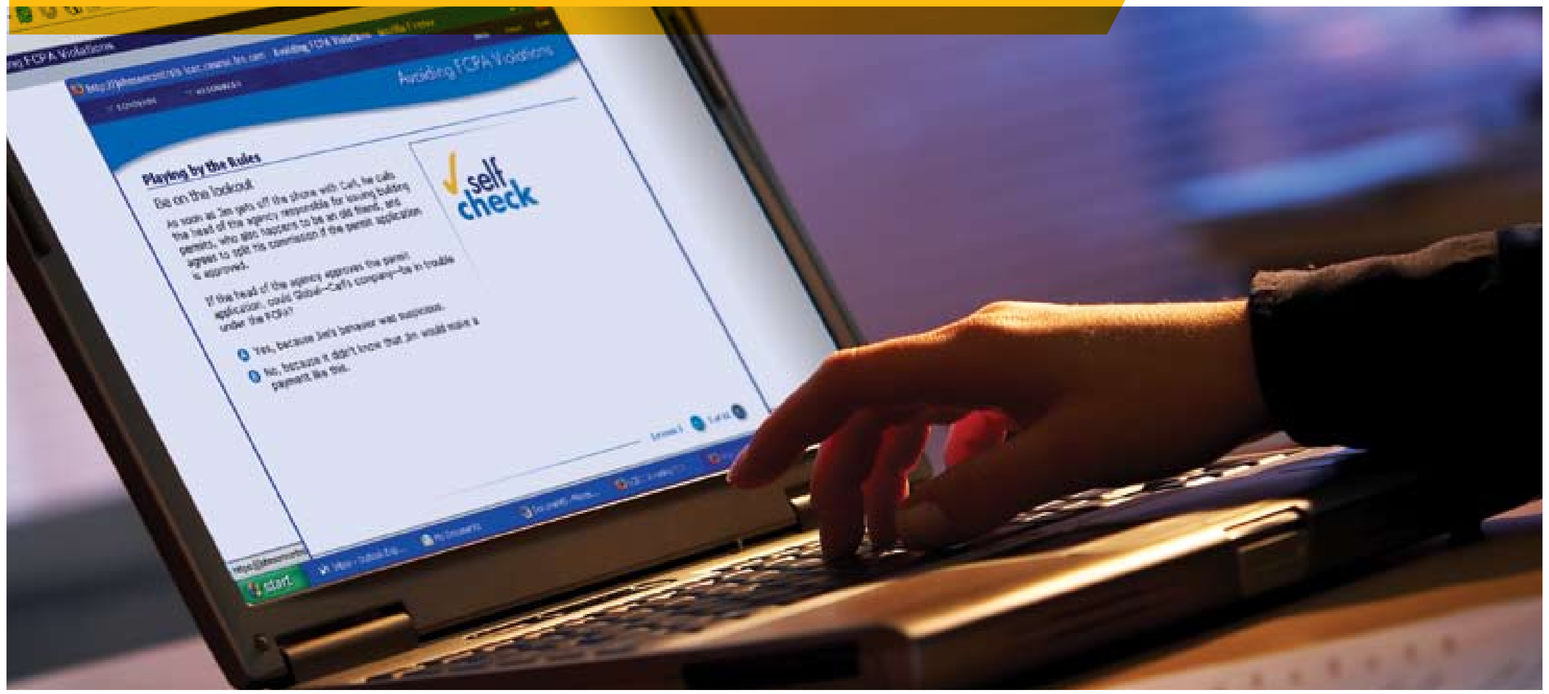
· In Port Elizabeth, South Africa, employees are helping to develop the leadership potential of children who have come from disadvantaged backgrounds. Our partnership with Sinethemba Children's Care Centre sponsors school programming for students interested in continued education, especially with a focus on law.

· Employees in Pinhais, Brazil are giving presentations on health, children's environmental education, and safety through programming with Centro Municipal de Educaçao Infantil Preparaondo o Futuro.

· Nearly 90 employees in Miami, United States, are volunteering with the Marjory Stoneman Douglas Biscayne Nature Center, where they are cleaning the coastline on Key Biscayne. The area serves as a habitat for mangroves, a fossil reef, nesting sea turtles, and a barrier to oncoming hurricanes.

Blue Sky Involve builds on the values and principles that drive our business. It combines employee time, talents and expertise with contributions in each community with a Johnson Controls facility. When these resources are strategically focused, they can have a significant impact on the community, on our employees, and on the company.

SUSTAINABILITY
ETHICS



All salaried employees globally are required to complete three on-line ethics modules annually. Modules change from year to year and have included topics such as sexual harassment, insider information and conflict of interest.

Since 1885 the products and services Johnson Controls delivers have changed, but the kind of company we are, and the way we do business have not.

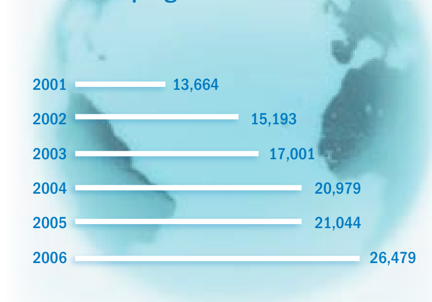
We live by our values, which guide the way we do business. Our first value is integrity. We are a company that keeps its promises; a company that does the right thing.

Compliance with our global ethics policy is a requirement for employment at Johnson Controls. All salaried employees annually acknowledge that they have read, understand, and will comply with our Ethics policy. Additionally, they are required to complete an online ethics certification, which includes three topical learning modules. The online training helps employees recognize legal and ethical concerns, avoid compliance pitfalls and seek guidance whenever necessary. Each year since we launched the online training in 2001 our number of participants has grown, with 26,479 participants in 2006, representing 100 percent compliance with the training requirements.

Our ethics hotline is available to anyone who suspects unethical behavior at the company. The hotline, available 24 hours a day in all major languages, is operated by an independent third-party vendor. In 2006, 342 calls were placed to the hotline, of which 197 were first-time calls, 44 were follow-up calls, and 101 were seeking guidance.

The phone numbers and specific details about the hotline are printed in our Ethics policy and on the Web.

100 percent of employees required to complete certification have done so since the program launched in 2001:



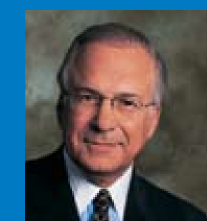
DIRECTORS

Dennis W. Archer, 64
Chairman
Dickinson Wright PLLC
Director since 2002. [3,4]

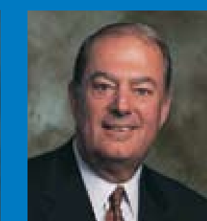
Robert L. Barnett, 66
Retired Executive Vice President of Motorola, Inc.
Director since 1986. [1,3,5]

John M. Barth, 60
Chairman and Chief Executive Officer
Johnson Controls, Inc.
Director since 1997. [1]

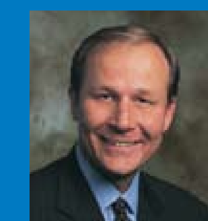
Natalie A. Black, 56
Senior Vice President, General Counsel and Corporate Secretary
Kohler Co.
Director since 1998. [3,5]



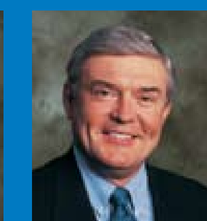
Paul A. Brunner, 71
President and Chief Executive Officer
Spring Capital, Inc.
Director since 1983. [2,4]



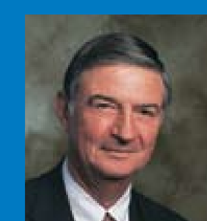
Robert A. Cornog, 66
Retired Chairman and Chief Executive Officer
Snap-on, Inc.
Director since 1992. [1,2,3]



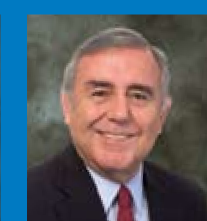
Jeffrey A. Joerres, 47
President, Chief Executive Officer and Chairman
Manpower, Inc.
Director since 2001. [4,5]



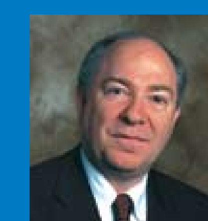
William H. Lacy, 61
Retired Chairman and Chief Executive Officer
MGIC Investment Corp.
Director since 1997. [1,4,5]



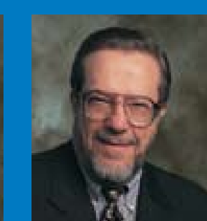
Southwood J. Morcott, 68
Retired Chairman of the Board, President, and Chief Executive Officer
Dana Corp.
Director since 1993. [1,3,4]



Eugenio Clariond Reyes-Ratana, 62
Chairman of the Board and Chief Executive Officer,
Grupo IMSA S.A.
Director since 2005.



Stephen A. Roell, 56
Vice Chairman and Executive Vice President
Johnson Controls, Inc.
Director since 2004. [1]



Richard F. Teerlink, 70
Retired Chairman of the Board, President and Chief Executive Officer,
Harley-Davidson, Inc.
Director since 1994. [2,5]

Committees: 1] Executive 2] Audit 3] Corporate Governance 4] Compensation 5] Finance

EXECUTIVE OFFICES

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Milwaukee, WI 53201
(414) 524-1200

DETAILED REPORTS

Further details on the company's 2006 performance, as well as historical information, can be downloaded from www.johnsoncontrols.com

· Financial (Annual Report on Form 10K)

· Global Reporting Initiative Matrix:
www.johnsoncontrols.com/sustainability.asp

OFFICERS

John M. Barth
Chairman and Chief Executive Officer

Stephen A. Roell
Vice Chairman and Executive Vice President

Keith E. Wandell
President and Chief Operating Officer

Jefferey G. Augustin
Vice President and Corporate Controller

Beda Bolzenius
Vice President and President, Automotive Experience

Susan F. Davis
Executive Vice President, Human Resources

Jeffrey S. Edwards
Vice President, Automotive Experience

Giovanni "John" Fiori
Executive Vice President and President, Johnson Controls International

Charles A. Harvey
Vice President, Diversity and Public Affairs

John P. Kennedy
Executive Vice President

R. Bruce McDonald
Executive Vice President and Chief Financial Officer

Alex A. Molinaroli
Vice President, Building Efficiency

C. David Myers
Vice President and President, Building Efficiency

Jerome D. Okarma
Vice President, Secretary and General Counsel

Michael D. Su
Vice President, Building Efficiency

Subhash "Sam" Valanju
Vice President and Chief Information Officer

Frank A. Voltolina
Vice President and Corporate Treasurer

Denise M. Zutz
Vice President, Strategy, Investor Relations and Communication

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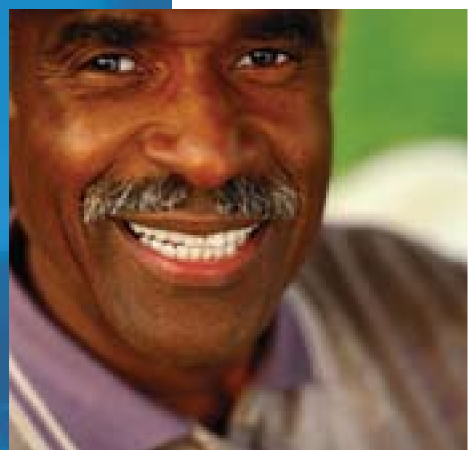
2005 Business and Sustainability Report

JOHNSON CONTROLS

2005 Report

- Financial Performance
- Sustainability



WHAT BRINGS US TOGETHER, SETS US APART

integridad

廉正
čestnost
integrity
intégrité
Integrität
誠実さ
integrita

“在江森自控不存在我们做的是否对的问题。我们说到做到，毫无例外。”
~Rosario Esthela Hurtado Flores，销售和营销培训与知识管理部，墨西哥

„Ve společnosti Johnson Controls nikdy nepochybujeme o tom, zda to, co děláme, je správné. Vždy splníme všechno, k čemu se zavážeme.“
~Rosario Esthela Hurtado Flores, útvar školení v oblasti prodeje a marketingu a řízení znalostí, Mexiko

“There’s never a question about whether or not we do the right thing. We do what we say we will do, without exception.”
~Rosario Esthela Hurtado Flores, Sales and Marketing Training and Knowledge Management, Mexico

« Chez Johnson Controls, on ne se demande jamais si on fait ce qu’il convient de faire. Nous faisons toujours ce que nous disons que nous allons faire, sans exception. »
~Rosario Esthela Hurtado Flores, Sales and Marketing Training and Knowledge Management, Mexique

„Bei Johnson Controls stellt sich nie die Frage, ob wir das Richtige tun oder nicht. Ohne Ausnahme tun wir, was wir gesagt haben, dass wir tun werden.“
~Rosario Esthela Hurtado Flores, Verkaufs- und Marketingmanagement und Knowledge-Management, Mexiko

「Johnson Controls では、正しいことを迷わずに行います。約束したことは必ず実行します。」
~Rosario Esthela Hurtado Flores、営業、マーケティング研修および知識管理、メキシコ

„V spoločnosti Johnson Controls nikdy neexistuje otázka, či konáme alebo nekonáme správnu vec. My konáme to, čo povieme, že vykonáme, bez výnimky.“
~Rosario Esthela Hurtado Flores, Predajný a marketingový školiaci a vzdelávací manažment, Mexiko

“En Johnson Controls no nos cuestionamos nunca si hacemos o no lo correcto. Hacemos lo que decimos que vamos a hacer sin excepciones.”
~Rosario Esthela Hurtado Flores, Capacitación en Ventas y Mercadotecnia y Gestión del Conocimiento, México

innovation

创新
inovace
innovation
innovation
革新技術
inovácia
innovación

"创新使我们在平凡中创造不平凡。"
~Mohsin Benamar，设计工程师，德国

„Inovacemi přetváříme běžné věci na mimořádné předměty."
~Mohsin Benamar, konstruktér, Německo

"Innovation allows us to take the ordinary and make it extraordinary."
~Mohsin Benamar, Design Engineer, Germany

« Grâce à l'innovation, l'ordinaire devient extraordinaire. »
~Mohsin Benamar, Design Engineer, Allemagne

„Innovation erlaubt uns aus Gewöhnlichem etwas Außergewöhnliches zu machen."
~Mohsin Benamar, Design-Ingenieur, Deutschland

「革新技術によって、ありふれたものが素晴らしいものになります。」
~Mohsin Benamar、設計エンジニア、ドイツ

„Ináciou dokážeme vytvoriť z obyčajného výnimočné."
~Mohsin Benamar, Inžinier dizajnér, Nemecko

"La innovación nos permite tomar lo ordinario y hacerlo extraordinario."
~Mohsin Benamar, Ingeniero de Diseño, Alemania

spokojnosť zákazníka

客户满意度
spokojenost zákazníků
customer satisfaction
satisfaction des clients
Zufriedenheit unserer Kunden
お客様の満足度
satisfacción del cliente

"江森自控解决了为市中心楼群供热的城市问题。我们的住户对签订的长期合约没有任何投诉，证明这对双方都是有利的。"

~Ján Beleš, Stupava 市市长，斯洛伐克共和国

„Dodávkou tepla do obytného domu ve středu města podnik Johnson Controls vyřešil naše problémy. Dlouhodobá smlouva, na niž si naši nájemníci nestěžují, dokazuje, že je výhodná pro obě strany."

~Ján Beleš, starosta města Stupava, Slovensko

"Johnson Controls solved the city's problems with supplying heat to a block of flats in the city center. The long-term contract without any complaints from our tenants proves that it is advantageous on both sides."

~Ján Beleš, Mayor, City of Stupava, Slovakia

« Johnson Controls a résolu les problèmes de la ville en approvisionnant en chauffage un immeuble situé au centre de la ville. Le contrat à long terme sans aucune réclamation des locataires démontre que ce projet profite aux deux parties. »

~Ján Beleš, Maire de la ville de Stupava, Slovaquie

„Johnson Controls löste die Probleme der Stadt, indem sie zu einem Apartmentblock im Stadtzentrum Wärme lieferten. Der langfristige Vertrag, der ohne Beschwerden unserer Mieter zustande kam, beweist, dass dies für beide Seiten von Vorteil ist."

~Ján Beleš, Bürgermeister, Stupava, Slowakei

「Johnson Controls は、市内中心部にある共同住宅に暖房を供給して、市の問題を解決しました。入居者からの苦情もなく長期契約が結ばれているのは、互いにメリットがあったことを証明しています。」

~ Ján Beleš、スロバキア、スツパパ市長

„Spoločnosť Johnson Controls vyriešila problém mesta s dodávkou tepla na vykurovanie bytov v centre mesta. Dlhodobá zmluva bez akýchkoľvek sťažností od nájomcov potvrdzuje výhodnosť pre obidve strany."

~Ján Beleš, Primátor, Mesto Stupava, Slovensko

"Johnson Controls solucionó los problemas de la ciudad al suministrar calefacción a un conjunto de departamentos en el centro de la ciudad. El contrato a largo plazo sin queja alguna de parte de los inquilinos, comprueba que es ventajoso para ambas partes."

~ Ján Beleš, Alcalde, Ciudad de Stupava, Eslovaquia

WHAT BRINGS US TOGETHER, SETS US APART

经济繁荣

Wirtschaftlicher Erfolg

Hospodářská prosperita

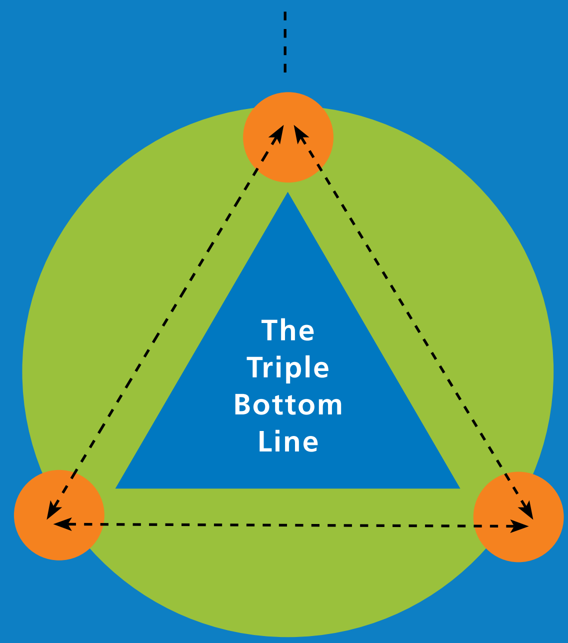
経済的繁栄

Economic Prosperity

Ekonomická prosperita

Prospérité économique

Prosperidad económica



环境卫士

Dohled nad kvalitou
životního prostředí

Environmental Stewardship

Bonne intendance
de l'environnement

Verantwortlicher Umgang
mit der Umwelt

環境への奉仕

Environmentálny dohľad

Administración de
los recursos naturales

社会责任

Sociální odpovědnost

Social Responsibility

Responsabilité sociale

Soziale Verantwortung

社会的責任

Sociálna zodpovednosť

Responsabilidad social

Why is Johnson Controls successful?

It is because our 114,000 people are committed to our corporate Vision. Our Vision outlines what we value as a company and our objectives for success. With the Vision as a guide, we function as a single team dedicated to helping our customers grow and succeed.

Today, business success is being defined more broadly than financial results. Companies are expected to earn a profit as well as to set high standards of environmental and social responsibility – what is often called the "triple bottom line" of sustainability.

To provide a more comprehensive view of the overall performance of Johnson Controls, this report includes sections on our financial, environmental and social performance. More detailed information is available in our filings with the U.S. Securities and Exchange Commission and our online sustainability report at www.johnsoncontrols.com. This 2005 report is not to be regarded as proxy-soliciting material.

Our Vision

Our Mission:

Continually exceed our customers' increasing expectations.

Our Creed:

We believe in the free enterprise system. We shall consistently treat our customers, employees, shareholders, suppliers and the community with honesty, dignity, fairness and respect. We will conduct our business with the highest ethical standards.

What We Value:

- Integrity
- Customer Satisfaction
- Our Employees
- Improvement and Innovation
- Safety and the Environment

Our Objectives:

- Customer Satisfaction
- Technology
- Growth
- Market Leadership
- Shareholder Value

Financial Highlights (unaudited)

In millions, except per share data *Year ended September 30,*	2005	2004	% Change
Net sales	**$27,479.4**	$24,603.0	12%
Operating income	**$1,276.4**	$1,133.2	13%
Income from continuing operations	**$856.7**	$738.4	16%
Diluted earnings per share from continuing operations	**$4.41**	$3.83	15%
Return on average shareholders' equity	**13%**	16%	
Cash dividend per common share	**$1.00**	$.90	11%

Refer to page 16 for additional information

Table of Contents

LEFT TO RIGHT

John M. Barth
Chairman and Chief Executive Officer

Stephen A. Roell
Vice Chairman and Executive Vice President

2005

59th
consecutive year of sales increases

15th
consecutive year of earnings increases

30th
consecutive year of dividend increases

TO OUR SHAREHOLDERS

I am pleased to report that in 2005 Johnson Controls extended its track record for consecutive years of sales and earnings growth. I am proud of our 114,000 people around the world. I thank them for their dedication and commitment to exceeding the expectations of our customers, which enables us to reach new levels of success every year.

Consolidated sales for the year increased 12 percent to $27.5 billion. Income from continuing operations totaled $857 million, a 16 percent improvement.

Throughout our 120-year history, Johnson Controls has continued to transform for success. Our mission to exceed customer expectations requires that we find innovative ways to expand our capabilities in order to address emerging customer needs and trends. To better reflect the true value and expanded capabilities we deliver to our customers, in 2005 we adopted new names for our businesses.

Our interior experience business generated record sales. We launched a record amount of new business during the year, reflecting our success in using world-class innovation and operational excellence to gain share in the automotive interiors market.

New customers, new geographic markets and record sales and profits added to the global leadership position of our power solutions business. We acquired the automotive battery business of Delphi Corporation, giving us a major presence in fast-growing Asian markets and important new original equipment business.

Fiscal 2005 was perhaps the most transformational year in the 120-year history of our building efficiency business. We increased our focus on core systems and service integration, and on building solutions strengths where we have the greatest ability to create value for our customers. In August 2005, we announced our intention to acquire York International, a leading global supplier of heating, cooling and refrigeration equipment, with annual sales of $4.5 billion in 2004. The $3.2 billion acquisition, which we expect to complete in the first quarter of fiscal 2006, doubles the size of our building efficiency business, and creates a single-source solution for customers that will be unmatched in the industry.

More Information for Stakeholders

At Johnson Controls, we define success more broadly than just by financial results. We also define it by our environmental and social performance. These three components are often called the "triple bottom line" of sustainability.

This is the first time we have combined all three components of sustainability into a single report. We believe this report provides a unique perspective on the performance of the company.

Our commitment to successfully manage Johnson Controls with a focus on sustainability was recognized in 2005 with our inclusion on the Dow Jones Sustainability World Index, made up of a select group of companies from around the world recognized for their long-term financial, social and environmental achievements. We also received the EPA Climate Protection Award recognizing our efforts to reduce greenhouse gas emissions through our innovative utility bill tracking system.

We support our local communities globally, both financially and through volunteerism. As a result of the natural disasters this year, Johnson Controls made extra efforts to support communities in Asia and in the southern United States, in part through contributing $2 million to aid the tsunami victims and those affected by hurricanes.

In 2005 we launched Blue Sky Leaders, a global program focusing on the development of our employees' leadership skills both on the job and within the community.

Leadership Changes

We announced new appointments for two of our corporate officers. Stephen A. Roell was elected Vice Chairman and Executive Vice President. R. Bruce McDonald was elected Vice President and Chief Financial Officer.

Newly elected corporate officers were:

- Jeffrey G. Augustin, Vice President and Corporate Controller
- Beda Bolzenius, Vice President, Automotive Group
- Charles A. Harvey, Vice President, Diversity and Public Affairs

We expanded our Board of Directors to 13 members with the election of Eugenio Clariond Reyes-Retana. Mr. Clariond is Chairman of the Board and Chief Executive Officer of Monterrey, Mexico-based Grupo IMSA S.A.

Who We Are Together, Sets Us Apart

Our employees work in more than 50 countries and more than 500 locations, yet we all work together to achieve our mission of exceeding customer expectations.

We're guided by our corporate Vision, which sets forth our values and the way we do business. We are committed to our customers, to ethical behavior, to a focus on innovation, our communities and the environment, and to continuous improvement in every aspect of our business.

This common bond makes us uniquely Johnson Controls – it differentiates us in the marketplace and gives us competitive advantage.

Outlook for 2006

We enter 2006 with sound growth strategies, a strong balance sheet and a dedicated team of employees. The business environment will remain challenging, but we believe that we have the discipline, plans and resources to make 2006 another year of record performance for the company.

Thank you for your continued support of Johnson Controls.

Sincerely,

John M. Barth
Chairman and
Chief Executive Officer

our businesses

interior experience

Johnson Controls is the most vertically integrated automotive seating supplier in the world. Because we have our own frame, foam, mechanism and trim cover capabilities, we have a greater ability to control our manufacturing quality and costs.

Johnson Controls is the global market leader in delivering automotive interior solutions designed to make the driving experience more comfortable, safe and enjoyable.

We provide seating, overhead systems, electronics, cockpits and door systems for more than 35 million vehicles a year, and to every major automaker in the world. Our customers rely on Johnson Controls for innovation that differentiates and helps sell their vehicles. They look for great craftsmanship, world-class quality and lowest cost.

In 2005, we launched a record amount of new business, increasing our share of the automotive interiors market.

Interior experience sales totaled a record $18.8 billion, up 11 percent from 2004. Operating income declined 3 percent to $632 million, primarily due to higher commodity costs, especially steel and resins, which more than offset the efficiency improvements our global operations achieved during the year.

We launched more than $2 billion in new interiors programs in 2005. In North America, we began shipping seats for the Nissan Pathfinder. For the new Mercedes Grand Sports Tourer, we are providing seating, overhead systems, doors and electronics, and for the Honda Pilot, we launched production of seating and electronics.

In Europe, our launches included seating and doors for the Mercedes B-Class and CLS Class Coupe, and seating for the Renault Modus, Land Rover Discovery 3 and the Nissan Xterra.

Launches in Asia included seats for two new Nissan vehicles, the Note and Lafesta in Japan, as well as for the CBA Grace and Volkswagen B5. We launched programs in Korea to supply seats for the Hyundai TG and the Kia MG. We also launched new interiors programs in Malaysia, Thailand, Australia and India.

We expect to launch an additional $1.2 billion in new programs in 2006.

Much of the innovation we deliver to interior systems is through integrated electronics. By 2015, electronics could total one-third of a vehicle's total production cost. We are increasing our capabilities to take advantage of this opportunity.

Our focus on innovation – from the component level through systems integration – enables us to continually offer our customers added value and new reasons to work with Johnson Controls. In addition, our ability to execute and reduce costs while improving quality help us achieve our financial goals even in challenging economic environments.

Continued Global Growth in Automotive Interiors

The global automotive interiors market in 2005 totaled an estimated $165 billion. Estimated to grow to $210 billion in the next 10 years, this market will continue to provide new growth opportunities for years to come.

We introduced several new interior technologies in 2005. In just 10 seconds, at the touch of a button, our new FastForward® seating system converts passenger seating to a flat floor cargo area in sport-utility vehicles, crossover vehicles and minivans. Our safety seat technologies reduce the risk of whiplash and injuries to occupants' lower bodies in the event of a collision, and our new ventilation seat provides cooling that is quiet, lightweight and economical. For door panels and instrument panels, our CrafTec technology allows for multiple materials or colors to be molded in a single piece, improving craftsmanship, design flexibility and cost.

The market for interior electronics is projected to grow by 40 percent over the next 10 years, making it the fastest growing segment of the automotive interiors market. Johnson Controls has strong capabilities in electrical components such as clusters, displays and body controllers as well as integrated systems like our AutoVision® rear seat entertainment system.

The strategy for growing our electronics business focuses on new technologies, particularly in the areas of driver information systems and multi-media and "center stack" interfaces, as well as on enhancements to existing electronics products, such as new conversational voice recognition capabilities for our BlueConnect® hands-free cellular phone system.

We continue to globalize our electronics capabilities. Instrument cluster and display technologies developed in Europe can now be found in cars made in North America and Asia. Telematics technologies that we developed in North America will be launched in model year 2006 vehicles made in Europe. We are also building electronics and systems integration capabilities in Asia to serve the fast-growing markets of China and India.

Our new CrafTec molding technology enables us to make a one-piece door panel or instrument panel with two colors or two textures. This gives our customers the ability to offer more options and more interior personalization without incurring additional cost.

Emerging Markets Outpacing Industry

Growth in emerging markets is expected to outpace growth in the large but mature markets of North America, Western Europe and Japan. China will account for approximately 50 percent of Asia's growth in the next five years. India is projected to have growth similar to China in the coming years, and Eastern European production is expected to increase by more than one-third in the mid-term.

We are leveraging our global capabilities to aggressively grow in emerging markets. For example, we have 33 facilities in eight Asian countries, providing interiors for 115 vehicle models. We also have technical centers in the region. In China, where we have 12 facilities, we have the largest share of the seating market, supplying six of the seven largest automakers.

In Eastern Europe, we operate 17 plants in addition to regional engineering centers, giving us a strong base for further business expansion.

We believe that having a footprint in these markets enables us to better understand and support the specific local needs and expectations of our customers. It improves our ability to gain share and improve execution in these important growth regions, which will significantly contribute to our future growth.

We focus on continuous improvement in all aspects of our business. To deliver greater value at the lowest cost, we continue to develop standardized processes and product architectures, leverage best business practices across the organization, and use Six Sigma methodology.

Operational Excellence through Standardization

Standardization of product architectures and sharing of best practices are making major contributions to our goal of continuous improvement in cost reduction and execution improvement.

Our Core Product Portfolio, for example, enables us to use one best-in-class metal seat frame across several seating programs while customizing some parts, such as the shape of the foam and the types of trim materials. This eliminates the need to redesign a new seat frame for each program. Development times and testing costs are reduced, resulting in lower capital costs and tooling requirements.

We continue to build our Core Product Portfolio capabilities and believe this strategy enables us to more profitably provide interior systems across multiple vehicle segments. The drive toward standardization applies to our manufacturing processes as well.

We have identified dozens of key metrics that impact quality and efficiency in our manufacturing facilities. We analyze our plants and rank them according to their performance on each of these key metrics, identifying the gaps between best-performers and those with the greatest opportunity for improvement.

The best practices from the highest performing plant in each metric are then shared and implemented throughout our global manufacturing footprint. We then apply continuous improvement methodologies, including Six Sigma, to achieve a new, higher benchmark that starts the process all over again.

Johnson Controls has been extremely successful in implementing best business practices. It is one of the key drivers of our ability to remain successful and profitable in this global market.

The Pennsylvania State Capitol, completed in 1906 and architecturally inspired by St. Peter's Basilica in Rome, is considered by many to be the finest state capitol building in the United States. Johnson Controls solutions include a Metasys® building management system that maintains environmental comfort throughout the facility, and operation and maintenance support from the local team. Johnson Controls (then known as the Johnson Service Company) installed the original 363 pneumatic thermostats for the Pennsylvania State Capitol.

building efficiency

Our building efficiency business works to make our customers' facilities more comfortable, productive, safe and energy efficient. We install, integrate and service heating, ventilating and air conditioning (HVAC) controls, security and fire alarm systems, lighting controls and wireless networks.

In 2005, we significantly expanded our market opportunity and experienced increased demand for our offerings. We improved our branch office cost structure to increase profitability.

Johnson Controls serves 30,000 customers through 300 branch offices. We also work on-site at 1,200 customer locations. This network makes Johnson Controls the largest HVAC service organization in the world as well as one of the top five fire alarm installers, and top 10 fire and security companies. We provide unequaled service and installation capability.

Building efficiency revenues grew 7 percent in 2005, to $5.7 billion. Operating income grew 22 percent to $295 million on the higher revenues and improved performance by our North American branch network.

In late 2005, we announced a new chapter in our 120-year history of success. With our acquisition of York International, we will leverage the complementary strengths of both organizations, double our revenues, triple our market opportunity and become a global supplier of end-to-end customer solutions with unmatched capabilities and reach. The acquisition is expected to close in December 2005.

Growth through Integrated Product and Service Offerings

Our Metasys® product line continues to be the industry-leading building automation system. In 2005 alone, we introduced major enhancements to Metasys technology, primarily in the areas of Web access, wireless interface, digital video, fire/security and tools that allow easier and lower cost integration with a building's existing information technology network.

The Monterrey Institute of Technology and Advanced Studies in Monterrey, Mexico, enrolls 20,000 full-time students and encompasses 350 classrooms. Campus officials wanted to improve the indoor quality of the classrooms, offices, and sports facilities, with a strong emphasis on energy conservation. Johnson Controls provided a single-source solution with our Metasys building management system, which provided the integrating architecture to link the different building systems together. Equipment upgrades are funded through energy savings.

The new National Audio/Visual Conservation Center in Virginia is relying on Johnson Controls technology to preserve U.S. film archives. A Web-enabled Metasys system is managing the critical temperature, humidity and power loads throughout the 415,000-square-foot complex, which consists of a collections building, 122 special nitrate-controlled vaults and a conservatory.

In 2005, Johnson Controls was selected to provide integrated controls for what will be the world's tallest building, the 1,679-foot Shanghai Tower, scheduled for completion in 2007. We will install an integrated Metasys system, closed circuit television network, access controls, fire alarms, water leakage detection systems and centralized energy management applications.

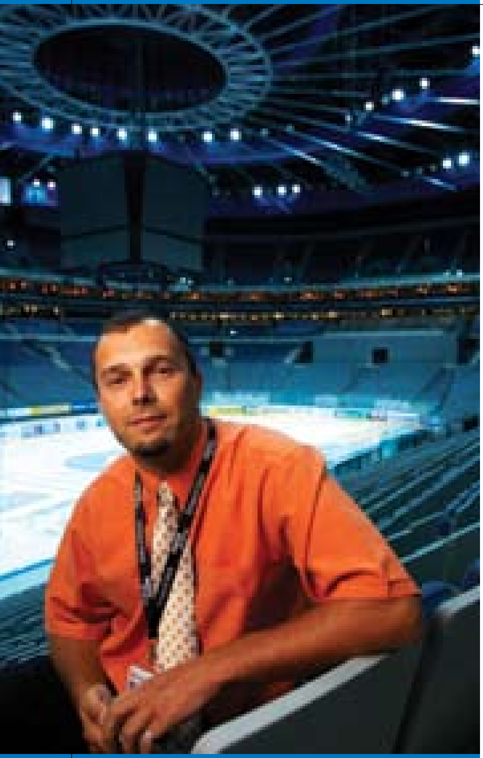
Our growing set of wireless networking applications continue to drive down installation costs and increase flexibility. A wireless network launched at Baptist Memorial Health Care's corporate offices in Memphis, Tennessee and in five of its hospitals uses a single broadband infrastructure to integrate voice and data systems such as personal communication/cellular systems, local area networks, digital paging systems, handheld clinical devices, medical telemetry and building operating information.

We continue to see increased opportunities in the security market, and believe our unique capabilities and global reach will help us further penetrate the market. Given the range of security options, our customers are increasingly seeking assistance in selecting the right system design and in integrating multiple technologies and services.

Our Cardkey® access control system, intrusion detection, and digital video networks are integral components of a global security solution we launched at UPS locations in Neuss, Germany. The German system is integrated into a main security system host at UPS in the United States.

One of our most comprehensive contracts awarded in 2005 targets improved port security in Wilmington, Delaware. We are installing an integrated system of perimeter gates, lighting, traffic arms, and monitoring cameras; thermal detectors for monitoring water traffic; wireless and fiber optic networks; and secure power distribution and backup power systems.

In May 2003, The University of Queensland (UQ) and Commonwealth Scientific and Industrial Research Organization (CSIRO) celebrated the launch of Australia's Queensland Bioscience Precinct. The $105 million state-of-the-art complex brings together 700 scientists in a world-class environment that covers 35,000 square meters, and includes four major buildings, dedicated conference facilities and high-tech research laboratories. Johnson Controls provided the building automation system to control critical temperatures and humidities, reduce energy costs and monitor gas systems, greenhouses and containment laboratories.



At Saska Arena in Prague, we can't stop the other team from scoring, but we can help to keep thousands of Czech Republic hockey fans safe. The Johnson Controls security and fire team manages all the fire and security systems on-site, from security scans at all entrances to monitoring smoke detectors and security cameras throughout the stadium. Fire and security is a major growth opportunity for Johnson Controls worldwide.

Karel Vopat,
Project Engineer

Service Growth

The HVAC service market is large but fragmented, with many local competitors in every city. Even as the largest service provider, Johnson Controls has a global market share in the low single digits. Our focus on growing our share of this high-margin market resulted in a double-digit increase in service revenues in 2005. In the United States, we also acquired three regional HVAC service companies to fill geographic gaps in our branch network.

We also experienced an increase in energy-saving performance contracting (ESPC) in 2005, primarily due to renewal of supporting legislation by the U.S. government after a year-long lapse. Under an ESPC, a customer pays for an energy efficiency project over several years using the energy savings generated by the project. A new $11 million ESPC at Fort Irwin, California, for example, will generate $27 million in savings over 20 years.

For global corporations, Johnson Controls maintains and operates entire real estate portfolios. Our newest contracts include operating 20 sites for GE's Consumer Finance division in the United Kingdom and 118 buildings at the BASF corporate headquarters in Germany. To provide customers with an expanded single-source mix of global real estate services, Johnson Controls acquired USI Technologies. The acquisition adds portfolio management, acquisition and disposition brokerage services, design and construction services, and information technology solutions to our integrated offering.

Reduced Costs to Improve Competitiveness

We are redesigning our processes and branch office structures to become more cost competitive and to grow in each of our local markets. In North America, we streamlined our management of systems projects, reducing the number of steps from 62 to 21. We increased our internal electrical installation expertise and created special systems sales teams targeting the smaller and less complex "conventional" buildings market. These initiatives are already resulting in new customers and higher margins. We will be rolling out this program globally in 2006.

We're redesigning our processes and branch office structures to become more cost competitive and to grow in each of our local markets.

Redefining the Industry

The acquisition of York, a leader in the manufacture and service of heating, ventilating, air conditioning and refrigeration (HVAC&R) equipment, by Johnson Controls is a natural and strategic growth opportunity. The combined capabilities of the two businesses create a global market opportunity of $200 billion a year, growing at 4 percent to 5 percent annually.

Johnson Controls global market reach will be enhanced, as the two businesses collectively serve customers from more than 500 sales and service offices that reach more than 125 countries. The two companies are market leaders in North America and Europe, but the acquisition also gives Johnson Controls a greater presence in the world's fastest growing buildings markets, including Central Europe, the Middle East, Latin America and Asia, especially China.

With York, Johnson Controls will offer end-to-end solutions for customers, from the cooling equipment to the control systems that operate them. We will be able to integrate these systems with a building's fire, security and information technology infrastructure. We also become the largest global provider to the high-margin building services market and capitalize on significant opportunities to supply products and services to each other's existing customers.

Our service and facility management work with BP extends back to 1994. More recently, we were invited to help BP secure ISO 14001 environmental accreditation at its Eastern Hemisphere Business Hub in Sunbury, U.K., and achieve its goals for a "Green Office" environment. As part of the initiative, we work with BP's customers, suppliers and employees to exceed aggressive targets for office recycling.

Jayne Brooks,
Conference Coordinator

power solutions

Johnson Controls makes batteries under the most recognized brand names in North America, Europe and Latin America. In addition to our customers' private label brands, we make batteries under our own brand names, such as Varta in Europe, LTH, Heliar and America in Latin America, and our global Optima brand.

Johnson Controls extended its global leadership in automotive power solutions in 2005 by increasing market share, geographically expanding, and establishing a presence in the rapidly emerging market for hybrid vehicle batteries.

Power solutions sales rose 29 percent to $2.9 billion as a result of both organic growth and acquisitions. Operating income rose 47 percent due to the higher volume as well as improved quality and operational efficiencies.

Continued Global Growth: Lead-Acid Batteries

More than 80 percent of the 110 million batteries we manufacture each year are sold through the automotive aftermarket, providing a stable source of revenues. We grew faster than the overall market by helping our customers grow their market shares – by providing batteries with the best performance, life, quality and cost, along with the best service and marketing support.

Our aftermarket customers include the largest retailers and distributors – Advance Auto, AutoZone, Interstate, Sears and Wal-Mart in North America, and Carrefour and Auto-Tiele-Unger in Europe. We also make original equipment batteries for many of the world's largest automakers including DaimlerChrysler, Ford, General Motors, Honda, Nissan, Toyota and Volkswagen.

We provide customers with category management and inventory management services, using demographic data to predict the best inventory mix for local retail outlets, ensuring that consumers will find the size of battery they need in stock. The combination of best batteries and best support services continues to increase market share for our customers and for Johnson Controls.

While we have strong market shares in the North American and European lead-acid battery markets, growth opportunities are available with our existing customers as well as with new customers. To capture the opportunities, we continue to find new ways to deliver higher levels of service, quality and performance.

Our revolutionary PowerFrame™ grid-making technology represents a step-change in the quality and performance of our batteries. This patented grid stamping technology significantly improves grid consistency, scrap rates and production efficiency, including energy efficiency, while dramatically lowering warranty costs. PowerFrame technology has been fully implemented in our North American facilities, and will be expanded to Latin America and Europe starting in 2006.

Our spiral-wound Optima battery continues to experience rapidly increasing consumer demand and loyalty. This unique technology is specially designed for vehicles with high electrical loads, off-road vehicles and marine applications. In 2005, Optima batteries were sold through 15,000 retail outlets, 40 percent more than just three years ago. More than 90 percent of the consumers who own an Optima battery report that they intend to buy an Optima battery again.

New Markets, New Customers

Our July 2005 acquisition of the battery business of Delphi Corporation provides Johnson Controls with a leadership position in the rapidly growing Asian automotive battery market as well as a multi-year global contract to supply original equipment batteries to General Motors.

The total vehicle population in China is expected to double in the next five years, with new car production expected to grow at double-digit rates. The acquired business has a leading position in original equipment batteries in China and Korea.

The acquisition includes operations in more than 10 countries.

Opportunities in Hybrid Vehicle Batteries

High gasoline costs are accelerating the demand for hybrid electric vehicles (HEVs), which use a combined gas and electric motor powertrain to improve fuel efficiency. Some analysts expect production of more than 3 million hybrids per year by 2012.

Johnson Controls continues to develop two advanced battery chemistries: nickel metal hydride, the chemistry used in today's HEVs; and lithium-ion, which will provide higher power and lower weight for HEVs in the next decade.

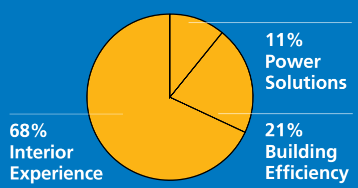
To accelerate our entrance into the hybrid battery market, Johnson Controls is forming a hybrid vehicle battery joint venture with Saft, a specialist in the design and manufacture of advanced technology batteries. Saft's expertise with high-performance advanced battery technologies, particularly lithium-ion, complements Johnson Controls high volume manufacturing capabilities and automotive knowledge. By working together, we expect to become a major supplier to the HEV market globally.

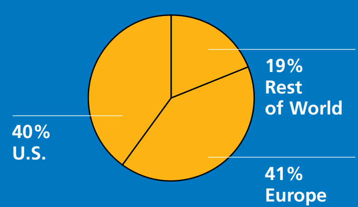
Johnson Controls was awarded its first HEV battery development order in October 2005. The company will provide nickel metal hydride batteries for a 2009 European luxury car model.

The "glove box," part of our new advanced lithium-ion battery development laboratory in Milwaukee, is an explosion-proof chamber for applying electrolyte to battery cells. The new lab supports our plan to create and sustain a global "center of excellence" for lithium-ion battery development. For more than a decade, we have supplied nickel metal hydride batteries for hybrid vehicle applications in Europe. We believe lithium-ion technology is likely to replace nickel metal hydride as the battery technology of choice in hybrid electric and electric vehicles in the future.

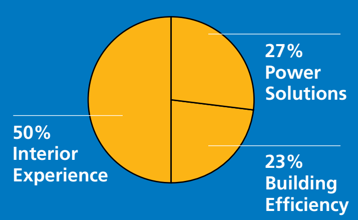
financial performance

2005 Sales
$27.5 billion





Operating Income
$1.3 billion



Review of Operating Results

Johnson Controls achieved another year of record sales and earnings in 2005. Consolidated sales were $27.5 billion, an increase of 12 percent above 2004's sales of $24.6 billion. This increase includes gains from favorable currency exchange rates during the year. Excluding these gains, sales increased 9 percent. Operating income for the year was $1.3 billion, up 13 percent over the $1.1 billion recorded in 2004. The operating income results exclude 2005 and 2004 restructuring expenses as well as a 2004 pension gain (see page 16 for additional information).

Excluding the special items, earnings per share from continuing operations were $4.41 for 2005 versus $3.83, an increase of 15 percent. Earnings increased at a rate higher than sales due to the increased profitability of our businesses and a lower effective tax rate.

Sales

In millions	2005	2004	%Change
Building efficiency	$ 5,717.7	$ 5,323.7	7%
Interior experience	18,833.2	17,007.6	11%
Power solutions	2,928.5	2,271.7	29%
Total	$ 27,479.4	$ 24,603.0	12%

Building Efficiency

Our building efficiency business achieved sales of $5.7 billion in fiscal 2005, 7 percent above the prior year, reflecting improved results in North America, Europe and Asia.

The initiative we launched in 2004 to lower the cost structure and expand the market opportunities of our North American systems branch offices began to positively impact our results in 2005. Our facility management and technical services offerings continued to gain market share, particularly in Europe, and sales to the new construction market grew in North America and Asia.

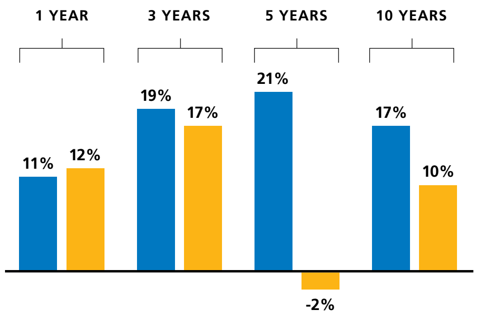
At the year-end, our backlog of uncompleted contracts increased 5 percent over the prior year, to $1.9 billion, while new orders were up 25 percent.

Operating income increased 22 percent in 2005 due to the growth in higher margin systems installation and technical services. In addition, we benefited from the improved operational efficiencies associated with our branch office redesign efforts in North America and from cost reductions in Europe.

Total Shareholder Return*

As of September 30, 2005

- Johnson Controls
- S&P 500



*Combination of share price appreciation and dividends paid

Interior Experience

Interior experience sales totaled $18.8 billion in fiscal 2005, up 11 percent over 2004, despite a year-over-year decrease in the overall number of vehicles produced in North America and Europe.

Approximately 45 percent of our sales were generated in North America, 48 percent in Europe and the remaining 7 percent in other parts of the world. We increased our sales in each of these regions in 2005, launching $2.3 billion in new automotive interior programs globally during the year. We also benefited from increasing demand for our automotive electronics systems by consumers.

We ended 2005 with a $3.3 billion backlog of incremental new business that will launch in 2006, 2007 and 2008.

Our net costs for the commodities we use in the manufacture of interiors systems such as steel, resin and chemicals were $185 million higher in 2005 than 2004. These higher costs, coupled with contractual price reductions to customers and slower sales of higher profit vehicles, more than offset the benefits of our global cost-reduction initiatives and lower launch and engineering costs. As a result, operating income for the interior experience business declined 3 percent.

Operating Income

In millions	2005	2004	% Change
Building efficiency	$ 294.6	$ 241.5	22%
Interior experience	632.3	654.7	-3%
Power solutions	349.5	237.0	47%
Total	$ 1,276.4	$ 1,133.2	13%

Power Solutions

Power solutions sales were $2.9 billion, up 29 percent versus the prior year in a global market that grew an estimated 1 percent.

In North America, sales of automotive batteries increased 35 percent over last year primarily due to the acquisition of the remaining interest in a Latin American joint venture in the fourth quarter of 2004. We benefited from the market share growth of our existing customers. Sales were also favorably impacted by higher lead prices that are passed along to customers. Lead is the primary raw material in automotive batteries.

Operating income improved 47 percent to $350 million in 2005 due to the increased sales volumes, growing demand for our higher margin spiral-wound battery technology as well as the benefits of new manufacturing process technologies and operational improvements.

A Transformational Year

A key to our success is our ability to embrace change in order to achieve our mission of exceeding customer expectations. We continue to build a foundation for growth by leveraging the global market leadership of our businesses, developing innovative technologies and finding new opportunities to improve quality and reduce cost. In 2005, we strengthened our competitiveness by redefining our businesses and reshaping our industries.

Building efficiency:

Repositioned for margin expansion and accelerated growth

- Redesigned U.S. systems branch offices to penetrate mid-market building segment and improve profitability
- Announced intention to acquire York International, expanding our annual market opportunity from $60 billion to $200 billion, and increasing our geographic reach into important emerging markets such as China, Central Europe and the Middle East
- Divested non-core World Services government facility management business

Interior experience:

Established blueprint for sustained profit growth

- Introduced innovative new technologies for all zones of the interior creating further competitive differentiation
- Expanded engineering, technical and manufacturing presence in Asia
- Increased portfolio of standard product structures to reduce engineering and production costs
- Divested non-core engine electronics business

Power solutions:

Extended industry leadership

- Acquired the battery business of Delphi Corporation in July 2005, giving us our first battery market presence in China and Korea as well as a multi-year original equipment supply agreement with General Motors.
- Improved profitability through best practice sharing and new manufacturing process technologies
- Received hybrid battery development order for a model year 2009 vehicle

Non-GAAP Reconciliations (unaudited)

The following table reconciles the company's non-GAAP amounts included in this report to the most directly comparable GAAP amounts:

In millions | *Year ended September 30,*	2005	2004
Non-GAAP operating income	$1,276.4	$1,133.2
Japanese pension gain	—	84.4
Restructuring costs	(210.0)	(82.4)
GAAP operating income	$1,066.4	$1,135.2
Non-GAAP income from continuing operations	$ 856.7	$ 738.4
Japanese pension gain	—	59.9
Restructuring costs	(179.6)	(58.5)
One-time tax credits	80.1	27.0
GAAP income from continuing operations	$ 757.2	$ 766.8
Non-GAAP diluted EPS from continuing operations	$ 4.41*	$ 3.83
Japanese pension gain	—	0.31
Restructuring costs	(0.92)	(0.30)
One-time tax credits	0.40	0.14
GAAP diluted EPS from continuing operations	$ 3.90*	$ 3.98

*Due to the use of weighted-average shares outstanding for the fiscal year in computing earnings per share, the sum of the quarterly components may not equal the per share amounts listed for the fiscal year.

Fiscal 2006 Outlook

We expect fiscal 2006 to be our 60th consecutive year of sales increases and 16th consecutive year of earnings increases.

We anticipate 2006 sales to reach $32 billion, an increase of approximately 16 percent over fiscal 2005 sales, as we continue to leverage our global market leadership and execute on our growth strategies. Earnings per share are expected to increase 13 percent to 17 percent to a range of $5.00 to $5.15 per share.

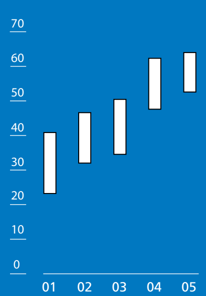
Primary drivers of our sales growth in 2006 will be added building efficiency revenues from the acquisition of York International (expected to be completed in December 2005), the launch of more than $1 billion in new automotive interiors programs globally and increased sales of automotive batteries due to market share growth by our customers as well as the full-year revenues from the 2005 Delphi battery acquisition.

At the time of the York acquisition closing, we expect our total debt to total capitalization ratio to increase to approximately 48 percent. We anticipate continued strong cash flow in 2006, enabling us to reduce debt throughout the year and exit 2006 with a debt to capitalization level of approximately 40 percent. Capital expenditures are expected to total $775 million to $825 million.

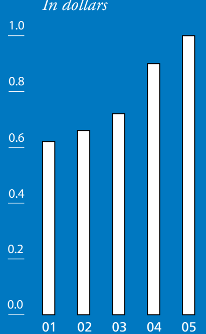
In 2005 Johnson Controls:

- Added 1,000 new employees
- Opened more than a dozen manufacturing facilities
- Spent $817 million on research and development
- Reduced our total debt to total capitalization ratio at year-end to 28 percent
- Reached #71 on the Fortune 500 list of largest U.S. companies, up from #79 in 2004
- Reached #200 on the Fortune Global 500 list, up from #214 in 2004

Common Stock Price Range*
In dollars



Dividend per Common Share*
In dollars



**Prior year amounts have been restated to reflect a two-for-one split of common stock on January 2, 2004.*

Consolidated Statement of Income (unaudited)

In millions, except per share data | *Year ended September 30,*	2005	2004	2003
Net sales			
Products and systems*	$ 24,337.3	$21,653.4	$18,610.1
Services*	3,142.1	2,949.6	2,561.2
	27,479.4	24,603.0	21,171.3
Cost of sales			
Products and systems	21,463.7	18,911.2	16,065.2
Services	2,533.8	2,414.0	2,077.8
	23,997.5	21,325.2	18,143.0
Gross profit	3,481.9	3,277.8	3,028.3
Selling, general and administrative expenses	2,205.5	2,144.6	2,000.3
Restructuring costs	210.0	82.4	—
Japanese pension gain	—	(84.4)	—
Operating income	1,066.4	1,135.2	1,028.0
Interest income	13.0	13.1	8.4
Interest expense	(120.5)	(111.0)	(113.2)
Equity income	71.8	96.4	76.9
Miscellaneous – net	(27.3)	(63.9)	(58.3)
Other income (expense)	(63.0)	(65.4)	(86.2)
Income before income taxes and minority interests	1,003.4	1,069.8	941.8
Provision for income taxes	205.1	251.4	273.5
Minority interests in net earnings of subsidiaries	41.1	51.6	23.4
Income from continuing operations	757.2	766.8	644.9
Income from discontinued operations, net of income taxes	16.1	50.7	38.0
Gain on sale of discontinued operations, net of income taxes	136.1	—	—
Net income	909.4	$ 817.5	$ 682.9
Earnings available for common shareholders	$ 909.4	$ 815.7	$ 675.7
Earnings per share from continuing operations			
Basic	$ 3.95	$ 4.08	$ 3.57
Diluted	$ 3.90	$ 3.98	$ 3.40
Earnings per share			
Basic	$ 4.74	$ 4.35	$ 3.78
Diluted	$ 4.68	$ 4.24	$ 3.60

*Products and systems consist of interior experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

This unaudited summary financial information should be read in conjunction with our other filings with the U.S. Securities and Exchange Commission.

Consolidated Statement of Financial Position (unaudited)

In millions, except par value and share data | September 30,	2005	2004
Assets		
Cash and cash equivalents	$ 171.3	$ 99.2
Accounts receivable, less allowance for doubtful accounts of $47.0 and $46.9, respectively	4,672.2	3,815.9
Costs and earnings in excess of billings on uncompleted contracts	314.5	271.8
Inventories	983.1	858.3
Assets of discontinued operations	—	579.8
Other current assets	997.7	725.5
Current assets	7,138.8	6,350.5
Property, plant and equipment – net	3,581.6	3,333.9
Goodwill – net	3,732.6	3,566.2
Other intangible assets – net	289.0	290.9
Investments in partially-owned affiliates	444.9	447.6
Other noncurrent assets	957.5	769.3
Total assets	$16,144.4	$14,758.4
Liabilities and Shareholders' Equity		
Short-term debt	$ 684.0	$ 813.3
Current portion of long-term debt	80.9	226.7
Accounts payable	3,937.5	3,425.3
Accrued compensation and benefits	704.4	592.4
Accrued income taxes	44.3	48.6
Billings in excess of costs and earnings on uncompleted contracts	225.7	197.2
Liabilities of discontinued operations	—	228.5
Other current liabilities	1,164.6	888.8
Current liabilities	6,841.4	6,420.8
Long-term debt	1,577.5	1,630.6
Postretirement health and other benefits	158.7	164.1
Minority interests in equity of subsidiaries	195.6	121.5
Other noncurrent liabilities	1,313.1	1,215.1
Long-term liabilities	3,244.9	3,131.3
Commitments and contingencies		
Common stock, $.04 1⁄6 par value		
shares authorized: 600,000,000		
shares issued: 2005 – 193,253,563; 2004 – 191,176,609	8.1	8.0
Capital in excess of par value	1,091.6	953.0
Retained earnings	4,905.4	4,187.9
Treasury stock, at cost (2005 – 382,628 shares; 2004 – 855,668 shares)	(6.8)	(14.5)
Accumulated other comprehensive income	59.8	71.9
Shareholders' equity	6,058.1	5,206.3
Total liabilities and shareholders' equity	$16,144.4	$14,758.4

This unaudited summary financial information should be read in conjunction with our other filings with the U.S. Securities and Exchange Commission.

Five Year Summary (unaudited)

In millions, except per share data | Year ended September 30,	2005	2004	2003	2002	2001
Operating results					
Net sales	$27,479.4	$24,603.0	$21,171.3	$18,781.6	$ 17,404.2
Operating income (As Reported)	$ 1,066.4	$ 1,135.2	$ 1,028.0	$ 1,006.4	$ 872.8
Operating income (Adjusted)*	$ 1,066.4	$ 1,135.2	$ 1,028.0	$ 1,006.4	$ 941.6
Income from continuing operations	$ 757.2	$ 766.8	$ 644.9	$ 583.6	$ 471.6
Income from continuing operations (Adjusted)*	$ 757.2	$ 766.8	$ 644.9	$ 583.6	$ 533.0
Net income (As Reported)	$ 909.4	$ 817.5	$ 682.9	$ 600.5	$ 478.3
Net income (Adjusted)*	$ 909.4	$ 817.5	$ 682.9	$ 600.5	$ 540.8
Earnings per share from continuing operations (As Reported)					
Basic	$ 3.95	$ 4.08	$ 3.57	$ 3.26	$ 2.67
Diluted	$ 3.90	$ 3.98	$ 3.40	$ 3.09	$ 2.52
Earnings per share from continuing operations (Adjusted)*					
Basic	$ 3.95	$ 4.08	$ 3.57	$ 3.26	$ 3.02
Diluted	$ 3.90	$ 3.98	$ 3.40	$ 3.09	$ 2.85
Earnings per share (As Reported)					
Basic	$ 4.74	$ 4.35	$ 3.78	$ 3.35	$ 2.71
Diluted	$ 4.68	$ 4.24	$ 3.60	$ 3.18	$ 2.55
Earnings per share (Adjusted)*					
Basic	$ 4.74	$ 4.35	$ 3.78	$ 3.35	$ 3.07
Diluted	$ 4.68	$ 4.24	$ 3.60	$ 3.18	$ 2.89
Return on average shareholders' equity (1)	13%	16%	17%	18%	17%
Capital expenditures	$ 664.1	$ 783.5	$ 606.0	$ 473.1	$ 585.3
Depreciation	$ 613.3	$ 550.3	$ 511.4	$ 482.3	$ 418.7
Number of employees	114,000	113,000	108,000	102,000	104,000
Financial position					
Working capital (2)	$ 297.4	$ (421.6)	$ (186.0)	$ (41.1)	$ (167.3)
Total assets	$16,144.4	$14,758.4	$12,916.7	$10,982.4	$ 9,710.0
Long-term debt	$ 1,577.5	$ 1,630.6	$ 1,776.6	$ 1,826.4	$ 1,394.8
Total debt	$ 2,342.4	$ 2,670.6	$ 2,354.5	$ 1,971.6	$ 1,819.9
Shareholders' equity	$ 6,058.1	$ 5,206.3	$ 4,261.3	$ 3,499.7	$ 2,985.4
Total debt to total capitalization	28%	34%	36%	36%	38%
Book value per share	$ 31.41	$ 27.41	$ 23.23	$ 19.35	$ 16.72
Common share information					
Dividends per share	$ 1.00	$ 0.90	$ 0.72	$ 0.66	$ 0.62
Market prices					
High	$ 63.98	$ 62.32	$ 50.44	$ 46.60	$ 40.85
Low	$ 52.57	$ 47.60	$ 34.55	$ 32.03	$ 23.22
Weighted average shares (in millions)					
Basic	191.8	187.7	178.7	176.7	173.6
Diluted	194.3	192.6	189.1	188.2	186.0

* The adjusted information is presented as if SFAS No. 142, "Goodwill and Other Intangible Assets," had been adopted October 1, 1999. Results have been adjusted to exclude goodwill amortization expense of $68.8 million, and the related income tax effect, in fiscal year 2001.

(1) Return on average shareholders' equity (ROE) represents income from continuing operations divided by average equity. Income from continuing operations includes $210 million and $82.4 million of restructuring costs in fiscal years 2005 and 2004, respectively. Additionally, fiscal year 2004 includes an $84.4 million Japanese pension gain.

(2) Working capital for 2004, 2003, 2002 and 2001 excludes net assets of discontinued operations.

This unaudited summary financial information should be read in conjunction with our other filings with the U.S. Securities and Exchange Commission.

environmental performance

protecting the environment

U.S. President George W. Bush, here being welcomed by Chairman and CEO John Barth, delivered the keynote address at the 16th annual Energy Efficiency Forum, co-sponsored by Johnson Controls and the United States Energy Association in Washington, D.C. The forum has become a platform for high-level discussions of energy and the role of sustainable development in providing solutions for industry, education, health care, government and society.

Johnson Controls conducts business in ways that respect the environment and our communities. Our global Blue Sky Environment program recognizes our commitment to environmental stewardship. We help our customers achieve energy savings through technologies and services that consume less energy, cause less pollution and use resources efficiently. We strive to exceed regulatory requirements, and we promote pollution prevention through global environmental management systems. We expect each of our businesses and locations to monitor and continually improve environmental performance.

Greenhouse Gases

Johnson Controls supports global efforts to reduce greenhouse gas (GHG) emissions. Membership in the Business Roundtable/Climate RESOLVE program commits us to a target of 18 percent GHG emission reduction nationwide by 2012. As a member of Climate Leaders, a U.S. Environmental Protection Agency (EPA) program, we are seeking additional GHG reductions and are helping other partners find ways to reduce their GHG emissions.

This year we received the EPA Climate Protection Award, recognizing our initiatives to reduce energy consumption and various efforts to reduce GHG emissions, including our new system for tracking GHGs. This system, Utility Bill Pay, is designed to revolutionize the way large organizations calculate and track GHG emissions. It uses industry-accepted GHG emissions factors to help companies calculate emissions from a readily available and accurate source of information: bills for fuel and electricity. With this system, companies can easily collect emissions data from multiple facilities worldwide and use it to support sound decisionmaking. Besides using the system for our own GHG programs, we market it to other organizations.

We have a comprehensive GHG program that includes a written policy, specific reduction goals, a review of our emissions profile, ongoing investment in GHG reduction technologies, and coordination with government and other GHG initiatives. We annually report our estimated global Scope One, Scope Two, and Scope Three emissions, based on the Greenhouse Gas Protocol Initiative.

The Schlitz Audubon Nature Center in Milwaukee, Wisconsin, is both a customer and a community partner. The center contracted with Johnson Controls as the commissioning agent for Leadership in Energy and Environmental Design certification from the U.S. Green Building Council. Through our leadership, the center achieved a gold rating, and we continue to help improve its green building status.

Energy Efficiency

Helping customers save energy is a key component of our business. Our products and services by their nature cut energy consumption and greenhouse gas emissions by making buildings and vehicles more efficient.

We are active worldwide in promoting High-Performance Green Buildings that use multiple methods to manage and save energy. We emphasize simple, widely available materials, technologies and designs so that green buildings cost no more to construct than traditional buildings – yet usually cost far less to operate and maintain while providing healthy, pleasant workplaces.

We helped the U.S. Green Building Council develop its Leadership in Energy and Environmental Design (LEED) rating system for green buildings. Now, each year, we help businesses, organizations and government agencies create buildings that win LEED ratings. For example, after a long planning and execution process, KeyBank's Tiedeman campus in Brooklyn, Ohio, was awarded green-level LEED certification with Johnson Controls managing the certification process. We also helped the Schlitz Audubon Nature Center, in Milwaukee, Wisconsin, achieve a gold LEED rating.

We are a world leader in battery technologies for the next generation of fuel-efficient hybrid-electric vehicles. For a decade, we have supplied nickel metal hydride batteries for hybrid-electric buses in Europe.

In September 2005, we opened a $3.1 million laboratory in Milwaukee, Wisconsin, to develop an advanced lithium-ion battery with longer life and a much higher power-to-weight ratio than current hybrid vehicle batteries. In 2004, we received an 18-month contract from the United States Advanced Battery Consortium for lithium-ion battery research. In October 2005, we received our first order for the development of a nickel metal hydride hybrid battery.

We also make vehicles more efficient by creating lighter interior systems. Our prototype Genus Concept Seat, introduced in 2005, reduces weight while increasing cabin space and making drivers and passengers safer and more comfortable. It has a thin profile and an ultra-light composite structure, and its mesh fabric keeps occupants cooler, helping to reduce the electrical load on vehicle air conditioners.

Memberships and Partnerships

Johnson Controls maintains memberships in key environmental organizations and partners with industry and government entities that promote environmentally responsible business. They include:

- Global Environmental Management Initiative, comprised of companies dedicated to environmental, health and safety excellence through best-practice sharing.
- World Environment Center, a nonprofit organization working to advance sustainable development which presented Johnson Controls with 2004 Gold Medal for International Corporate Achievement in Sustainable Development.
- U.S. Energy Association, a group of energy-related companies, organizations and government agencies; co-sponsor with Johnson Controls of the annual Energy Efficiency Forum in Washington, D.C.
- UN Global Compact, comprised of industry leaders dedicated to fostering the United Nations' Ten Principles, which include environmental stewardship, worker safety and human rights.

In the battery recycling process, the lead is separated from the polypropylene cases and fed into a furnace for smelting. The lead is then returned to Johnson Controls for use in new batteries. Additionally, our patented PowerFrame process enables us to manufacture lead grids using less energy and with lower air emissions.

While helping customers save energy, we also strive for efficiency in our own factories and offices. We were a charter member of the U.S. EPA ENERGY-STAR program. In 2006, we are extending our PowerFrame automotive battery grid production technology to our battery plants in Mexico and Europe. The technology greatly reduces the energy required to make lead grids for batteries. It also improves quality and reduces air emissions.

Recycling and Reuse

Johnson Controls works constantly to reduce waste and expand recycling in its global manufacturing.

Our ongoing efforts have helped make lead-acid automotive batteries the most recycled consumer product in the United States – 97 percent recycled in the most recent year, versus 49 percent for aluminum cans and 45 percent for paper. We continue to promote battery recycling and build the battery collection infrastructure. Since 1977, more than 11 billion pounds of battery lead have been recycled.

We use lead from old batteries to make new batteries. We were the first manufacturer to produce a recycled battery case – made of polypropylene plastic from old cases. Spent battery acid is converted to raw material for detergents and glass cleaners.

We also address the major issue of recycling old vehicles. For automotive interiors, we make components from recyclable or reusable materials and ensure that parts are easy to disassemble when a vehicle is scrapped. We analyze scrap waste products for possible recycling or sale. Successes include tinted plastic sold for recycling into building products, fabrics and plastics sold for reblending, and vinyl sold for making floor mats and hoses.

In Europe we have numerous initiatives underway in support of the End-of-Life (ELV) European Directive, which calls for progressively higher rates of material recycling and recovery – at least 95 percent recovery by 2015. Many of our initiatives are expected to give us a competitive edge.

A Green Team of Johnson Controls experts has developed ELV goals that include recycling waste when economical (or using it as an energy source), using recyclables to make interior components, eliminating materials that

When Johnson Controls purchased a seat foam plant in Strasbourg, France, in 1996, the plant had a poor environmental reputation in the adjacent neighborhood. Our team of environmental and health experts maintained open communication with authorities, neighbors, ecologists and all interested parties to identify opportunities and issues and to demonstrate our improvements. Now, we work with ecologists to train other industrial companies.

Gilbert Hungler, Manager, Environment, Health and Safety

contain heavy metals, and reducing emissions from car interior materials (targeting zero). The team also focuses on using environmentally friendly production processes.

Waste minimization is a global watchword. In North America we have a major initiative to track, reduce, reuse and eliminate wastes. We have contracted with a third party to manage toxic and industrial wastes, trash, and scrap from all facilities. This helps us measure waste volume and find opportunities to reduce waste and its costs.

We also eliminate waste at the source. Our CrafTec interiors process, introduced in 2005, combines multiple fabricating and assembly steps into a single operation. It cuts production scrap and saves process energy while also streamlining manufacturing, improving fit and finish, and increasing occupant comfort.

OUR ENVIRONMENTAL POLICY **Johnson Controls will demonstrate world-class leadership in environmental management. We will exceed applicable requirements as well as promote pollution prevention and continual improvement through our global environmental management systems.**

Under our corporate policies, we expect each business and location to develop, implement, monitor and continuously improve its safety and environmental performance.

Our products and services are subject to life-cycle assessments, which help us to better understand their environmental impact. We share policies, practices, and knowledge by partnering with industry-specific, international and national organizations that deal with environment and safety.

Long-range performance goals

Johnson Controls has set several specific goals for improving environmental performance over the next decade:

- Promote efforts to ensure that lead-acid batteries remain the leading recycled consumer product by exceeding current levels of 97 percent.
- 40 percent reduction of manufacturing waste to landfills by 2015 from 2004 levels at North American interior experience facilities.
- Convert 10 percent of waste produced at European Union interiors facilities into recycled material used in products by 2015.
- 50 percent reduction of heavy metal releases by 2012 from 2004 levels at North American facilities.
- Ensure that our facilities have an environmental management system in place that is consistent with ISO 14001.
- Eliminate the use of ozone-depleting substances from manufacturing, cleaning and degreasing processes.
- Comply with applicable discharge, permit and other requirements to eliminate citations, notices of violations and other regulatory actions.
- Reduce greenhouse gas emissions by 18 percent by 2012 as compared with 2002 levels.

social well-being

Our apprenticeship program in Hannover, Germany, embraces on-the-job learning for young professionals seeking to build their career. As part of the program, we rotate apprentices throughout the business to provide them with a variety of development opportunities.

Patricia Pielniok,
Apprentice

"We shall consistently treat our customers, employees, shareholders, suppliers and the community with honesty, dignity, fairness and respect." This excerpt from our corporate Creed is part of our Vision and drives our commitment to social well-being.

Our Employees Are the Foundation of Our Strength

With more than 114,000 employees worldwide, representing many different cultures, skill sets, needs and aspirations, we make it our mission to help each and every one of them succeed. We recognize that each employee makes unique contributions to the company, and that each employee has unique development needs.

Through our Blue Sky Leaders program, we have defined our leader development strategy. The strategy embraces real-life, real-time learning, enabling employees to meet the demands of challenging and changing work in three ways:

Develop by Doing. Education and training provide core knowledge and needed skills. But for people to grow and develop, formal programs must be combined with opportunities to apply new knowledge. Develop by doing means seeking challenges through new tasks, job assignments and behaviors, learning from others in the company, learning through volunteerism, community activities and professional organizations, and seeking varied experiences, challenges and lessons.

Take Charge. Our people take responsibility for their own development and learning. That includes getting formal and informal feedback on strengths and areas for improvement, and setting learning and development goals through performance reviews, supervisor input, and personal initiative.

Seek Support. Each person is his or her own director of learning, but individual efforts are connected, supported, coached and encouraged. Johnson Controls supplies – through numerous channels including supervisors, mentors, peers and co-workers – formal training, certification and education, as well as manager tools and structures such as succession planning, performance management, coaching, and development models.

Employee Success = Company Success

Every employee makes an impact on the success of our business. To help employees understand how they directly help us achieve our larger business goals, in 2005 we launched a cascading goals section in our performance

Leader Development

Our action learning program (XLP) is an intense, seven-month program targeted at developing the company's next generation of global leaders. XLP includes interactive sessions on Six Sigma, leadership, finance, strategic planning, presentation skills and other subjects. Each XLP team is assigned a project to help solve a critical issue facing Johnson Controls. Our participants have come from all of our businesses and from 19 countries.

management process. Managers, starting with executive management, are required to share their goals with those who report to them. This allows employees to see multiple levels of goals throughout the organization. This means an employee development plan now includes managers' goals, as well as the department goals, business unit goals, and the company's enterprise-wide goals. Through this cascading goal strategy, we are helping employees understand how their efforts translate directly into the company's overall objectives and success.

Model Leadership

At Johnson Controls, we believe in developing our employees to be the leaders of today and of the future. Our development model is opposite of most companies our size – we fill 75 percent of leadership positions from within the company, versus an average of 25 percent at other large companies. If the company is going to continue to grow, we need to have the leaders in place to maintain and improve our ongoing success.

The Johnson Controls Leader Expectations Model is a tool we use to help identify and develop our leadership. Translated into 17 languages, it includes 11 core behaviors that we expect our leaders to demonstrate and model. Three levels of behavior are described for each expectation – moderate strength, strength and exceptional. Employees and their managers use the model as a development tool to help assess leadership capabilities and goals. The 11 behaviors are:

- Demonstrates integrity
- Drives accountability
- Focuses on customer
- Shows respect for others
- Develops employees
- Inspires others
- Builds teams
- Influences others
- Thinks analytically
- Thinks strategically
- Drives for results

Leadership Institutes

No matter where our employees are in the world, our Leadership Institutes are available to provide formal training and classroom learning. The institutes operate in North America, Europe and Asia. In 2005, Johnson Controls offered more than 2,100 courses at its institutes with a focus on leadership, sales, technical and customer training. More than 40,000 people enrolled in the classes. Additionally, employees accessed thousands of hours of Web-based training.

ETHICS POLICY

Our ethics policy guarantees the company's commitment to equal opportunity regardless of gender, race, age, ethnicity, sexual orientation, disability or religion. We do not tolerate harassment, discrimination, threats or acts of violence, intimidation or coercion. Our compensation and benefit plans are competitive within the markets we serve and reflect the performance of our business. For more details about our commitment to employees and human rights, the complete Ethics Policy is available via our Web site at www.johnsoncontrols.com.

Chairman and CEO John Barth (right) presented Carlos Zaim and Jorge Guillen with the company's highest honor at a ceremony in Sao Paolo. Zaim and Guillen represented the Brazil Junk Battery Collection Team, which received the Chairman's Award for Exceeding Customer Expectations in 2004 for changing the Brazilian landscape for buying lead. As a result of their work, we increased our purchases of recycled lead by 74 percent.

2005 Employee Recipients of Chairman's Awards for Exceeding Customer Expectations

The company's highest honor, the Chairman's Award for Exceeding Customer Expectations, recognizes employees who help the company achieve its mission. The awards are given personally by the company chairman at special ceremonies throughout the world. In 2005, 12 teams received awards, with recipients located in Belgium, China, Czech Republic, Mexico, Singapore, Slovak Republic and the United States.

BlueConnect Team
United States

Commercial Strategy Implementation Team-North Zone
Mexico

Czech-Slovak Trim Cover Sewing Team
Czech Republic, Slovak Republic

The Green Team
United States

Jefferson City Foam Plant Team
United States

Lug Brushing Improvement Team
United States

SEATAC Security Team
United States

Shanghai Yanfeng Sun Visor Trim Team
China

Systems Business Redesign Team
United States

Tlaxcala Plant Emergency Response Team
Mexico

Trim Global Benchmarking Team
Belgium, Czech Republic, Mexico, Portugal, Slovak Republic, United Kingdom, United States

Wireless Solution Team
Brazil, China, United States

> **"Paying attention to diversity and making it part of how we behave every day has made us very successful, and we intend to continue down that path."**
>
> **John Barth,** Johnson Controls Chairman and CEO

diversity and inclusion

Our corporate Vision statement emphasizes that the diversity and involvement of our people is the foundation of our strength. Our diversity goals extend beyond our employees to include all our stakeholders: suppliers, vendors and communities.

Workforce Diversity

Johnson Controls launched a Global Diversity Team in 2005 that set goals to increase workforce representation of women and minorities. The team prepares regional quarterly reports for review by senior management. As a result of their recommendations, an action learning program (XLP) team was assigned to develop ways of improving our diversity and inclusion performance. XLP is an intensive, seven-month program targeted at developing the company's next generation of global leaders.

The XLP team worked to develop a strategy, process and roadmap that ensures Johnson Controls becomes world class in diversity and inclusion. An in-depth external and internal study focused on regional development and new markets in the areas of population, gender, regional issues/values, cultural norms, and business performance. The team outlined future global demographic trends, such as the growing purchasing power of diverse groups, and provided analysis of the employee talent pool likely to be available in the future. The team presented its findings to executive management, with nine key recommendations. As a result of the team's recommendations, the company announced in November 2005 that it has appointed a Vice President of Diversity and Public Affairs, reporting directly to the Chairman and CEO of the company, effective Jan. 1, 2006.

Supplier Diversity

In fiscal 2005, we purchased more than $1 billion in goods and services from minority-owned firms. Our program includes training sessions for employees who make purchasing decisions, as well as information sessions for potential minority-owned vendors.

Johnson Controls received numerous awards for its supplier diversity initiatives from customers and the minority business community. We continue to be a member of the Billion Dollar Roundtable, an organization comprised of U.S. corporations that annually spend more than $1 billion with women- and minority-owned businesses. Johnson Controls is one of 14 companies included in the Billion Dollar Roundtable.

As we increase our purchases from diverse vendors, we expect and encourage our largest long-term suppliers to do the same. We provide systems and support to enable our suppliers to direct at least 5 percent of their total spending to diverse firms. Participation in this program, called the Key Supplier Initiative, can affect a vendor's future business with us. Purchases from minority-owned firms by each vendor are reported quarterly to Johnson Controls.

In 2005, Johnson Controls was proud to be a Diamond-level sponsor of the National Association for the Advancement of Colored People (NAACP) national convention, which was held in Milwaukee, Wisconsin. Our sponsorship reflected the company's commitment to our community as well as to our diversity and community involvement priorities.

More than 150 Johnson Controls employees volunteered at the event. Senior Vice President Darlene Rose served as chair of the Host City Committee and worked with the national NAACP organization, corporate CEOs, government leaders, and civic organizations to ensure a successful conference. Additionally, Johnson Controls was a Platinum-level sponsor of the U.S. Hispanic Chamber of Commerce National Convention, also held in Milwaukee in 2005.

health & safety

Johnson Controls is a member of the National Highway Transportation Safety Administration's Crash Injury and Research Engineering Network. Together, we work to gain an even greater understanding of how we can design products that create the highest possible level of driver and passenger safety.

The health and safety of our employees is one of our five corporate values. We require accountability for continuous improvement in this area at every level of the organization.

OUR SAFETY POLICY **Johnson Controls will provide a safe and healthy workplace for its employees. We are committed to continual improvement through safety program excellence and exceeding compliance requirements.**

Managers are rated on health and safety improvements as part of their job performance evaluations. Business units must annually submit plans for improving their health and safety records. Our programs include regular health and safety self-audits and third-party audits at our facilities. Of more than 8,300 self audits in 2005, 98 percent showed 100 percent compliance, compared to 92 percent in 2004. Audit data is used as a basis to create safety improvement action plans.

Safety Recognition Awards

Our global safety recognition award program, launched in 1987, rates all locations around the world on specific safety criteria. All Johnson Controls locations participate in the program and more than 400 reporting units were eligible for an award during 2005.

Johnson Controls safety performance has continued to improve since the awards were established. Nationally, the Bureau of Labor Statistics reported that there were 5.0 recordable cases per 100 employees in the private sector during 2003. Our 2005 average was 1.64 recordable cases, one-third the national average.

reinvesting in our communities

Sustaining our growth means sustaining the health and well-being of the communities where we live, work and play. Through philanthropic support and a variety of volunteer activities, we continuously strive to respond to community needs around the world.

Johnson Controls Beijing employees volunteer at this Project Hope school. Our goal with Project Hope is to positively impact educational opportunities for rural Chinese children while increasing their environmental and social responsibility awareness.

Blue Sky

Our Blue Sky initiative helps align our volunteer and philanthropic activity with our strategic objectives.

Through Blue Sky, Johnson Controls announced several new community partnerships in 2005.

– PROJECT HOPE, CHINA

Project Hope is a program developed to provide schooling for children living in rural areas who do not have access to a school system. Johnson Controls volunteers at the Project Hope schools provide teacher training programs, organize student activities, mentor students, and work within the community to increase public awareness about the needs of these children.

– SPECIAL OLYMPICS, CHINA

By adopting a Special Olympics school in Shanghai, we are helping people with intellectual disabilities realize their full potential, experience joy, and assist them in becoming fulfilled and productive members of their communities. Johnson Controls employees, together with officials from the school chosen through the Adopt-A-School Program, are planning and implementing informal competitions and outdoor activities with the children and their families. We are also helping Special Olympics raise public awareness through community outreach and editorial articles.

– MOBILE CRECHES, INDIA

Our employees in India are supporting the underprivileged children of workers in the construction industry by expanding our support of the Mobile Creches Organization. We have supported the organization through volunteerism for more than 10 years. In 2005, we officially adopted a Mobile Creches day care center in Mumbai. The day care center houses up to 100 children age 1 to 12. Working with managers at Mobile Creches, Johnson Controls developed a calendar of activities for 2005, including the sponsorship of daily meals, medical care and education for the children, and supported employee volunteerism at monthly activities that Johnson Controls develops and implements.

A team of Johnson Controls employees partnered with our customer, GlaxoSmithKline, to rebuild raised flower beds and seating areas in the children's roof garden at Princess Alexandra hospital in Harlow, Essex, United Kingdom.

– BIG BROTHERS BIG SISTERS, UNITED STATES

In 2005, Johnson Controls launched a three-year pilot program with Big Brothers Big Sisters to develop a best practices model for corporate partnering. We worked with Big Brothers Big Sisters to identify five cities where our combined efforts could be most effective, ultimately selecting Milwaukee, Wisconsin; Detroit, Michigan; Nashville, Tennessee; Houston, Texas; and Tampa, Florida. Employees of Johnson Controls in each of those cities are teaming with local Big Brothers Big Sisters chapters to develop a program for identifying, recruiting and maintaining adult matches between "Bigs" and "Littles."

The Johnson Controls Foundation

In the United States, the Johnson Controls Foundation donated approximately $7 million to qualified non-profit organizations in 2005, mainly in communities where we have a local presence. The foundation has four focus areas: health and human services; education; arts; and civic organizations. The foundation also matches dollar-for-dollar the personal contributions of Johnson Controls employees, retirees and members of the Board of Directors to culture and arts groups, educational organizations, and the United Way.

Additionally, the foundation awards $240,000 annually in college scholarships to children of employees. Recipients are chosen by a panel of university administrators based on a balance of academics, leadership, and civic involvement. In 2005, the foundation selected 25 students for four-year scholarship grants and 20 students for one-year grants.

Crisis Support

The tsunami in south Asia and hurricane damage in the United States prompted individuals and companies around the world to reach out and offer their help. In support of relief efforts – both immediate and long-term – Johnson Controls donated $1 million to UNICEF for tsunami relief, and the Johnson Controls Foundation donated $1 million to the American Red Cross for hurricane relief.

In addition to philanthropic support, we encouraged our employees to become involved. Among their efforts were those by employees in India who reacted to the devastation and tragedy from the tsunami by donating their time and money toward disaster relief. We collected donations from employees at all our Indian locations and sent the funds to the Prime Minister Relief Funds. Our regional office in Singapore collected donations to support the Singapore Red Cross.

High school students from various Milwaukee, Wisconsin, schools partnered with Johnson Controls engineers to learn about robotics and build their own robots, which they programmed from their laptop computers. Our engineers served as technology mentors to the students, developing their own leadership capabilities as they coached the students in gaining new skills.

To help those impacted by Hurricane Katrina, Johnson Controls established a Web site where employees could list items they needed – essentials such as clothing and other day-to-day necessities – and their co-workers donated items directly to the employees in need. Johnson Controls paid for shipping of all materials to affected employees.

Additionally, we assigned a company vice president to the task of collaborating with local government, municipal, religious, not-for-profit and community organizations to help design and implement rebuilding plans. Our focus is on identifying areas within the rebuilding process where efficiencies can be generated through creative use of people, streamlined operations and best practices.

IN COMMUNITIES AROUND THE WORLD

Our community involvement extends around the world. Here are some additional examples of how we are working within our communities:

Brasileirinho Project, Brazil

In partnership with the Federal Police Department and the national Social Assistance Secretary, we produced 3,000 handbooks about violence in the streets, domestic violence, drugs, alcohol and tobacco use, and sexual activity. We continue to work with the parents of primary school children to distribute the handbooks and develop a program to educate both the children and their parents about risks children face every day.

Engineering Scholarship Program, Macedonia

With a donation of $30,000 each year for the next four years, Johnson Controls is sponsoring up to 60 students in engineering at the University of Macedonia. The sponsorship allows us to help develop the engineering program, and also to recruit prospective engineers to become Johnson Controls employees. We also work closely with university officials to create a rich learning experience for the students and to serve as supervisors of the students in the program.

HIV/AIDS Intervention, South Africa

We are working with the Automotive Industry Development Centre to establish a workplace program aimed at establishing best practices for the fight against HIV/AIDS in South Africa, where approximately 20 percent of all adults are estimated to be infected. The program entails policy and promotion, awareness programs, training and prevention, care and support, wellness management, community outreach, and monitoring and evaluation. Additionally, our volunteers are trained as Peer Educators to assist employees both affected and infected by HIV/AIDS.

CAREERCONNECT, United States

This program encourages and supports partnerships with key technical colleges, community colleges and universities that offer degrees in HVAC technology. It helps colleges make advancements in curriculum, environment and student experience, and helps colleges recruit more talent into the industry. Through CAREERCONNECT, Johnson Controls is helping to educate and train future heating, ventilation and air conditioning technicians.

governance structure

board of directors

The Board of Directors membership reflects Johnson Controls commitment to workplace diversity.

Johnson Controls is a publicly owned company governed by a Board of Directors. The Board represents the diverse range of viewpoints and expertise needed to manage strategic direction, environmental and social risks, and opportunities.

The company maintains an independent Board of Directors, using standards that include the New York Stock Exchange definition for independence. On an ongoing basis, the Board determines whether each director is independent and reports its determinations in the proxy statement. The Board's Audit, Corporate Governance, Compensation, and Pension Benefits committees consist entirely of independent directors.

The Board and management believe the company must assume a leadership position in corporate governance. The Corporate Governance Committee of the Board of Directors is empowered by its charter to continually review the company's corporate governance practices against those of other public companies and those recommended by the investment community, and to make recommendations to the Board to ensure the company's leadership in this area.

The composition of the Board reflects Johnson Controls commitment to diversity. The 13-member Board includes one female director, two African-American directors and two Hispanic directors.

Complete descriptions of the Board committees, including selection, succession and compensation, and specific guidelines on how the Board operates, are available on our Web site or by request.

Dennis W. Archer, 63

Chairman
Dickinson Wright PLLC
Director since 2002. [3,4]

Robert L. Barnett, 65

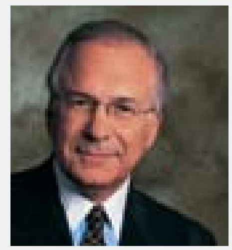
Retired Executive Vice
President of Motorola, Inc.
Director since 1986. [1,3,5]

John M. Barth, 59

Chairman, Chief Executive
Officer, and President
Johnson Controls, Inc.
Director since 1997. [1]

Natalie A. Black, 55

Senior Vice President,
General Counsel and
Corporate Secretary
Kohler Co.
Director since 1998. [3,5]



Paul A. Brunner, 70

President and
Chief Executive Officer
Spring Capital, Inc.
Director since 1983. [2,4]

Robert A. Cornog, 65

Retired Chairman and
Chief Executive Officer
Snap-on, Inc.
Director since 1992. [1,2]

Willie D. Davis, 71

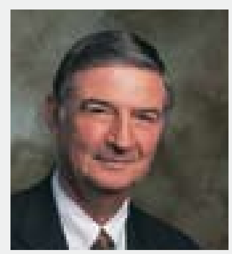
President
All Pro Broadcasting, Inc.
Director since 1991. [1,2]

Jeffrey A. Joerres, 46

President, Chief Executive
Officer and Chairman
Manpower, Inc.
Director since 2001. [4,5]

William H. Lacy, 60

Retired Chairman and
Chief Executive Officer
MGIC Investment Corp.
Director since 1997. [4,5]



Southwood J. Morcott, 67

Retired Chairman of the Board,
President, and
Chief Executive Officer
Dana Corp.
Director since 1993. [3,4]

Eugenio Clariond Reyes-Ratana, 61

Chairman of the Board and
Chief Executive Officer,
Grupo IMSA S.A.
Director since 2005.

Stephen A. Roell, 55

Vice Chairman and
Executive Vice President
Johnson Controls, Inc.
Director since 2004.

Richard F. Teerlink, 69

Retired Chairman of the
Board, President and
Chief Executive Officer,
Harley-Davidson, Inc.
Director since 1994. [1,2]

Committees:

1 Executive
2 Audit
3 Corporate Governance
4 Compensation
5 Pension and Benefits

Shareholder Grievance Procedures

Shareholders and employees are able to report suspected improper conduct anonymously through our Ethics Hotline. The hotline, available 24 hours a day in all major languages, is operated by an independent third-party vendor. In fiscal 2005, 185 calls were placed to the hotline, of which 76 were first-time callers, 45 were follow-up callers, and 64 were seeking guidance.

The phone numbers and specific details about the hotline are printed in our Ethics Policy and on the Web.

We Say What We Do and We Do What We Say

Johnson Controls is a company that keeps its promises – a company that does the right thing.

Our Ethics Policy defines the high standards under which we do business. The policy, available in 14 languages, sets expectations for the behaviors that allow us to achieve the high standards we have set forth for our employees and our suppliers.

Every year, we require a commitment to our Ethics Policy from employees worldwide. Our online ethics certification process requires completion of three ethics training modules, as well as a review of our Ethics Policy. More than 20,000 salaried employees must complete the online ethics training. Employees for whom certification is not required must demonstrate they know and understand the policy as part of their job. In 2005, 100 percent of employees required to complete ethics certification and compliance training did so.

Excellence in Governance

Johnson Controls is included in multiple social responsibility stock indexes, which select companies based on environmental and social performance criteria. Some of these are the Dow Jones Sustainability World Index, FTSE4Good, FTSE ISS Corporate Governance Index and Domini 400 Social Index.

Supply Chain Initiatives

Johnson Controls understands the importance of managing its supply chain. We require our largest vendors to have an environmental management system and comply with our ethics policy. Furthermore, we continue open dialogue with several non-government organizations to find ways to enhance how we manage our supply chain and select vendors.

Johnson Controls was named to the Dow Jones Sustainability World Index (DJSI World). The index is comprised of the top 10 percent of companies in terms of sustainability performance. To be included, these companies must meet rigorous environmental, economic and social criteria for corporate governance, environmental policy and management, environmental and social reporting, philanthropy and stakeholder engagement.

Shareholder Information

Executive Offices

Johnson Controls, Inc.
5757 N. Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201
(414) 524-1200
E-mail: webmaster@jci.com

New York Stock Exchange

Symbol: JCI

CUSIP: 478366 107

Shareholder Communications

www.johnsoncontrols.com

Click on "Investors" for

- Investor/financial information
- Automatic dividend reinvestment plan

Johnson Controls Investor Line

(800) 524-6220

- Hear monthly news and quarterly earnings
- Order financial literature
- Leave comments

Johnson Controls Ethics Hotline

(866) 444-1313

Outside U.S. & Canada
(678) 250-7578

Audit Committee Chairman
Robert.A.Cornog@jci.com

Governance Committee Chairman
Robert.L.Barnett@jci.com

Shareholder Services

Transfer Agent

Wells Fargo Bank, N.A.
Shareowner Services Department
P.O. Box 64856
St. Paul, MN 55164-0856
(877) 602-7397
www.wellsfargo.com/
shareownerservices
www.shareowneronline.com
DTC #2665

Delivery Service Address
Wells Fargo Bank, N.A.
Shareowner Services Department
161 North Concord Exchange
South St. Paul, MN 55075

- Dividend Payments
- Shareholder Information Handbooks
- Address Changes
- Registration Changes
- Enrollment in Automatic Dividend Reinvestment and Common Stock Purchase Plan

Shareholder Services Contact

Arlene Gumm
(414) 524-2363
Shareholder.Services@jci.com

Investor Relations Contact

Glen L. Ponczak
(414) 524-2375
Glen.L.Ponczak@jci.com

Corporate Officers

John M. Barth
Chairman,
Chief Executive Officer and
President

Stephen A. Roell
Vice Chairman and
Executive Vice President

Jefferey G. Augustin
Vice President and
Corporate Controller

Beda Bolzenius
Vice President,
Automotive Group

Susan F. Davis
Vice President,
Human Resources

Jeffrey S. Edwards
Vice President,
Automotive Group

Giovanni "John" Fiori
Executive Vice President and
President,
Johnson Controls International

Charles A. Harvey
Vice President, Diversity
and Public Affairs

John P. Kennedy
Executive Vice President and
President,
Controls Group

Sean Major
Assistant Secretary and
Assistant General Counsel

R. Bruce McDonald
Vice President and
Chief Financial Officer

Alex A. Molinaroli
Vice President, Controls Group

Jerome D. Okarma
Vice President,
Secretary and General Counsel

Darlene Rose
Senior Vice President

Gregg M. Sherrill
Vice President, Automotive
Group

Michael Su
Vice President, Controls Group

Subhash "Sam" Valanju
Vice President and
Chief Information Officer

Frank A. Voltolina
Vice President and Corporate
Treasurer

Keith E. Wandell
Executive Vice President and
President,
Automotive Group

Denise M. Zutz
Vice President, Strategy,
Investor Relations and
Communication

spitzentechnologie

世界一流技术
prvotřídní technologie
world-class technology
technologie de classe mondiale
世界レベルのテクノロジー
špičková technológia
tecnología de clase mundial

"设想一个我们既能享受驾车的乐趣同时又能保护全球资源的世界是什么样子。在江森自控，这就是我们在降低成本和保持高质量标准之外正在做的。"
~Nicole Pöppe，化学工程师，德国

„Představte si svět, ve kterém můžeme jezdit auty a zároveň pečovat o naše globální zdroje. Vedle snižování nákladů a dodržování našich vysokých jakostních norem se společnost Johnson Controls soustředí právě na tyto otázky."
~Nicole Pöppe, inženýrka chemie, Německo

"Imagine a world where we can drive our cars and take care of our global resources at the same time. At Johnson Controls that's what we're working on, besides reducing the cost and keeping our high quality standards."
~Nicole Pöppe, Chemical Engineer, Germany

« Ilmaginez un monde où nous pourrions conduire des voitures tout en sauvegardant les ressources de notre planète. Chez Johnson Controls, c'est ce à quoi nous travaillons, outre la réduction des coûts et le maintien en place de nos normes de qualité élevée. »
~Nicole Pöppe, Chemical Engineer, Germany

„Stellen Sie sich eine Welt vor, in der wir unsere Autos fahren können und gleichzeitig etwas für die globalen Ressourcen tun. Bei Johnson Controls arbeiten wir, neben Kostenreduzierung und dem Aufrechterhalten unserer hohen Qualitätsstandards, genau daran."
~Nicole Pöppe, Chemieingenieur, Deutschland

「自動車を運転しつつ環境資源にも配慮できる世界を想像してみてください。Johnson Controls では、コストの削減や、優れた品質の維持ばかりではなく、環境対策にも取り組んでいます。」
~Nicole Pöppe、ケミカルエンジニア、ドイツ

„Predstavte si svet, kde môžete jazdiť vo svojom aute a pritom udržiavať aj globálne zdroje. To je to, na čom, okrem znižovania nákladov a zachovania štandardu vysokej kvality v spoločnosti Johnson Controls pracujeme."
~Nicole Pöppe, chemický inžinier, Nemecko

"Imagínese un mundo en donde podamos manejar nuestros carros y cuidar al mismo tiempo de nuestros recursos globales. Esto es en lo que estamos trabajando en Johnson Controls, además de reducir los costos y mantener nuestros altos estándares de calidad."
~Nicole Pöppe, Ingeniero Químico, Alemania

gestion responsable de l’environnement

环境管理
dohled nad kvalitou životního prostředí
environmental stewardship
Verantwortlicher Umgang mit der Umwelt
環境保護
environmentálny dohľad
liderazgo en la conservación del medio ambiente

“这种废料原来是要以掩埋的方式处理的。我们非常自豪地开发出了一种独有工艺，将泡沫进行压缩然后出售以再利用，这样我们的材料就不会造成更多浪费了。”

~Maurice Brenckel，健康、安全和环境部技术人员，法国

„Tento přebytečný materiál by býval skončil na skládce. Jsme pyšní na to, že se nám podařilo vyvinout jedinečný proces, jak pěnu slisovat a prodat ji na další použití, abychom našimi materiály nepřispívali k nárůstu odpadu.“

~Maurice Brenckel, odborník na otázky zdraví, bezpečnosti a životního prostředí, Francie

“This scrap would have ended up in a landfill. We are so proud to have developed an exclusive process to compress and sell the foam for reuse, so that our materials are not creating more waste.”

~Maurice Brenckel, Technician Health, Safety and Environment, France

« Ces amas de rebut auraient échoué dans une décharge. Nous sommes si fiers d’avoir développé un processus exclusif qui permette de compresser la mousse et de la vendre afin qu’elle soit réutilisée, évitant ainsi que nos produits ne génèrent des déchets supplémentaires. »

~Maurice Brenckel, Technician Health, Safety and Environment, France

„Dieses Stück wäre auf der Müllhalde gelandet. Wir sind sehr stolz darauf, dass wir einen exklusiven Prozess zum Komprimieren und Verkaufen von Schaumstoff für die Wiederverwendung entwickelt haben, so dass unsere Materialien nicht noch mehr Abfall verursachen.“

~Maurice Brenckel, Fachmann für Gesundheit, Sicherheit und Umwelt, Frankreich

「これまでは、このスクラップは埋立地に送られていました。リサイクル用に発泡体を圧縮して販売する独自プロセスの開発は、当社の自慢です。これで当社の資材によるごみは減るでしょう。」

~Maurice Brenckel、健康と安全および環境技術者、フランス

„Tento odpad by skončil na skládke odpadu. Sme hrdí na to, že sme vyvinuli exkluzívny proces na lisovanie a predávanie peny na opätovné použitie, takže naše materiály neprodukujú viac odpadu.“

~Maurice Brenckel, Technik pre zdravie, bezpečnosť a životné prostredie Francúzsko

“Esta chatarra hubiera terminado en un vertedero de basura. Estamos muy orgullosos de haber desarrollado un proceso exclusivo para comprimir y vender la espuma para reciclaje, de manera que nuestros materiales no provoquen más desecho.”

~Maurice Brenckel, Técnico en Salud, Seguridad y Medio Ambiente, Francia

社区参与

zapojení do komunity
community involvement
engagement au sein de la communauté
Beteiligung am Gemeindegeschehen
地域社会への参加
angažovanosť spoločenstva
participación comunitaria

"如果我们可以携起手来帮助可能成为明天领导者的孩子们, 我们就是一个成功的公司。"

~Yudan Huang, 行政经理, 中国

„Podaří-li se nám společnými silami pomáhat dětem a učinit z nich příští vedoucí pracovníky, potom jsme uspěli jako společnost."

~Yudan Huang, vedoucí administrativy, Čína

"If we can work together to help the children who could be tomorrow's leaders, then we as a company have succeeded."

~Yudan Huang, Administrative Manager, China

« Si nous parvenons à travailler ensemble afin d'aider les enfants qui pourraient devenir les leaders de demain, alors l'entreprise que nous formons pourra se féliciter d'avoir réussi. »

~Yudan Huang, Administrative Manager, Chine

„Wenn wir zusammenarbeiten können, um den Kindern zu helfen, die die Führungskräfte von morgen sein könnten, dann sind wir als Unternehmen erfolgreich."

~Yudan Huang, Verwaltungsmanager, China

「明日のリーダーとなる子供たちの育成に協力できるのは、企業として成功してきた証しです。」

~Yudan Huang、総務部長、中国

„Ak môžeme spoločne pracovať na pomoc deťom, ktoré sa môžu stať vedúcimi osobnosťami budúcnosti, potom sme ako spoločnosť úspešní."

~Yudan Huang, vedúci pracovník administratívy, Čína

"Si podemos trabajar juntos para ayudar a los niños que pueden ser los líderes del mañana, entonces, habremos tenido éxito como compañía."

~Yudan Huang, Gerente Administrativo, China


"Robotics At Work"
ROWN DEER
IGH SCHOOL

leader development

领导者培养
rozvoj vedoucích pracovníků
développement des leaders
Entwicklung von Führungskräften
リーダー育成
rozvoj lídra
desarrollo de las capacidades de liderazgo

“通过参加江森自控机器人比赛，我收获颇多。但我的最大收获就是我相信自己有潜力做好我希望做的每一件事。”
~Ashley Saffold，学生，美国

„Ze soutěže robotiky společnosti Johnson Controls jsem si toho hodně odnesla. Především jsem však zjistila, že mohu dosáhnout všeho, co chci.“
~Ashley Saffold, student, USA

“I learned so much through the Johnson Controls robotics competition. But most importantly I learned that I have the potential to be whatever I want to be.”
~Ashley Saffold, Student, United States

« Le concours de robotique de Johnson Controls m’a tant appris, notamment que j’ai le potentiel de devenir ce que j’ai envie d’être. »
~Ashley Saffold, étudiant, Etats-Unis

„Ich habe durch den Roboterwettbewerb von Johnson Controls so viel gelernt. Aber am meisten habe ich gelernt, dass ich das Potential habe zu sein, was ich sein möchte.“
~Ashley Saffold, Studentin, Vereinigte Staaten

「Johnson Controls のロボット コンテストを通じて、さまざまなことを学びました。特に、自分がなりたいものになれる可能性があることがわかったのは、最高の収穫でした。」
~Ashley Saffold、学生、アメリカ

„Prostredníctvom súťaže spoločnosti Johnson Controls v robotike som sa veľa naučila. Ale hlavne som zistila, že mám potenciál byť tým, čím len chcem.“
~Ashley Saffold, študentka, USA

“Aprendí mucho durante la competencia robótica organizada por Johnson Controls. Pero más que nada aprendí que tengo el potencial para llegar a ser lo que quiera.”
~Ashley Saffold, Estudiante, Estados Unidos

P.O. Box 591, Milwaukee WI 53201
www.johnsoncontrols.com

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2007 Form 10-K

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

FORM 10–K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Annual Period Ended September 30, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Transition Period From __________ To

Commission File Number 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	**39-0380010**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue **P.O. Box 591** **Milwaukee, Wisconsin**	**53201**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(414) 524-1200

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Exchange Act: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☑

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

As of March 31, 2007, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately $18.7 billion based on the closing sales price as reported on the New York Stock Exchange. As of October 31, 2007, 593,815,378 shares of the registrant's Common Stock, par value $0.01 7/18 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on January 23, 2008 are incorporated by reference into Part III.

JOHNSON CONTROLS, INC.

Index to Annual Report on Form 10-K

Year Ended September 30, 2007

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Annual Report on Form 10-K refer to Johnson Controls, Inc. and its consolidated subsidiaries.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1 BUSINESS

General

Johnson Controls brings ingenuity to the places where people live, work and travel. By integrating technologies, products and services, we create smart environments that redefine the relationships between people and their surroundings. We strive to create a more comfortable, safe and sustainable world through our products and services for more than 200 million vehicles, 12 million homes and one million commercial buildings. Johnson Controls provides innovative automotive interiors that help make driving more comfortable, safe and enjoyable. For buildings, we offer products and services that optimize energy use and improve comfort and security. We also provide batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise.

Our building efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the building efficiency business provides technical services, energy management consulting and operations of entire real estate portfolios for the non-residential buildings market. We also provide residential air conditioning and heating systems.

Our automotive experience business is one of the world's largest automotive suppliers, providing interior systems to more than 30 million vehicles annually. Our technologies extend into every area of the interior including seating and overhead systems, door systems, floor consoles, instrument panels, cockpits and integrated electronics. Customers include virtually every major automaker in the world.

Our power solutions business is a leading global producer of lead-acid automotive batteries, serving both automotive original equipment manufacturers and the general vehicle battery aftermarket. We produce more than 120 million lead-acid batteries annually. We offer Absorbent Glass Mat (AGM), nickel-metal-hydride and lithium-ion battery technologies to power hybrid vehicles.

Financial Information About Business Segments

Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain operating segments are aggregated or combined based on materiality within building efficiency - rest of world and power solutions in accordance with SFAS No. 131. The Company's ten reportable segments are presented in the context of its three primary businesses: building efficiency, automotive experience and power solutions.

Refer to Note 17, "Segment Information," of the notes to the consolidated financial statements in Item 8 of this report for financial information about business segments.

For the purpose of the following discussion of the Company's businesses, the six building efficiency reportable segments and the three automotive experience reportable segments are presented together due to their similar customers and the similar nature of their products, production processes, and distribution channels.

Products/Systems and Services

Building efficiency

Building efficiency is a global leader in delivering integrated control systems, mechanical equipment, services and solutions designed to improve the comfort, safety and energy efficiency of non-residential buildings and residential properties with operations in more than 125 countries. Revenues come from technical services and the replacement and upgrade of controls and heating, ventilating and air conditioning mechanical equipment in the existing buildings market, where the Company's large base of current customers leads to repeat business and low cyclicality, as well as with installing controls and equipment during the construction of new buildings. Customer relationships often span entire building lifecycles.

Building efficiency sells its control systems, mechanical equipment and services primarily through the Company's extensive global network of sales and service offices. Some types of controls and mechanical systems are sold to distributors of air-conditioning, refrigeration and commercial heating systems throughout the world. Approximately 45% of building efficiency's sales are derived from HVAC products and installed control systems. Approximately 55% of its sales originate from its service offerings. In fiscal 2007, building efficiency accounted for 37% of the Company's consolidated net sales.

The Company's systems include York® chillers, air handlers and other HVAC mechanical equipment that provide heating and cooling in non-residential buildings. The Metasys® control system monitors and integrates HVAC equipment with other critical buildings systems to maximize comfort while reducing energy and operating costs. As one of the largest global suppliers of technical services, building efficiency supplements or serves as in-house staff to maintain, optimize and repair building systems made by the Company or by its competitors. The Company offers a wide range of solutions such as performance contracting under which energy savings are used by the customer to pay a third party financier for the project costs over a number of years. In addition, our global workplace solutions segment provides full-time on-site operations staff and real estate consulting services to help customers, especially multi-national companies, reduce costs and improve the performance of their facility portfolios. The Company's on-site staff typically performs tasks related to the comfort and reliability of the facility, and manages subcontractors for functions like foodservice, cleaning, maintenance and landscaping. Through its North America unitary products business, the Company produces air conditioning and heating equipment for the residential market.

Automotive experience

Automotive experience designs and manufactures products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. The business produces automotive interior systems for original equipment manufacturers (OEMs) and operates approximately 165 wholly- and majority-owned manufacturing or assembly plants in 31 countries worldwide (see Item 2 "Properties"). Additionally, the business has partially-owned affiliates in Asia, Europe, North America and South America.

Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument panels and clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems. In fiscal 2007, automotive experience accounted for 51% of the Company's consolidated net sales.

The business operates assembly plants that supply automotive OEMs with complete seats on a "just-in-time/in-sequence" basis. Seats are assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line. Certain of the business's other automotive interior systems are also supplied on a "just-in-time/in-sequence" basis. Foam and metal seating components, seat covers, seat mechanisms and other components are shipped to these plants from the business's production facilities or outside suppliers.

Power solutions

Power solutions services both automotive OEMs and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company is the largest producer of lead-acid automotive batteries in the world, producing more than 120 million lead-acid batteries annually in approximately 60 wholly- and majority-owned manufacturing or assembly plants in 9 countries worldwide. Investments in new product and process technology have expanded product offerings to AGM, nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles. Approximately 75% of automotive battery sales worldwide in fiscal 2007 were to the automotive replacement market, with the remaining sales to the OEM market.

Sales of automotive batteries generated 12% of the Company's fiscal 2007 consolidated net sales. Batteries and plastic battery containers are manufactured at wholly and partially owned plants in North America, South America, Asia, the Middle East and Europe (see Item 2 "Properties").

Competition

Building efficiency

The building efficiency business conducts certain of 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 quality, price, design, reputation, technology, efficiency, acoustics, application engineering capability and construction management expertise. Competitors for contracts in the residential and non-residential marketplace include many regional, national and international controls providers; larger competitors include Honeywell International, Inc.; Siemens Building Technologies, an operating group of Siemens AG; Carrier Corporation, a subsidiary of United Technologies Corporation; The Trane Company, a subsidiary of American Standard Companies Inc.; Rheem Manufacturing Company; Lennox International, Inc.; and Goodman Global, Inc. The services market, including global workplace solutions, is highly fragmented. Sales of services are largely dependent upon numerous individual contracts with commercial businesses worldwide; the loss of any individual contract would not have a material adverse effect on the Company.

Automotive experience

The automotive experience business faces competition from other automotive suppliers and, with respect to certain products, from the automobile OEMs who produce or have the capability to produce certain products the business supplies. Competition is based on technology, quality, reliability of delivery and price. Design, engineering and product planning are increasingly important factors. Independent suppliers that represent the principal automotive experience competitors include Lear Corporation, Faurecia SA, and Magna Automotive Inc.

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, Costco, Interstate Battery System of America, Pep Boys, Sears, Roebuck & Co and Wal-Mart stores. Automotive batteries are sold throughout the world under private label and under the Company's brand names (Optima®, Varta®, LTH® and Heliar®) to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The power solutions business competes with a number of major domestic and international 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, East Penn Manufacturing Company and Fiamm Group. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty.

Backlog

The Company's backlog relating to the building efficiency business is applicable to its sales of systems and services. At September 30, 2007, the backlog was $4.2 billion, compared with $3.7 billion as of September 30, 2006, primarily due to continued market share gains. The preceding data does not include amounts associated with contracts in the global workplace solutions business because such contracts are typically multi-year service awards, nor does it include unitary products. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the coming fiscal year.

At September 30, 2007, the Company’s automotive experience backlog of net new incremental business to be executed within the next three fiscal years was approximately $3.9 billion, $0.9 billion of which relates to fiscal 2008. The backlog as of September 30, 2006 was approximately $3.5 billion. The increase in backlog is primarily due to market share gains in Europe and higher vehicle production volumes in Asia. The automotive backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes, the timing of related production launches and changes in customer development plans.

Raw Materials

Raw materials used by the businesses in connection with their operations, including lead, steel, urethane chemicals, copper, sulfuric acid and polypropylene, were readily available during the year and such availability is expected to continue. In fiscal 2008, the Company expects continued volatility in lead prices, increases in foam chemical, resin and fuel costs due to rising oil prices, and relatively stable copper and steel costs.

Intellectual Property

Generally, the Company seeks statutory protection for strategic or financially important intellectual property developed in connection with its business. Certain intellectual property, where appropriate, is protected by contracts, licenses, confidentiality or other agreements.

The Company owns numerous U.S. and non-U.S. patents (and their respective counterparts), the more important of which cover those technologies and inventions embodied in current products, or which are used in the manufacture of those products. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, no single patent, or group of patents, is critical to the success of the business. The Company, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Company's trademarks, certain of which are material to its business, are registered or otherwise legally protected in the U.S. and many non-U.S. countries where products and services of the Company are sold. The Company, from time to time, becomes involved in trademark licensing transactions.

Most works of authorship produced for the Company, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Company's claim to copyright protection under U.S. law and appropriate international treaties.

Environmental, Health and Safety Matters

Laws addressing the protection of the environment (Environmental Laws) and workers’ safety and health (Worker Safety Laws) govern the Company’s ongoing global operations. They generally provide for civil and criminal penalties, as well as injunctive and remedial relief, for noncompliance or require remediation of sites where Company-related materials have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with Environmental Laws and Worker Safety Laws and maintains procedures designed to foster and ensure compliance. Certain of the Company's businesses are or have been engaged in the handling or use of substances that may impact workplace health and safety or the environment. The Company is committed to protecting its workers and the environment against the risks associated with these substances.

The Company's operations and facilities have been, and in the future may become, the subject of formal or informal enforcement actions or proceedings for noncompliance with such laws or for the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities that result in commitments to compliance, abatement, or remediation programs and, in some cases, payment of penalties. Historically, neither such commitments nor such penalties have been material. (See Item 3 "Legal Proceedings" of this report for a discussion of the Company's potential environmental liabilities.)

Environmental Capital Expenditures

The Company's ongoing environmental compliance program often results in capital expenditures. Environmental considerations are a part of all significant capital expenditures; however, expenditures in fiscal 2007 related solely to environmental compliance were not material. It is management's opinion that the amount of any future capital expenditures related solely to environmental compliance will not have a material adverse effect on the Company's financial results or competitive position in any one year.

Employees

As of September 30, 2007, the Company employed approximately 140,000 employees, of whom approximately 93,000 were hourly and 47,000 were salaried.

Seasonal Factors

Certain of building efficiency's sales are seasonal as the demand for residential air conditioning equipment generally increases in the summer months, while the demand for furnaces peaks during the autumn months. This seasonality is mitigated by the other products and services provided by the building efficiency business that have no material seasonal effect.

Sales of automotive seating and interior systems and of batteries to automobile OEMs for use as original equipment are dependent upon the demand for new automobiles. Management believes that demand for new automobiles generally reflects sensitivity to overall economic conditions with no material seasonal effect.

The automotive replacement battery market is affected by weather patterns because batteries are more likely to fail when extremely low temperatures place substantial additional power requirements upon a vehicle's electrical system. Also, battery life is shortened by extremely high temperatures, which accelerate corrosion rates. Therefore, either mild winter or moderate summer temperatures may adversely affect automotive replacement battery sales.

Financial Information About Geographic Areas

Refer to Note 17, "Segment Information," of the notes to the consolidated financial statements in Item 8 of this report for financial information about geographic areas.

Research and Development Expenditures

Refer to Note 1, "Summary of Significant Accounting Policies," of the notes to the consolidated financial statements in Item 8 of this report for research and development expenditures.

Available Information

The Company's filings with the U.S. Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Exchange Act, are made available free of charge through the Investor Relations section of the Company's Internet website at http://www.johnsoncontrols.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes them to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at http://www.sec.gov, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC's Office of Investor Education and Assistance at 1-800-732-0330. The Company also makes available, free of charge, its Ethics Policy, Corporate Governance Guidelines, Board of Director committee charters and other information related to the Company on the Company's Internet website or in printed form upon request. The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

ITEM 1A RISK FACTORS

General Risks

We are subject to pricing pressure from our larger customers.

We face significant competitive pressures in all of our business segments. Because of their purchasing size, our larger customers can influence market participants to compete on price terms. If we are not able to offset pricing reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those pricing reductions may have an adverse impact on our business.

We are subject to risks associated with our non-U.S. operations which could adversely affect our 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, Central Europe and other 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.

In addition, as a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. We are therefore subject to foreign currency risks and foreign exchange exposure. Our primary exposures are to the Euro, British pound, Japanese yen, Czech koruna, Mexican peso, Swiss franc and Chinese yuan. While we employ financial instruments to hedge transactional and foreign exchange exposure, these activities do not insulate us completely from those exposures.

There are other risks that are inherent in our non-U.S. operations, including the potential for changes in socio-economic conditions, laws and regulations, including import, export, labor and environmental laws and monetary and fiscal policies, protectionist measures that may prohibit acquisitions or joint ventures, unsettled political conditions and possible terrorist attacks against American interests.

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.

We are subject to regulation of our international operations that could adversely affect our business and results of operations.

Due to our global operations, we are subject to many laws governing international relations, including those that prohibit improper payments to government officials and restrict where we can do business, what information or products we can supply to certain countries and what information we can provide to a non-U.S. government, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws, which are complex and often times difficult to interpret and apply, may result in severe criminal penalties or sanctions that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to costly requirements relating to environmental regulation and environmental remediation matters, which could adversely affect our business and results of operations.

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 balance sheet, which could have a material adverse effect on our business and results of operations. As of September 30, 2007, we recorded $27 million for environmental liabilities and $81 million in related conditional asset retirement obligations.

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 changes in our valuation allowances against deferred tax assets and other tax reserves on our statement of financial position that could materially and adversely affect our results of operations. Additionally, changes in statutory tax rates in the U.S. or in other countries where the Company has significant operations could materially affect deferred tax assets and liabilities on our balance sheet.

We are also subject to tax audits by governmental authorities in the U.S. and in non-U.S. jurisdictions. Negative unexpected results from one or more such tax audits could adversely affect our results of operations.

Legal proceedings in which we are, or may be, a party may adversely affect us.

We are currently and may in the future become subject to legal proceedings and commercial or contractual disputes. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes with our suppliers, intellectual property matters and employment claims. There exists the possibility that such claims may have an adverse impact on our results of operations that is greater than we anticipate.

An increase in our level of indebtedness could lead to a downgrade in the ratings of our debt and, in turn, restrict our ability to access the debt capital markets.

Changes in the ratings that rating agencies assign to our debt may ultimately impact our access to the debt capital markets. An increase in the level of our indebtedness in the future, to the extent that we finance future acquisitions with debt, for example, may result in a downgrade in the ratings that are assigned to our debt. If ratings for our debt fall below investment grade, our access to the debt capital markets would become restricted.

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.

We may be unable to complete or integrate acquisitions effectively, which may adversely affect our growth, profitability and results of operations.

We expect acquisitions of businesses and assets to play a role in our company's future growth. We cannot be certain that we will be able to identify attractive acquisition targets, obtain financing for acquisitions on satisfactory terms or successfully acquire identified targets. Additionally, we may not be successful in integrating acquired businesses into our existing operations and achieving projected synergies. 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. These and other acquisition-related factors may negatively and adversely impact our growth, profitability and results of operations.

Building Efficiency Risks

Our building efficiency business relies to a great extent on contracts and business with U.S. government entities, the loss of which may adversely affect our results of operations.

Our building efficiency business contracts with government entities and is subject to specific rules, regulations and approvals applicable to government contractors. We are subject to routine audits by the Defense Contract Audit Agency to assure our compliance with these requirements. Our failure to comply with these or other laws and regulations could result in contract terminations, suspension or debarment from contracting with the U.S. federal government, civil fines and damages and criminal prosecution. In addition, changes in procurement policies, budget considerations, unexpected U.S. developments, such as terrorist attacks, or similar political developments or events abroad that may change the U.S. federal government's national security defense posture may affect sales to government entities.

A variety of other factors could adversely affect the results of operations of our building efficiency business.

Any of the following could materially and adversely impact the results of operations of our building efficiency business: loss of, or changes in, building automation or facility management supply contracts with our major customers; delays or difficulties in new product development; the potential introduction of similar or superior technologies; financial instability or market declines of our major or component suppliers; the unavailability of raw materials, primarily steel, copper and electronic components, necessary for production of HVAC equipment; rapid increases and volatility of commodity prices; unseasonable weather conditions in various parts of the world; a significant decline in the construction of new commercial buildings requiring interior control systems; a significant decline in residential housing starts; changes in energy costs or governmental regulations that would decrease the incentive for customers to update or improve their interior control systems;

increased energy efficiency legislation requirements worldwide; a decline in the outsourcing of facility management services; and availability of labor to support growth of our service businesses.

Automotive Experience Risks

Decreased demand from our customers in the automotive industry may adversely affect our results of operations.

In fiscal 2007, our three largest customers were automobile manufacturers Ford Motor Company, General Motors Corporation and DaimlerChrysler AG (now Daimler AG and Chrysler LLP) (the Detroit 3), with consolidated global net sales to these customers representing approximately 28% of total Company net sales. Sales to the Detroit 3 originating in the U.S. represented approximately 10% of our consolidated net sales in fiscal 2007. Our financial performance depends, in part, on conditions in the automotive industry. The Detroit 3 have experienced declining market shares in North America and have announced significant restructuring actions in an effort to improve profitability. The North American automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. If our customers, especially the Detroit 3, reduce their orders to us, it would adversely impact our results of operations. Additionally, we have significant component production for manufacturers of motor vehicles in the U.S., Europe, South America, Japan and other Asia/Pacific Rim countries. Continued uncertainty relating to the financial condition of the Detroit 3 and others in the automotive industry may have a negative impact on our business.

The financial distress of our suppliers could harm our results of operations.

Automotive industry conditions have adversely affected our supplier base. Lower production levels for some of our key customers and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supplier base may lead to increased commercial disputes and possible supply chain interruptions. In addition, the adverse industry environment has required us to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. The continuation or worsening of these industry conditions may have a negative impact on our business.

Change in consumer demand may adversely affect our results of operations.

Recent and any future increases in energy costs that consumers incur is resulting in shifts in consumer demand away from motor vehicles that typically have higher amounts of content that we supply, such as light trucks, cross-over vehicles, minivans and SUVs, to smaller vehicles that have lower amounts of content that we supply. The loss of business with respect to, or a lack of commercial success of, one or more particular vehicle models for which we are a significant supplier could reduce our sales and harm our profitability, thereby adversely affecting our results of operations.

We may not be able to successfully negotiate pricing terms with our customers in the automotive experience business, which may adversely affect our results of operations.

We negotiate sales prices annually with our automotive seating and interiors customers. Cost-cutting initiatives that our customers have adopted generally result in increased downward pressure on pricing. Our customer supply agreements generally require reductions in component pricing over the period of production. Pricing pressures may further intensify, particularly in North America, as the Detroit 3 pursue restructuring and cost cutting initiatives to better compete with their non-U.S. competitors. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our results of operations may be adversely affected.

Increases in commodity prices may adversely affect our results of operations.

Commodity prices have risen rapidly in the past three years. In our two largest markets, North America and Europe, the cost of commodities, primarily steel, resin and chemicals, has increased (net of recoveries through price increases to customers). If commodity prices continue to rise, and if we are not able to recover these cost increases through price increases to our customers, then such increases may have an adverse effect on our results of operations.

The cyclicality of original equipment automobile production rates may adversely affect the results of operations in our automotive experience business.

Our automotive experience business is directly related to automotive sales and automotive production by our customers. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences. Any significant economic decline that results in a reduction in automotive production and sales by our automotive experience customers may have a material adverse impact on our results of operations.

A variety of other factors could adversely affect the results of operations of our automotive experience business.

Any of the following could materially and adversely impact the results of operations of our automotive experience business: the loss of, or changes in, automobile seating and interiors supply contracts or sourcing strategies with our major customers or suppliers; inability to meet minimum vendor volume requirements; start-up expenses associated with new vehicle programs or delays or cancellations of such programs; underutilization of our manufacturing facilities, which are generally located near, and devoted to, a particular customer's facility; inability to recover engineering and tooling costs; market and financial consequences of any recalls that may be required on products that we have supplied; delays or difficulties in new product development; the potential introduction of similar or superior technologies; and global overcapacity and vehicle platform proliferation.

Power Solutions Risks

We face increasing competition and pricing pressure from other companies in the power solutions business.

The power solutions business competes with a number of major domestic and international 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 results of operations may be adversely affected.

Increases in commodity prices may adversely affect our results of operations.

Lead is a major component of our lead acid batteries. Lead prices have risen dramatically in the past 18 months. If the price of lead continues to rise, and if we are not able to recover these cost increases through price increases to our customers or with commodity hedging strategies, then such increases may have an adverse effect on our results of operations.

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 contribute to a growth slowdown in the lead-acid battery market; 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 nickel-metal-hydride/lithium-ion technology; financial instability or market declines of our customers or suppliers; the increasing global environmental regulation related to the manufacture of lead-acid batteries; and the lack of the development of a market for hybrid vehicles.

ITEM 1B UNRESOLVED STAFF COMMENTS

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal 2007 that remain unresolved.

ITEM 2 PROPERTIES

At September 30, 2007, the Company conducted its operations in 65 countries throughout the world, with its world headquarters located in Milwaukee, Wisconsin. The Company's wholly- and majority-owned facilities, which are listed in the table on the following pages by business and location, totaled approximately 95 million square feet of floor space and are owned by the Company except as noted. The facilities primarily consisted of manufacturing, assembly and/or warehouse space. The Company considers its facilities to be suitable and adequate for their current uses. The majority of the facilities are operating at normal levels based on capacity.

Building Efficiency

Florida	Largo (1),(3)	France	Carquefou (2),(3)
	Medley (1)		Nantes
Illinois	Dixon (2),(3)		Saint Quentin Fallavier (1),(3)
Kentucky	Eranger	Germany	Essen (2),(3)
Maryland	Baltimore (1)		Kempen (1),(4)
Mississippi	Hattiesburg		Mannheim (1)
Missouri	Albany	Hong Kong	Hong Kong
Oklahoma	Norman (1),(3)	Italy	Milan (1),(4)
Pennsylvania	York	India	Pune (1),(4)
	Waynesboro (3)	Japan	Koga (3)
Texas	San Antonio	Mexico	Cienega de Flores (1)
Virginia	Roanoke		Durango
Wisconsin	Glendale (4)		Monterrey
	Milwaukee (2),(4)	Poland	Warsaw (1)
		Puerto Rico	Carolina (1),(4)
Austria	Graz (4)	Russia	Moscow (1),(3)
	Vienna (4)	South Africa	Johannesburg (1),(3)
Brazil	Pinhais	Spain	Sabadell (1),(4)
	São Paulo (1),(3)	Sweden	Norrkoping (1)
Belgium	Diegem (1),(4)	Switzerland	Basel (1),(3)
Canada	Victoria (1),(4)		Zurich
China	Qingyuan (2),(3)	Taiwan	Taipei (1)
	Wuxi (1),(3)	Thailand	Laem Chanbang - Chonburi
Denmark	Aarhus (1),(3)	Turkey	Istanbul (1),(3)
	Hornslet (2),(3)		Izmir (1),(3)
	Viby	United Arab Emirates	Dubai (2),(3)
		UK	Essex (1),(4)

Automotive Experience

Alabama	Cottondale (1),(3)	Michigan	Plymouth (2),(3)
California	Livermore (2),(3)		Taylor (1),(3)
Georgia	Suwanee (1)		Warren (3)
Illinois	Sycamore (2),(3)	Mississippi	Madison
Indiana	Ossian	Missouri	Earth City (1),(3)
Kentucky	Bardstown (3)		Jefferson City (3)
	Cadiz (3)	Ohio	Greenfield
	Georgetown (3)		Northwood
	Shelbyville (1)		Oberlin (1),(3)
	Winchester (1)	Tennessee	Athens (2)
Louisiana	Shreveport		Lexington (3)
Michigan	Battle Creek		Murfreesboro (2)
	Detroit (3)	Texas	El Paso (1),(3)
	Holland (2),(3)		San Antonio (2),(3)
	Lansing (3)	Wisconsin	Hudson (1),(3)

Automotive Experience (continued)

Argentina	Buenos Aires (1)	Hungary	Pilis
	Rosario		Solymar (2)
Australia	Adelaide (1)	Italy	Cicerale (3)
	Melbourne		Grugliasco (1),(3)
Austria	Graz (1),(3)		Melfi (1),(3)
	Mandling (3)		Rocca D'Evandro (1)
Belgium	Geel (3)	Japan	Ayase (2),(3)
	Gent (1),(3)		Hamakita (2),(3)
Brazil	Gravatai (3)		Mooka (2),(3)
	Pouso Alegre		Mouka
	San Bernardo do Campo (1)		Toyotsucho (2),(3)
	Santo Andre		Yokosuka (2),(3)
	Sao Jose dos Campos	Korea	Ansan (1), (4)
	Sao Jose dos Pinhais (1)		Asan (3)
Canada	Milton (1),(3)		Dangjin (3)
	Mississauga (1),(3)		Jeongeup (1)
	Orangeville		Namsa (1)
	Saint Mary's	Malaysia	Johor Bahru
	Tecumseh		Peramu Jaya (1)
	Tilsonburg (3)		Persiaran Sabak Bernam
	Whitby	Mexico	Monclova (3)
China	Beijing (3)		Naucalpan de Juarez (1)
Czech Republic	Benatky nad Jizerou (1),(3)		Puebla (2),(3)
	Ceska Lipa (2),(3)		Ramos Arizpe
	Mlada Boleslav (1),(3)		Tlaxcala (3)
	Ni Ebohy (1)		Tlazala (1)
	Roudnice (2),(3)	Netherlands	Ned Car (1), (3)
	Rychnov nad Kneznou (1),(3)	Poland	Tychy (3)
	Straz pod Ralskem (3)	Portugal	Nelas (3)
France	Brioude (1),(3)		Portalegre (3)
	Cergy Pontoise	Romania	Mioveni (1),(3)
	Compagnie (3)		Ploiesti (3)
	Conflans (3)	Russia	St. Petersburg (1),(3)
	Happich (3)	Slovak Republic	Bratislava (1),(3)
	La Ferte Bernard (1),(3)		Kostany nad Turcom (3)
	Rosny	Slovenia	Slovenj Gradec (1),(3)
	Schweighaus (3)	South Africa	East London (1)
	Strasbourg (3)		Pretoria (2),(3)
Germany	Bochum (1),(3)		Uitenhage (1)
	Bremen (1),(3)	Spain	Abrera (1),(4)
	Burscheid (2),(3)		Alagon (3)
	Espelkamp (3)		Madrid (1),(3)
	Grefrath (1),(3)		Prat de Llobregat
	Hannover (1),(3)		Valencia (2),(3)
	Holzgerlingen (1),(3)		Valladolid
	Lahnwerk (2),(3)		Zaragoza (3)
	Luneburg	Thailand	Rayong (3)
	Neustadt (3)	Tunisia	Bi'r al Bay (3)
	Rastatt (1),(3)		Valladolid
	Remchingen (3)		Zaragoza (3)
	Saarlouis (1)	United Kingdom	Burton-Upon-Trent (2),(3)
	Uberherrn (1),(3)		Leamington Spa (1),(3)
	Unterriexingen (2),(3)		Redditch (1),(3)
	Waghausel (3)		Speke (3)
	Wuppertal (2),(3)		Sunderland
	Zwickau (3)		Telford (2),(3)
			Wednesbury (3)

Power Solutions			
Arizona	Yuma (2), (3)	China	Shanghai (3)
Colorado	Aurora (1),(3)	Czech Republic	Ceska Lipa (3)
Delaware	Middletown (1),(3)	France	Rouen
Florida	Tampa (2)		Sarreguemines (3)
Illinois	Geneva	Germany	Hannover (3)
Indiana	Ft. Wayne		Krautscheid (3)
Iowa	Red Oak		Zwickau (2),(3)
Kentucky	Florence (2),(3)	Mexico	Celaya
Missouri	St. Joseph (2),(3)		Cienega de Flores
North Carolina	Winston-Salem (3)		Escobedo
Oregon	Portland		Monterrey (2),(3)
South Carolina	Florence (3)		Torreon
Texas	San Antonio (3)	Poland	Wroclaw (1)
Wisconsin	Milwaukee (4)	Spain	Burgos (3)
			Guadamar del Segura
Austria	Vienna (4)		Guadalajara
Brazil	Sorocaba (3)	Sweden	Hultsfred

Corporate	
Wisconsin	Milwaukee (4)

(1) Leased facility
(2) Includes both leased and owned facilities
(3) Includes both administrative and manufacturing facilities
(4) Administrative facility only

In addition to the above listing, which identifies large properties (greater than 25,000 square feet), there are approximately 565 building efficiency branch offices and other administrative offices located in major cities throughout the world. These offices vary in size in proportion to the volume of business in the particular locality.

ITEM 3 LEGAL PROCEEDINGS

As noted in Item 1, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 60 sites in the U.S. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Reserves for environmental costs totaled $27 million and $34 million at September 30, 2007 and 2006, respectively. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other lawsuits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and lawsuits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

As previously reported, following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of York International Corporation (York), York had made improper payments to the Iraqi regime, York and the Company jointly undertook to investigate the allegations and offered the companies' cooperation to the United States Department of Justice (DOJ) and the SEC. After completing the York acquisition, the Company continued the internal inquiry and expanded its scope to include other aspects of York's Middle East operations, including a review of York's use of agents, consultants and other third parties, York's compliance with the Office of Foreign Assets Control licensing requirements, and York's compliance with other potentially applicable trade laws. The Company also reviewed certain of York's sales practices in other markets. In October 2007, York reached settlements relating to the SEC and DOJ investigations regarding payments made by York and its subsidiaries in connection with the United Nations' Oil-for-Food Program and other payments unrelated to the Oil-for-Food Program. Specifically, York entered into an agreement with the SEC under which York consented to the entry of a civil injunction proscribing future violations of law. York also entered into an agreement with the DOJ under which the DOJ agreed to defer prosecuting York for three criminal charges. The DOJ will not pursue the charges if York complies with the agreement for its three-year term. The agreements with both the SEC and DOJ required that York retain an independent compliance monitor for three years. York paid an aggregate of approximately $22 million to the SEC and the DOJ pursuant to these settlements, which payments were characterized as disgorgement of profits, criminal and civil penalties and interest. The Company had reserves adequate for this amount. The Company is offering continued cooperation to other relevant authorities in the U.S. Departments of Treasury, Commerce and Navy. The Company has begun discussions with these relevant authorities to explore how these matters may be resolved and expects that any additional sanctions are not expected to be material. The Company is in the process of evaluating and implementing various remedial measures with respect to York operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of November 15, 2007 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company's fiscal 2007 Proxy Statement.

Stephen A. Roell, 57, was elected Chief Executive Officer effective in October 2007 and Chairman effective in January 2008. He was first elected to the Board of Directors in October 2004 and served as Executive Vice President from October 2004 through September 2007. Mr. Roell previously served as Chief Financial Officer between 1991 and May 2005, Senior Vice President from September 1998 to October 2004 and Vice President from 1991 to September 1998. Mr. Roell joined the Company in 1982.

John M. Barth, 61, was elected Chairman in January 2004 and a member of the Board of Directors in November 1997. In July 2007, the Company announced that Mr. Barth would retire as Chairman on December 31, 2007. He previously served as Chief Executive Officer from October 2002 through September 2007, President from September 1998 to July 2006, Chief Operating Officer from September 1998 to October 2002 and an Executive Vice President with responsibility for automotive experience from 1992 to September 1998. Mr. Barth joined the Company in 1969.

Keith E. Wandell, 57, was elected President and Chief Operating Officer in July 2006. He previously served as Executive Vice President from May 2005 to July 2006, Corporate Vice President from January 1997 to May 2005, President of automotive experience from August 2003 to July 2006 and President of power solutions from October 1998 to August 2003. Mr. Wandell joined the Company in 1988.

Susan F. Davis, 54, was elected Executive Vice President of Human Resources in September 2006. She previously served as Vice President of Human Resources from May 1994 to September 2006 and as Vice President of Organizational Development for automotive experience from August 1993 to April 1994. Ms. Davis joined the Company in 1983.

R. Bruce McDonald, 47, was elected Executive Vice President in September 2006 and Chief Financial Officer in May 2005. He previously served as Corporate Vice President from January 2002 to September 2006, Assistant Chief Financial Officer from October 2004 to May 2005 and Corporate Controller from November 2001 to October 2004. Mr. McDonald joined the Company in 2001.

Beda Bolzenius, 51, was elected a Corporate Vice President in November 2005 and serves as President of the automotive experience business. He previously served as Executive Vice President and General Manager Europe, Africa and South America for automotive experience from November 2004 to November 2005. Dr. Bolzenius joined the Company in November 2004 from Robert Bosch GmbH, a global manufacturer of automotive and industrial technology, consumer goods and building technology, where he most recently served as the president of Bosch's Body Electronics division.

Alex A. Molinaroli, 48, was elected a Corporate Vice President in May 2004 and has served as President of the power solutions business since January 2007. Previously, Mr. Molinaroli served as Vice President and General Manager for North America Systems & the Middle East for the building efficiency business and has held increasing levels of responsibility for controls systems and services sales and operations. Mr. Molinaroli joined the Company in 1983.

C. David Myers, 44, was elected a Corporate Vice President and President of the building efficiency business in December 2005, when he joined the Company in connection with the acquisition of York. At York, Mr. Myers served as Chief Executive Officer from February 2004 to December 2005, President from June 2003 to December 2005, Executive Vice President and Chief Financial Officer from January 2003 to June 2003 and Vice President and Chief Financial Officer from February 2000 to January 2003.

Jeffrey G. Augustin, 45, was elected a Corporate Vice President in March 2005 and has served as Vice President of Finance for the building efficiency business since December 2005. Previously, Mr. Augustin served as Corporate Controller from March 2005 to March 2007. From 2001 to March 2005, Mr. Augustin was Vice President of Finance and Corporate Controller of Gateway, Inc.

Jeffrey S. Edwards, 45, was elected a Corporate Vice President in May 2004 and serves as Group Vice President and General Manager for Japan and Asia Pacific for the automotive experience business. He previously served as Group Vice President and General Manager for automotive experience North America from August 2002 to May 2004 and Group Vice President and General Manager for product and business development. Mr. Edwards joined the Company in 1984.

Giovanni "John" Fiori, 64, was elected an Executive Vice President in August 2002 and serves as President of Johnson Controls International. He previously served as the President of automotive operations in Europe, Africa, South America and Asia and Vice President of automotive seating operations in Europe. Mr. Fiori joined the Company in 1987.

Charles A. Harvey, 55, was elected Corporate Vice President of Diversity and Public Affairs in November 2005. He previously served as Vice President of human resources for the automotive experience business and in other human resources leadership positions. Mr. Harvey joined the Company in 1991.

Susan M. Kreh, 45, was elected Vice President and Corporate Controller in March 2007 and serves as the Company's Principal Accounting Officer. Prior to joining the Company, Ms. Kreh served 22 years at PPG Industries, Inc., including as Corporate Treasurer from January 2002 until March 2007.

Jerome D. Okarma, 55, was elected Vice President, Secretary and General Counsel in November 2004 and was named a Corporate Vice President in September 2003. He previously served as Assistant Secretary from 1990 to November 2004 and as Deputy General Counsel from June 2000 to November 2004. Mr. Okarma joined the Company in 1989.

Subhash "Sam" S. Valanju, 64, was elected a Corporate Vice President in 1999 and has served as Chief Information Officer since joining the Company in 1996.

Frank A. Voltolina, 47, was elected a Corporate Vice President and Corporate Treasurer in July 2003 when he joined the Company. Prior to joining the Company, Mr. Voltolina was Vice President and Treasurer at ArvinMeritor, Inc.

Denise M. Zutz, 56, was elected Vice President of Strategy, Investor Relations and Communication in November 2004. She previously served as Vice President, Corporate Communication from 1991 to November 2004. Ms. Zutz joined the Company in 1973.

There are no family relationships, as defined by the instructions to this item, among the Company's executive officers.

All officers are elected for terms that expire on the date of the meeting of the Board of Directors following the Annual Meeting of Shareholders or until their successors are elected and qualified.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's shares of common stock are traded on the New York Stock Exchange under the symbol "JCI."

Title of Class	Number of Record Holders as of September 30, 2007
Common Stock, $0.01 7/18 par value	47,810

	Common Stock Price Range		Dividends *	
	2007	2006	2007	2006
First Quarter	$23.84-29.48	$20.09-24.65	$ 0.11	$ 0.09
Second Quarter	28.09-33.22	22.25-25.81	0.11	0.09
Third Quarter	31.35-39.25	24.67-30.00	0.11	0.09
Fourth Quarter	33.17-43.07	22.80-28.60	0.11	0.09
Year	$23.84-43.07	$20.09-30.00	$ 0.44	$ 0.37

* Due to rounding, all quarterly dividend amounts may not equal the dividend amount for the year.

On July 25, 2007, the Company's Board of Directors declared a three-for-one stock split of the common stock payable October 2, 2007 to shareholders of record on September 14, 2007. This stock split resulted in an increase of approximately 396 million in the outstanding shares of common stock. All share or per share data in this Form 10-K have been restated to reflect the three-for-one stock split.

In September 2006, the Company's Board of Directors authorized a stock repurchase program to acquire up to $200 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice. There were $26 million in common stock repurchases made under the stock repurchase program in the fiscal year ended September 30, 2007.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006 (Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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.

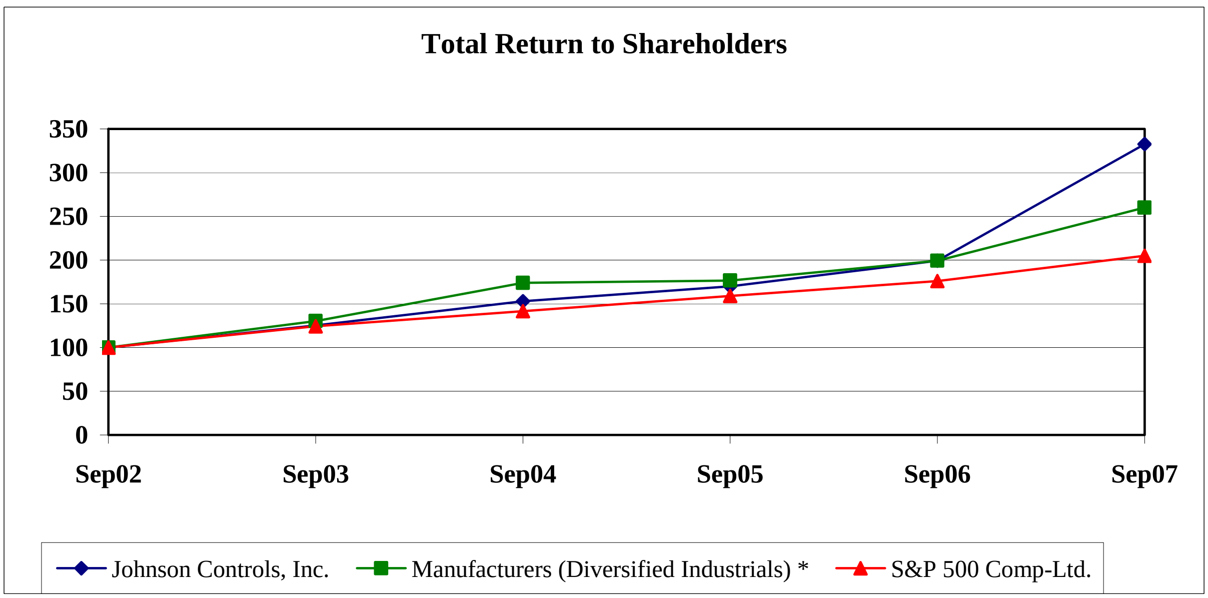
Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the

Swap Agreement with Citibank's consent. The net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company's earnings for the fiscal years ended September 30, 2007 and 2006. In the three months ended March 31, 2007, Citibank reduced its holding of Company stock by 100,000 shares in connection with the Swap Agreement and Citibank maintained this reduced holding through September 30, 2007.

The following information in the Item 5 is not deemed to be "soliciting material" or the be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act") or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing:

The line graph below compares the cumulative total shareholder return on our Common Stock with the cumulative total return of companies on the Standard & Poor's (S&P's) 500 Stock Index and companies formerly on the S&P's Manufacturers (Diversified Industrials) Index.* This graph assumes the investment of $100 on September 1, 2002 and the reinvestment of all dividends since that date.

COMPANY/INDEX	Sep02	Sep03	Sep04	Sep05	Sep06	Sep07
Johnson Controls, Inc.	100	125.31	152.90	169.84	199.35	332.67
Manufacturers (Diversified Industrials) *	100	130.23	173.97	176.79	199.33	259.86
S&P 500 Comp-Ltd.	100	124.38	141.62	158.97	176.12	205.07



*The Manufacturers (Diversified Industrials) index was discontinued as a formal index of Standard & Poors effective December 31, 2001. The company has replicated the index using return data for the fourteen companies that comprised the Manufacturers (Diversified Industrials) as of that date.

The Company has filed as exhibits to this Annual Report on Form 10-K the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Company also submitted the Annual CEO certification to the New York Stock Exchange.

The Company's transfer agent's contact information is as follows:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services Department
P.O. Box 64856
St. Paul, MN 55164-0856
(877) 602-7397

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations, balance sheet data, and common share information for the fiscal years ended September 30, 2003 through September 30, 2007 (in millions, except per share data, number of employees and shareholders).

	Year ended September 30,				
	2007	**2006 (2)**	**2005**	**2004**	**2003**
OPERATING RESULTS					
Net sales	$34,624	$32,235	$27,479	$24,603	$21,171
Segment income (3)	1,884	1,608	1,326	1,168	1,055
Income from continuing operations	1,295	1,033	757	767	645
Net income	1,252	1,028	909	818	683
Earnings per share from continuing operations (1)					
Basic	$ 2.19	$ 1.77	$ 1.32	$ 1.36	$ 1.19
Diluted	2.16	1.75	1.30	1.33	1.13
Earnings per share (1)					
Basic	$ 2.12	$ 1.76	$ 1.58	$ 1.45	$ 1.26
Diluted	2.09	1.74	1.56	1.41	1.20
Return on average shareholders' equity (4)	16%	15%	13%	16%	17%
Capital expenditures	$ 828	$ 711	$ 664	$ 817	$ 606
Depreciation and amortization	732	705	639	594	528
Number of employees	140,000	136,000	114,000	113,000	108,000
FINANCIAL POSITION					
Working capital (5)	$ 1,441	$ 1,357	$ 892	$ 520	$ 479
Total assets	24,105	21,921	16,144	14,758	12,917
Long-term debt	3,255	4,166	1,577	1,631	1,777
Total debt	4,418	4,743	2,342	2,671	2,355
Shareholders' equity	8,907	7,355	6,058	5,206	4,261
Total debt to total capitalization	33%	39%	28%	34%	36%
Net book value per share (1)	$ 15.00	$ 12.52	$ 10.47	$ 9.14	$ 7.74
COMMON SHARE INFORMATION (1)					
Dividends per share	$ 0.44	$ 0.37	$ 0.33	$ 0.30	$ 0.24
Market prices					
High	$ 43.07	$ 30.00	$ 21.33	$ 20.77	$ 16.81
Low	23.84	20.09	17.52	15.87	11.52
Weighted average shares (in millions)					
Basic	590.6	583.5	575.4	563.1	536.1
Diluted	599.2	589.9	582.9	577.8	567.3
Number of shareholders	47,810	51,240	52,964	55,460	55,823

(1) All share and per share amounts reflect a three-for-one common stock split payable October 2, 2007 to shareholders of record on September 14, 2007.

(2) In December 2005, the Company acquired York, significantly expanding the building efficiency business. See Items 7 and 8 for additional details related to the acquisition.

(3) Segment income is calculated as income from continuing operations before income taxes and minority interests excluding net financing charges, restructuring costs and Japanese pension gain (fiscal 2004 only).

(4) Return on average shareholders' equity (ROE) represents income from continuing operations divided by average equity. Income from continuing operations includes $197 million, $210 million and $82 million of restructuring costs in fiscal years 2006, 2005 and 2004, respectively. Additionally, fiscal 2004 includes an $84 million Japanese pension gain.

(5) Working capital is defined as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company operates in three primary businesses: building efficiency, automotive experience and power solutions. Building efficiency provides facility systems, services and workplace solutions including comfort, energy and security management for the residential and non-residential buildings markets. Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. Power solutions designs and manufactures automotive batteries for the replacement and original equipment markets.

On December 9, 2005, the Company acquired York International Corporation (York), a leading global provider of heating, ventilating, air conditioning (HVAC) equipment and services. The results of York's operations are included in the Company's consolidated financial statements from the date of acquisition. As part of the York integration, the Company reorganized its building efficiency business to maximize the synergies related to the York and legacy Johnson Controls operations. The new building efficiency structure is organized by product, service and/or region, with both York and Johnson Controls operations integrated within these segments as applicable.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company for the three-year period ended September 30, 2007. This discussion should be read in conjunction with Item 8, the consolidated financial statements and notes to the consolidated financial statements.

Executive Overview

In fiscal 2007, the Company recorded record net sales and record net income. Net sales were $34.6 billion, a 7% increase over the prior year, and net income was $1.3 billion, a 22% increase over the prior year, with such increases primarily due to the Company's increased share in its global markets and increased operational efficiencies. The Company continues to introduce new and enhanced technology applications in all businesses and markets served, while at the same time improving the quality of its products.

Building efficiency business net sales and segment income increased 24% and 56%, respectively, over the prior year, primarily due to increased commercial market share gains, expansion into emerging markets, revenue synergies and the full year impact of the York acquisition. The prior year period also included $53 million of expense related to the York acquisition for the amortization for the write-up of inventory. Improvements in cost structure and productivity have resulted in higher operating margins and a platform for future growth.

The automotive experience business was unfavorably impacted by lower automobile production in North America and Europe, partially offset by the favorable impact of foreign currency translation. Net sales and segment income decreased 4% and 14%, respectively, from the prior year.

Net sales and segment income for the power solutions business increased by 17% and 12%, respectively, over the prior year, primarily due to a higher unit prices resulting from significant increases in the cost of lead and the favorable impact of foreign currency translation.

Since September 30, 2006, the Company has repaid approximately $433 million of debt to reduce its total debt to capitalization ratio to 33% at September 30, 2007 from 39% at September 30, 2006. The Company expects continued reduction of this ratio in fiscal 2008, exclusive of the impact of acquisitions, if any.

In fiscal 2008, the Company anticipates that net sales will grow to approximately $38 billion, an increase of 10% from 2007, which includes expected 40% growth in the power solutions business net sales due to the pass-through of higher lead costs and an increase in worldwide volume, expected 15% growth in the building efficiency business net sales from growth in markets and increase in market share and expected level sales in the automotive experience business. The Company anticipates that diluted earnings per share from continuing operations will be approximately $2.45 to $2.50 in fiscal 2008, an 18% increase over fiscal 2007.

Segment Analysis

Management historically evaluated the performance of its operating segments based primarily on operating income, excluding restructuring costs and other significant gains and losses. For this purpose, consolidated operating income also excluded interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses, foreign currency gains and losses, and certain miscellaneous revenues and expenses.

Beginning in fiscal 2007, Company management, including the chief operating decision maker, adjusted their measurement of business unit performance, changing from operating income to segment income, which represents income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. The primary reason for the modification was to reflect equity income in earnings for each business operation given its growing significance to the Company’s global business strategies.

FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006

Summary

	Year Ended September 30,		
(In millions)	2007	2006	Change
Net sales	$ 34,624	$ 32,235	7%
Segment income	1,884	1,608	17%

- Net sales increased $2.4 billion, primarily due to growth in the building efficiency business ($2.0 billion) resulting from increased commercial market share gains, expansion into emerging markets, revenue synergies and the full year impact of the December 2005 York acquisition, the favorable impact of foreign currency translation ($1.5 billion) and higher power solutions net sales ($0.5 billion) related to higher unit prices resulting from significant increases in the cost of lead, partially offset by lower sales in the automotive experience business ($1.6 billion) reflecting weaker North American and European automotive markets.
- Excluding the favorable effects of foreign currency translation, consolidated net sales increased 3% as compared to the prior year.
- Segment income increased $276 million, primarily due to higher volumes and margins in the building efficiency business ($272 million) a favorable product mix in the power solutions segment despite increased lead costs ($81 million) and the favorable impact of foreign currency translation ($80 million), partially offset by the impact of lower North American and European automobile production ($148 million).
- Excluding the favorable effects of foreign currency translation, consolidated segment income increased 12% as compared to the prior year.

Building Efficiency

(In millions)	Net Sales for the Year Ended September 30, 2007	2006	Change	Segment Income for the Year Ended September 30, 2007	2006	Change
North America Systems	$ 2,027	$ 1,609	26%	$ 216	$ 131	65%
North America Service	2,273	1,943	17%	197	146	35%
North America Unitary Products	953	853	12%	65	62	5%
Global Workplace Solutions	2,677	2,046	31%	79	67	18%
Europe	2,406	1,900	27%	77	2	*
Rest of World	2,401	1,894	27%	216	136	59%
	$ 12,737	$ 10,245	24%	$ 850	$ 544	56%

* Measure not meaningful

Net Sales:

- Europe, Global Workplace Solutions and Rest of World were favorably impacted from the strengthening of foreign currencies against the U.S. dollar by approximately $220 million, $150 million and $80 million, respectively.
- North America Systems, North America Service, Europe and Rest of World increased primarily due to higher volumes, expanded cross-selling opportunities and the full year impact of the December 2005 York acquisition.
- North America Unitary Products increased primarily due to the full year impact of the York acquisition and higher unit selling prices associated with the change over to SEER 13 technology, partially offset by lower unit volumes due to a continued decline in new home construction.
- In addition to favorable foreign currency exchange, Global Workplace Solutions increased primarily due to new and expanded commercial contracts in North America and Europe, including France Telecom, Deloitte Touche Tohmatsu, British Broadcasting Corporation and the full year impact of Royal Dutch Shell plc.

Segment Income:

- For all building efficiency segments, except Global Workplace Solutions, the current period includes two additional months of segment income related to the December 2005 York acquisition. The prior year period also included $53 million of expense related to the York acquisition for the amortization of the write-up of inventory ($5 million for North America Systems, $7 million for North America Service, $14 million for North America Unitary Products, $16 million for Europe and $11 million for Rest of World).
- North America Systems also increased primarily due to higher equipment and branch and product sales volumes, improved pricing, higher margins and realization of synergies from the York acquisition and the effect on prior year results of non-recurring York integration costs, partially offset by higher operating costs to support the business growth.
- North America Service, Europe and Rest of World also increased primarily due to higher volumes, realization of synergies from the York acquisition and the effect on prior year results of non-recurring York integration costs and operational efficiencies from the branch office redesign efforts in Europe in the prior year, partially offset by higher SG&A expenses to support the business growth.
- North America Unitary Products increased due to the full year impact of the York acquisition, partially offset by lower production volumes.
- Global Workplace Solutions increased primarily due to higher volumes and expansion of services.

Automotive Experience

(In millions)	Net Sales for the Year Ended September 30, 2007	2006	Change	Segment Income for the Year Ended September 30, 2007	2006	Change
North America	$ 7,276	$ 8,041	-10%	$ 72	$ 188	-62%
Europe	8,878	8,774	1%	445	405	10%
Asia	1,398	1,459	-4%	2	12	-83%
	$ 17,552	$ 18,274	-4%	$ 519	$ 605	-14%

Net Sales:

- North America decreased primarily due to volume reductions with all major U.S. automakers, mainly in the full-size pick-up truck, minivan and sport utility vehicle platforms.
- Europe improved slightly due to the favorable impact of foreign currency translation ($810 million) offset by lower volumes with all major customer platforms ($700 million).
- Asia decreased primarily due to lower volumes in Japan, partially offset by the favorable impact of foreign currency translation ($40 million).

Segment Income:

- North America decreased primarily due to lower sales volume ($165 million), partially offset by lower net engineering expenses and cost reduction programs, purchasing savings, the benefit of restructuring activities and other operational efficiencies.
- Europe increased primarily due to the favorable impact of foreign currency translation ($53 million), cost reduction programs, purchasing savings, the benefit of restructuring activities and other operational efficiencies ($100 million), partially offset by lower volume and unfavorable vehicle sales mix ($53 million) and higher net engineering costs ($20 million) to support new business.
- Asia decreased primarily due to lower volumes ($30 million), mainly in Japan and Malaysia, partially offset by operational efficiencies ($20 million), mainly in Japan and Korea.

Power Solutions

(In millions)	Year Ended September 30, 2007	2006	Change
Net sales	$ 4,335	$ 3,716	17%
Segment income	515	459	12%

- Net sales increased primarily due to higher unit prices resulting from significant increases in the cost of lead ($375 million), favorable price/mix in North America and Asia ($160 million), and the favorable impact of foreign currency translation ($115 million). Unit sales of automotive batteries were consistent with prior year levels.
- Segment income increased primarily due to favorable price/mix, operational performance and integration benefits associated with the fiscal 2005 acquisition of Delphi's battery business, as well as the favorable impact of foreign currency translation ($10 million), partially offset by the impact of higher lead costs ($55 million) and higher SG&A costs in North America ($15 million) mainly resulting from a favorable prior year legal settlement associated with the recovery of previously incurred environmental costs.

Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal 2006 and recorded a $197 million restructuring charge. The 2006 Plan primarily included workforce reductions and plant consolidations in the automotive experience and building efficiency businesses. The automotive experience business related restructuring was focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North

America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business primarily related to Europe where the Company launched a systems redesign initiative. During the fourth quarter of fiscal 2006, automotive experience – North America recorded an additional $8 million for employee severance and termination benefits.

The 2006 Plan included workforce reductions of approximately 5,000 employees (2,500 for automotive experience – North America, 1,400 for automotive experience – Europe, 200 for building efficiency – North America, 600 for building efficiency – Europe, 280 for building efficiency – Rest of World and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2007, approximately 4,400 employees have been separated from the Company pursuant to the 2006 Plan. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience – North America, 3 in automotive experience – Europe, 1 in building efficiency – Europe and 1 in building efficiency – Rest of World). As of September 30, 2007, 14 of the 15 plants have been closed. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

Net Financing Charges

	Year Ended September 30,		
(In millions)	2007	2006	Change
Net financing charges	$ 277	$ 273	1%

- Net financing charges increased slightly primarily due to higher average debt levels throughout fiscal 2007.

Provision for Income Taxes

The Company’s base effective income tax rate for continuing operations for fiscal 2007 and 2006 was 21.0% (prior to certain discrete period items as outlined below).

The Company’s effective tax rate for fiscal 2007 was further reduced as a result of the favorable resolution of certain tax audits ($28 million), a change in tax status of an automotive experience subsidiary in the Netherlands ($22 million) and a nonrecurring tax benefit related to the use of a portion of the Company’s capital loss carryforward valuation allowance ($7 million), partially offset by the impact from the reduction in the German federal income tax rate ($20 million).

The Company’s effective tax rate for fiscal 2006 was further reduced as a result of a reversal of valuation allowances at certain Mexican and German subsidiaries of $32 million and $131 million, respectively, a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%, a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. country, an $11 million tax benefit related to a change in tax status for subsidiaries in Hungary and the Netherlands and a $4 million tax benefit related to the disposition of an interest in a German joint venture, partially offset by $31 million of tax expense related to the repatriation of non-U.S. earnings.

Restructuring Charge

In the third quarter of fiscal 2006, the Company recorded a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%.

Valuation Allowance Adjustments

The Company reviews its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

In the fourth quarter of fiscal 2007, the tax provision decreased $7 million due to a nonrecurring tax benefit related to the use of a portion of the Company’s capital loss carryforward valuation allowance.

In the third quarter of fiscal 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the quarter ended June 30, 2006 as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Based on the Company’s cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the quarter ended March 31, 2006, the Company reversed the valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company’s business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 “Accounting for Contingencies.”

In the second and fourth quarters of fiscal 2007, the Company reduced its income tax liability by $15 million and $13 million, respectively, due to the favorable resolution of certain tax audits. In the third quarter of fiscal 2006, the Company recorded a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. jurisdiction.

The Company’s federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service and respective non-U.S. tax authorities. Although the outcome of tax audits are 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, 2007, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities, may differ materially from the amounts accrued for each year.

Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,” will be effective for the Company beginning October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company’s consolidated financial position.

Change in Statutory Tax Rates

The German Corporate Tax Reform Act was enacted on August 14, 2007, and resulted in a decrease of the combined Corporate Income Tax and Trade Tax rates. The new rates will apply to the Company's German entities effective October 1, 2007. The Company's tax provision increased $20 million in the fourth quarter of fiscal 2007 as a result of this German tax law change.

In March 2007, the People’s National Congress in the People’s Republic of China approved a new tax reform law to align the tax regime applicable to non-U.S.-owned Chinese enterprises with those applicable to domestically-owned Chinese enterprises. The new law will be effective on January 1, 2008. The tax reform law does not have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

On July 19, 2007, the U.K. enacted a new tax law, which reduces the main corporate income tax rate from 30% to 28%. The reduction goes into effect on April 1, 2008. The U.K. tax rate change will not have a material impact on the company's consolidated financial condition, results of operations or cash flows.

Foreign Dividend Repatriation

In October 2004, the U.S. President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled non-U.S. operations. The deduction was subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and approximately $674 million of non-U.S. earnings were designated for repatriation to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company's AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the quarter ended March 31, 2006, as $11 million had been previously recorded by York prior to the acquisition in accordance with York's approved repatriation plan.

Disposition of a Joint Venture

In the first quarter of fiscal 2006, the tax provision decreased due to a $4 million nonrecurring tax benefit related to a $9 million gain from the disposition of the Company's interest in a German joint venture.

Change in Tax Status of Non-U.S. Subsidiary

In the second quarter of fiscal 2007, the tax provision decreased as a result of a $22 million tax benefit realized by a change in tax status of an automotive experience subsidiary in the Netherlands. In the first quarter of fiscal 2006, the tax provision decreased as a result of an $11 million tax benefit realized by a change in tax status of an automotive experience subsidiary in Hungary and a building efficiency subsidiary in the Netherlands.

The change in tax status in each respective period resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled non-U.S. corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc. and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $12 million in fiscal 2007 compared with $42 million in the prior year primarily due to losses at an automotive experience North America start-up joint venture and lower earnings at certain automotive experience Asian joint ventures because of start-up and engineering costs associated with new programs.

Net Income

Net income for fiscal 2007 was $1.3 billion, 30% above the prior year's $1.0 billion, primarily due to higher volumes and improved margins in the building efficiency and power solutions businesses, prior year restructuring costs ($197 million pre-tax) and the full year impact of the York acquisition, partially offset by increased losses from discontinued operations ($45 million), primarily from the sale of the Bristol Compressor business in March 2007, and lower volumes in automotive experience North America and Europe. Fiscal 2007 diluted earnings per share from continuing operations were $2.16, a 23% increase from the prior year's $1.75.

FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005

Summary

(In millions)	Year Ended September 30, 2006	2005	Change
Net sales	$ 32,235	$ 27,479	17%
Segment income	1,608	1,326	21%

- Net sales increased primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions business, partially offset by lower North American automobile production and unfavorable foreign currency translation ($500 million).
- Excluding the unfavorable effects of foreign currency translation, fiscal 2006 consolidated net sales increased 19% as compared to fiscal 2005.
- Segment income increased primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions business, partially offset by increased raw material costs, including lead and petroleum-based products, lower North American automobile production and unfavorable foreign currency translation ($25 million). Segment income was also favorably impacted on a net basis in fiscal 2006 by legal and customer contract settlements which were partially offset by York integration costs.
- Excluding the unfavorable effects of foreign currency translation, segment income increased 23% as compared to the prior year.

Building Efficiency

(In millions)	Net Sales for the Year Ended September 30, 2006	2005	Change	Segment Income for the Year Ended September 30, 2006	2005	Change
North America Systems	$ 1,609	$ 1,158	39%	$ 131	$ 111	18%
North America Service	1,943	1,186	64%	146	85	72%
North America Unitary Products	853	-	*	62	-	*
Global Workplace Solutions	2,046	1,863	10%	67	67	0%
Europe	1,900	899	111%	2	(1)	300%
Rest of World	1,894	612	209%	136	39	249%
	$ 10,245	$ 5,718	79%	$ 544	$ 301	81%

* Measure not meaningful as segment relates to December 2005 York acquisition

Net Sales:

- North America Systems, North America Service, North America Unitary Products, Europe and Rest of World increased primarily due to the impact of the York acquisition.
- The Company did not operate in the North American Unitary Products markets prior to the York acquisition.
- Global Workplace Solutions increased primarily due to new and expanded contracts in North America and Europe, including Royal Dutch Shell plc, British Broadcasting Corporation, DHL International GmbH, Eastman Kodak Company, T-Mobile, and Intel Corporation.

Segment Income:

- North America Service, North America Unitary Products and Rest of World increased primarily due to the impact of the York acquisition.
- North America Systems increased primarily due to a higher gross profit percentage resulting from operational efficiencies associated with the Company’s branch office redesign initiative and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($7 million). The benefit from the legal settlement was substantially offset by other unfavorable commercial and legal settlements.

Automotive Experience

(In millions)	Net Sales for the Year Ended September 30, 2006	2005	Change	Segment Income for the Year Ended September 30, 2006	2005	Change
North America	$ 8,041	$ 8,499	-5%	$ 188	$ 382	-51%
Europe	8,774	8,935	-2%	405	246	65%
Asia	1,459	1,399	4%	12	52	-77%
	$ 18,274	$ 18,833	-3%	$ 605	$ 680	-11%

Net Sales:

- North America decreased slightly as higher volumes with Chrysler LLP and Hyundai Motor Co. were more than offset by volume reductions with Ford Motor Co., General Motors Corporation and Nissan Motor Co. and an unfavorable mix of production from light trucks to passenger cars.
- Europe declined slightly as higher volumes across all major customer platforms were more than offset by the unfavorable impact of foreign currency translation ($300 million).
- Asia increased primarily due to higher volumes with Honda Motor Co. in Japan, partially offset by volume reductions with Nissan Motor Co. in Japan, seating and interiors businesses in Korea and the unfavorable impact of foreign currency translation ($30 million).

Segment Income:

North America

- Unfavorable vehicle volume and sales mix decreased segment income by $139 million as compared to the prior year.
- Cost reduction programs, purchasing savings and other operational efficiencies contributed $253 million in operating improvements.
- Operations were unfavorably impacted by customer vehicle program adjustments ($133 million), tooling and launch costs ($68 million), higher labor costs ($48 million) and fuel cost increases ($47 million).
- Selling, General and Administrative (SG&A) expenses increased primarily due to the timing of customer engineering recoveries ($18 million), employee benefit related expenses ($12 million) and plant closure costs related to a customer closure of an assembly plant to which the Company supplied interior products ($8 million), partially offset by administrative efficiencies and cost reduction programs.

Europe

- Cost reduction programs, purchasing savings and other operational efficiencies contributed $134 million in savings as compared to the prior period.
- SG&A expenses increased $21 million, primarily due to information technology infrastructure expenses ($16 million) and net engineering expenses ($5 million).

Asia

- The decrease in segment income is primarily due to lower volumes and product mix, start-up and engineering costs associated with new programs within Japan, Korea and Malaysia and unfavorable material costs.

Power Solutions

(In millions)	Year Ended September 30, 2006	2005	Change
Net sales	$ 3,716	$ 2,928	27%
Segment income	459	345	33%

- Net sales increased due to substantially higher unit shipments, primarily from the Delphi battery business acquisition, and the favorable impact of higher lead costs on pricing, partially offset by the unfavorable impact of foreign currency translation ($40 million). Unit sales increased 22% in North America from new account growth in the aftermarket and increased sales to General Motors Corporation related to the Delphi battery business acquisition, 17% in Europe from strong aftermarket demand and 114% in Asia from increased market share.

- Segment income increased primarily due to the higher sales volumes and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($33 million), partially offset by unfavorable commodity costs, primarily lead ($72 million).

Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan in the third quarter of fiscal 2006 (2006 Plan) and recorded a $197 million restructuring charge. The 2006 Plan primarily included workforce reductions and plant consolidations in the automotive experience and building efficiency businesses. The automotive experience business related restructuring was focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly related to Europe where the Company launched a systems redesign initiative. Please refer to restructuring costs discussed earlier in Item 7 for additional details of the 2006 Plan.

In the second quarter of fiscal 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge. These restructuring charges included workforce reductions of approximately 3,100 employees within automotive experience and power solutions and 800 employees in the building efficiency business. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. In addition, the 2005 Plan included eight plant closures within automotive experience and power solutions and four plant closures within building efficiency. The write-downs of the long-lived assets associated with the plant closures were determined using an undiscounted cash flow analysis. The automotive experience and power solutions actions were primarily concentrated in Europe, while the building efficiency restructuring actions involved activities in both North America and Europe.

Net Financing Charges

(In millions)	Year Ended September 30, 2006	2005	Change
Net financing charges	$ 273	$ 113	142%

- Net financing charges increased primarily due to the financing associated with the York acquisition, partially offset by debt reduction from operating cash flows.

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal 2006 declined to 21.0% from 25.7% in fiscal 2005, primarily due to continuing global tax planning initiatives, increased income in certain non-U.S. jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions, prior to certain discrete period items as outlined below.

The Company's effective tax rate for fiscal 2006 was further reduced as a result of a reversal of valuation allowances at certain Mexican and German subsidiaries of $32 million and $131 million, respectively, a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%, a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. country, an $11 million tax benefit related to a change in tax status for subsidiaries in Hungary and the Netherlands and a $4 million tax benefit related to the disposition of an interest in a German joint venture, partially offset by $31 million of tax expense related to the repatriation of non-U.S. earnings.

The Company's base effective income tax rate for continuing operations for fiscal year 2005 was 25.7%. For the fiscal year ended September 30, 2005, the effective rate was impacted by an $81 million tax benefit due to a change in tax status of a French and a German subsidiary. This change in tax status for the German subsidiary resulted in a capital loss for tax purposes of $187 million that was utilized during fiscal 2005.

Valuation Allowance Adjustments

In the third quarter of fiscal 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the third quarter as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Based on the Company's cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the second quarter of fiscal 2006 the Company reversed a valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

In the second quarter of fiscal 2005, the Company's tax valuation allowance increased $28 million related to restructuring charges for which no tax benefits were recorded in certain countries given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 "Accounting for Contingencies."

The Company's effective tax rate was reduced in the third quarter of fiscal 2006 by a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. jurisdiction.

The Company's federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service 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, 2006, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statement of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ.

Foreign Dividend Repatriation

In October 2004, the U.S. President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled non-U.S. operations. The deduction was subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and approximately $674 million of non-U.S. earnings were designated for repatriation to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company's AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the quarter ended March 31, 2006, as $11 million had been previously recorded by York prior to it becoming a subsidiary of the Company in accordance with York's approved repatriation plan.

Disposition of a Joint Venture

In the first quarter of fiscal 2006, the tax provision decreased due to a $4 million nonrecurring tax benefit related to a $9 million gain from the disposition of the Company's interest in a German joint venture.

Change in Tax Status of non-U.S. Subsidiaries

During the first quarter of fiscal 2006, the tax provision decreased as a result of an $11 million tax benefit realized by a change in tax status of an automotive experience subsidiary in Hungary and a building efficiency subsidiary in the Netherlands. In fiscal 2005, the tax provision decreased as a result of a $12 million and $69 million tax benefit from a change in tax status of subsidiaries in France and Germany, respectively.

The change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled non-U.S. corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc. and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries for fiscal 2006 was $42 million compared with $41 million for fiscal 2005 primarily due to the acquisition of a minority interest in York's China operations in December 2005 and higher earnings at certain European and Asian automotive experience joint ventures, partially offset by lower earnings at certain automotive experience and building efficiency subsidiaries in North America.

Net Income

Net income for fiscal 2006 was $1.0 billion, 13% above the prior year's $909 million, primarily due to the impact from the York and Delphi acquisitions and a reduced effective income tax rate on continuing operations, partially offset by lower North America automobile sales and increased interest expense resulting from financing associated with the York acquisition. Fiscal 2006 diluted earnings per share from continuing operations was $1.75, a 35% increase from 2005 of $1.30.

Fiscal Year 2008 Outlook

Net Sales

In fiscal 2008, the Company anticipates that net sales will grow to approximately $38 billion, an increase of 10% from 2007 net sales. The forecast assumes a Euro to U.S. dollar exchange rate of $1.35, which would be slightly higher than the average exchange rate of $1.33 in fiscal 2007.

The Company expects building efficiency net sales to increase approximately 15% from the prior year, reflecting a strong backlog, expected continued revenue synergies, expected emerging market growth and expected generally strong end markets. Building efficiency's backlog relates to its control systems and service activity. At September 30, 2007, the unearned backlog was $4.2 billion, compared to $3.7 billion at September 30, 2006, primarily due to continued market share gains.

The Company expects automotive experience net sales to be level with the prior year. Sales in North America and Europe are expected to be flat, with the expected benefit of new programs largely offset by unfavorable vehicle mix and lower production across several large OEM's. Robust sales growth in Asia, including China, is primarily associated with the Company's unconsolidated joint ventures.

At September 30, 2007, automotive experience had a backlog of net new incremental business to be executed within the next three fiscal years of $3.9 billion, $0.9 billion of which relates to fiscal 2008. The three year backlog includes approximately $1.0 billion related to unconsolidated joint ventures. The backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes and the timing of production launches.

The Company expects power solutions net sales to increase approximately 40% from the prior year, primarily due to the pass-through of higher lead prices. Excluding the year-over-year impact of lead pricing, sales are expected to increase approximately 10%, reflecting expected new contract wins, existing customer growth and benefits of global capacity expansion.

Segment Income

The Company anticipates that the business segment income margin percentage in fiscal 2008 will increase from fiscal 2007. Underlying margins (i.e., excluding lead impact in the power solutions segment) are expected to increase in all three businesses.

In fiscal 2008, the Company expects continued volatility in lead prices, increases in foam chemical, resin and fuel costs due to rising oil prices, and relatively stable copper and steel costs.

The Company expects building efficiency's segment income margin percentage for fiscal 2008 to increase from the prior year, reflecting the impact of the business' expansion within emerging markets. The Company expects the business to continue to benefit from multiple initiatives, including deployment of best business practices, manufacturing footprint rationalization actions and supply chain management.

The Company expects automotive experience's segment income margin percentage for 2008 to increase from the prior year. The Company anticipates the increase to be driven by an expected sustained improvement in North American profitability, expected continued strong operating performance in Europe and expected improved results in Asia despite ongoing investments in the region. Automotive experience has supply agreements with certain of its customers that provide for annual sales price reductions and, in some instances, for the recovery of material cost increases. The business expects to continue its historical trend of being able to significantly offset any sales price changes with cost reductions from design changes and productivity improvements and through similar programs with its own suppliers.

The Company expects power solutions' segment income margin percentage to decline from 2007 due to the dilutive impact of significantly higher projected lead prices. Excluding the lead price impact, segment margin is anticipated to be level in 2008 versus the prior year. The Company anticipates mitigating the impact of lead cost increases through increased pricing and hedging programs. The Company expects that benefits from continued operational excellence will be offset in part due to increasing investments in hybrid technology.

Other

The Company expects the base effective income tax rate for fiscal 2008 to be 21.0%, consistent with fiscal 2007.

GOODWILL AND OTHER INVESTMENTS

Goodwill at September 30, 2007 was $6.1 billion, $221 million higher than the prior year. The increase was primarily due to the impact of foreign currency translation adjustments and final York purchase accounting adjustments during the first quarter of fiscal 2007.

Investments in partially-owned affiliates at September 30, 2007 were $795 million, $332 million more than the prior year. The increase was primarily due to the Company's September 2007 investment in US Airconditioning Distributors, Inc. and several new automotive experience and power solutions joint ventures in Asia.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

(In millions)	September 30, 2007	September 30, 2006	Change
Working capital	$ 1,441	$ 1,357	6%
Accounts receivable	6,600	5,697	16%
Inventories	1,968	1,731	14%
Accounts payable	5,365	4,216	27%

- Working capital is defined as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations.
- The increase in working capital is primarily due to higher accounts receivable ($903 million) resulting from the sales growth experienced in fiscal 2007, higher inventories ($237 million) mainly due to the impact of higher lead costs and higher other current assets ($87 million) resulting from higher derivative assets and tax assets, partially offset by higher accounts payable ($1.1 billion) due to business growth and payment timing.
- Days sales in accounts receivable at September 30, 2007 increased to 58 from 57 in the prior year. There has been no significant deterioration in the credit quality of the Company's receivables or material changes in revenue recognition methods.
- Inventory turnover at September 30, 2007 decreased to 10 from 16 in the prior year for raw material and work-in-process and to 24 from 29 in the prior year for finished goods due to building efficiency comprising a greater percentage of total inventory given their higher sales volumes and the impact of increased lead costs on power solutions inventories.
- Days payables at September 30, 2007 increased to 71 days from 57 days in the prior year due to the timing of payments and the Company's standardization of global payment terms.

Cash Flow

(In millions)	Year Ended September 30, 2007	2006
Cash provided by operating activities	$ 1,913	$ 1,417
Cash used by investing activities	1,051	3,076
Cash provided (used) by financing activities	(542)	1,741
Capital expenditures	828	711

- The increase in cash provided by operating activities primarily reflects increased net income ($224 million), net changes in deferred income taxes ($341 million) and favorable working capital changes in accounts payable and accrued liabilities, partially offset by restructuring reserve usage ($220 million) and unfavorable working capital changes in receivables, inventories and other current assets.
- The decrease in cash used in investing activities primarily relates to the York acquisition in the prior fiscal year.
- Cash used in financing activities during the current fiscal year was primarily used for repayment of debt obligations. In fiscal 2006, cash provided by financing activities was primarily related to the York acquisition financing.
- Consistent with the prior year, the majority of the fiscal 2007 capital expenditures were associated with the automotive experience and power solutions businesses and were related to investments in launches of new business platforms and cost reduction projects. Management expects fiscal 2008 capital expenditures to decrease slightly with a reinvestment ratio, which is calculated as capital expenditures divided by depreciation expense, of 1 to 1, reflecting investment in emerging automotive experience and building efficiency markets offset by normalized spending for power solutions.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Brazil, Italy, the United Kingdom and the U.S., which have generated operating and capital losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries in accordance with SFAS No. 109. SFAS No. 109 requires the Company to record a valuation allowance for each legal entity or consolidated group based on the tax rules in the applicable jurisdiction and evaluate both positive and negative historical evidences as well as expected future events.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company's long-lived asset impairment analyses indicate that assets are not impaired based on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. At September 30, 2007, the Company does not have any material assets whose recovery is at risk in accordance with the provisions of SFAS No. 144.

Capitalization

(In millions)	September 30, 2007	September 30, 2006	Change
Short-term debt	$ 264	$ 209	26%
Long-term debt	4,154	4,534	-8%
Shareholders' equity	8,907	7,355	21%
Total capitalization	$ 13,325	$ 12,098	10%
Total debt as a % of total capitalization	33.2%	39.2%	

- In December 2006, the Company entered into a five-year, $2.0 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line during the year ended September 30, 2007.
- In December 2006 the Company entered into a 12 billion yen ($104 million), three year, floating rate loan. The net proceeds of the bank loan were used to repay unsecured commercial paper obligations.
- In November 2006 the Company issued commercial paper to repay a $350 million note that matured.
- The Company also selectively makes use of short-term money market loans in both U.S. dollars and Euros. The Company estimates that, as of September 30, 2007, it could borrow up to $1 billion at its current debt ratings in money market loans.
- The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets to support business growth and future acquisitions. The Company believes its capital resources and liquidity position at September 30, 2007 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal 2008 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

A summary of the Company’s significant contractual obligations as of September 30, 2007 is as follows:

Contractual Obligations	Total	2008	2009-2010	2011-2012	2013 and Beyond	
Long-term debt (including capital lease obligations)*	$ 4,154	$ 899	$ 399	$ 808	$ 2,048	
Interest on long-term debt (including capital lease obligations)*	882	187	324	250	121	
Operating leases	786	209	293	146	138	
Purchase obligations	6,371	2,077	1,941	1,514	839	(1)
Pension and postretirement contributions	518	125	79	85	229	
Total contractual cash obligations	$ 12,711	$ 3,497	$ 3,036	$ 2,803	$ 3,375	

* See "Capitalization" for additional information related to the Company's long-term debt.

(1) Amount excludes certain minimum purchase requirements for indefinite future years beyond 2013. These purchase requirements are contained in a contract under which the Company could have liabilities to the other party upon the contract's termination. These liabilities, if incurred, could be material to the Company's consolidated financial position, results of operations or cash flows.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Company’s consolidated financial statements and the uncertainties that could impact the Company’s results of operations, financial position and cash flows.

Revenue Recognition

The Company recognizes revenue from long-term systems installation contracts of the building efficiency business over the contractual period 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 the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded in unbilled accounts receivable. Likewise, contracts where billings to date have exceeded recognized revenues are recorded 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 prospectively 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 reviews have not resulted in adjustments that were significant to the Company’s results of operations. The Company continually evaluates all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The building efficiency 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 Company’s building efficiency business also sells certain HVAC products and services in bundled arrangements, where multiple products and/or services are involved. In accordance with Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables,” the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative fair value of all elements or the fair value of undelivered elements.

In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Goodwill and Other Intangible Assets

In conformity with U.S. GAAP, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the operating unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at September 30, 2007, indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and as such, no impairment existed at that time. Other intangible assets with definite lives continue to be amortized over their estimated useful lives and are subject to impairment testing if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived intangible assets are also subject to impairment testing on at least an annual basis. A considerable amount of management judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of each operating unit. While the Company believes its judgments and assumptions were reasonable, different assumptions could change the estimated fair values and, therefore, impairment charges could be required.

Employee Benefit Plans

The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement health care. Plan assets and obligations are recorded annually based on the Company's measurement date utilizing various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates as of that date. Measurements of net periodic benefit cost are based on the assumptions used for the previous year-end measurements of assets and obligations. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required by U.S. GAAP, the effects of the modifications are recorded currently or amortized over future periods.

In the fourth quarter of fiscal 2007, the Company adopted all of the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires that companies recognize in its 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 benefit plans that are overfunded. SFAS No. 158 also requires that companies measure the benefit obligations and fair value of plan assets that determine a postretirement benefit plan's funded status as of the date of the employer's fiscal year-end by no later than their fiscal year ending after December 15, 2008. Adjustments relating to this change in measurement date for the period between the early measurement date and the end of the year are made to retained earnings, net of tax. In connection with the Company's adoption of SFAS No. 158, at September 30, 2007, the Company recorded an asset of $117 million for its defined benefit pension plans that are in overfunded positions and a liability of $629 million for its defined benefit pension plans that are in underfunded positions. In addition, a liability of $280 million was recorded for the Company's health and other postretirement plans that were in underfunded positions at September 30, 2007. The Company also early adopted the change in measurement date provisions at September 30, 2007 for its U.S. pension and health and other postretirement plans, which resulted in a $9 million adjustment, net of tax, to retained earnings.

The discount rate used by the Company is based on the interest rate of non-callable high-quality corporate bonds, with appropriate consideration of the Company's pension plans' participants' demographics and benefit payment terms. At both September 30, 2007 and July 31, 2006, the Company's discount rate on U.S. plans was 6.50%.

In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plans' invested assets. Reflecting the relatively long-term nature of the plans' obligations, approximately 60% of the plans' assets were invested in equities, with the balance primarily invested in fixed income instruments. At September 30, 2007 the Company increased its expected long-term return on U.S. plan assets from 8.25% to 8.50%.

The Company uses a market-related value of assets that recognizes the difference between the expected return and the actual return on plan assets over a three-year period. As of September 30, 2007, the Company had approximately $83 million of unrecognized asset losses associated with its U.S. pension plans, which will be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.

Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company's financial position, results of operations or cash flows.

Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate of future warranty-related costs based on actual historical return rates. At September 30, 2007, the Company had recorded $150 million of warranty reserves based on an analysis of return rates and other factors. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could differ significantly from those estimates.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance that primarily represents non-U.S. operating and other loss carryforwards for which utilization is uncertain. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company's net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year. In determining the need for a valuation allowance, the historical and projected financial performance of the operation recording the net deferred tax asset is considered along with any other pertinent information. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowance may be necessary. At September 30, 2007, the Company had a valuation allowance of $326 million, of which $206 million relates to net operating loss carryforwards primarily in Brazil, Italy, and the United Kingdom, for which sustainable taxable income has not been demonstrated; $54 million relates to net capital loss carryforwards, primarily in the U.S., for which future capital gains are not assured; and $66 million of other deferred tax assets. The Company does not provide additional U.S. income taxes on undistributed earnings of consolidated non-U.S. subsidiaries included in shareholders' equity. Such earnings could become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment to FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in fiscal 2009. The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)," which requires that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in the balance sheet, with changes in the funded status recognized through accumulated other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status as of the date of its fiscal year-end. See Item 8, Note 14 for the impact of the Company's adoption of SFAS No. 158 in the fourth quarter of fiscal 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in fiscal 2008. The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company beginning October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company's consolidated financial position.

RISK MANAGEMENT

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, compensation expense and interest rates. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which strictly prohibit the use of financial instruments for speculative purposes. At the inception of the hedge, the Company assesses the effectiveness of the hedge instrument and designates the hedge instrument as either (1) a hedge of a recognized asset or liability or of a recognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an unrecognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a non-U.S. operation (a net investment hedge). The Company performs hedge effectiveness testing on an ongoing basis depending on the type of hedging instrument used.

For all foreign currency derivative instruments designated as cash flow hedges, retrospective effectiveness is tested on a monthly basis using a cumulative dollar offset test. The fair value of the hedged exposures and the fair value of the hedge instruments are revalued and the ratio of the cumulative sum of the periodic changes in the value of the hedge instruments to the cumulative sum of the periodic changes in the value of the hedge is calculated. The hedge is deemed as highly effective if the ratio is between 80% and 125%. For commodity derivative contracts designated as cash flow hedges, effectiveness is tested using a regression calculation. Ineffectiveness is minimal as the Company aligns most of the critical terms of its derivatives with the supply contracts.

For net investment hedges, the Company assesses its net investment positions in the non-U.S. operations and compares it with the outstanding net investment hedges on a quarterly basis. The hedge is deemed effective if the aggregate outstanding principal of the hedge instruments designated as the net investment hedge in a non-U.S. operation does not exceed the Company's net investment positions in the respective non-U.S. operation.

A discussion of the Company's accounting policies for derivative financial instruments is included in Note 1, "Summary of Significant Accounting Policies," in the notes to consolidated financial statements, and further disclosure relating to financial instruments is included in Note 11 to the consolidated financial statements.

Foreign Exchange

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. In order to maintain strict control and achieve the benefits of the Company's global diversification, foreign exchange exposures for each currency are netted internally so that only its net foreign exchange exposures are, as appropriate, hedged with financial instruments.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. The Company also selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149.

The Company selectively finances its foreign operations with local, non-U.S. dollar debt. In those instances, the foreign currency denominated debt serves as a natural hedge of the foreign operations' net asset positions. The Company has also entered into foreign currency denominated debt obligations and cross-currency interest rate swaps to selectively hedge portions of its net investments in Europe and Japan. The currency effects of the debt obligations and swaps are reflected in the accumulated other comprehensive income account within shareholders' equity where they offset gains and losses recorded on the net investments in Europe and Japan.

Sensitivity Analysis

The following table indicates the total U.S. dollar equivalents of net foreign exchange contracts (hedging transactional exposure) and non-U.S. dollar denominated cash, debt and cross-currency interest rate swaps (hedging translation exposure) outstanding by currency and the corresponding impact on the value of these instruments assuming a 10% appreciation/depreciation of the U.S. dollar relative to all other currencies on September 30, 2007.

As previously noted, the Company's policy prohibits the trading of financial instruments for speculative purposes. It is important to note that gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying receivables, payables and net investments in non-U.S. subsidiaries described above (in millions, in U.S. dollar equivalent):

	September 30, 2007				
	Non-U.S. dollar Financial Instruments Designated as Hedges of:				
	Transactional Foreign Exposure Long/ (Short)	Translation Foreign Exposure Long/ (Short)	Net Amounts of Instruments Long/ (Short)	Foreign Exchange Gain/(Loss) from: 10% Appreciation of U.S. Dollar	10% Depreciation of U.S. Dollar
British pound	$ (49)	$ 113	$ 64	$ (6)	$ 6
Canadian dollar	(103)	132	29	(3)	3
Chinese renminbi	-	91	91	(9)	9
Czech koruna	131	79	210	(21)	21
Euro	(295)	(1,115)	(1,410)	141	(141)
Japanese yen	129	(482)	(353)	35	(35)
Mexican peso	166	10	176	(18)	18
Polish zloty	(4)	(82)	(86)	9	(9)
Slovenska koruna	134	(49)	85	(9)	9
South Korean won	32	-	32	(3)	3
Swiss franc	(2)	100	98	(10)	10
Other	(4)	53	49	(5)	5
Total	$ 135	$ (1,150)	$ (1,015)	$ 101	$ (101)

Interest Rates

The Company's earnings exposure related to adverse movements in interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to short-term market rates. The Company will use interest rate swaps to offset its exposure to interest rate movements. In accordance with SFAS No. 133, the existing swap qualifies and is designated as a fair value hedge. A 10% increase or decrease in the average cost of the Company's variable rate debt, including outstanding swaps, would result in a change in pre-tax interest expense of approximately $7 million.

Commodities

The Company uses commodity 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 upon purchase of the underlying commodities that will be used in the business. The maturities of the commodity contracts coincide with the expected purchase of the commodities.

ENVIRONMENTAL, HEALTH AND SAFETY AND OTHER MATTERS

The Company's global operations are governed by laws addressing protection of the environment (Environmental Laws) and worker safety and health (Worker Safety Laws). Under various circumstances, these laws impose civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where Company-related substances have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with applicable Environmental Laws and Worker Safety Laws, and to protect the environment and workers. The Company believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with such laws or the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities resulting in commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in fiscal 2007 related solely to environmental compliance were not material. At September 30, 2007 and 2006, the Company recorded environmental liabilities of $27 million and $34 million, respectively. A charge to income is recorded when it is probable that a liability has been incurred and the cost can be reasonably estimated. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where the Company may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability. However, while neither the timing nor the amount of ultimate costs associated with known environmental remediation matters can be determined at this time, the Company does not expect that these matters will have a material adverse effect on its financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the power solutions business. At September 30, 2007 and 2006, the Company recorded conditional asset retirement obligations of $81 million and $77 million, respectively.

Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a materially adverse effect on the Company's financial position, results of operations or cash flows (see Note 18 to the consolidated financial statements). Costs related to such matters were not material to the periods presented.

QUARTERLY FINANCIAL DATA

In millions, except per share data; (unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2007					
Net sales	$ 8,210	$ 8,492	$ 8,911	$ 9,011	$ 34,624
Gross profit	1,074	1,193	1,384	1,425	5,076
Income before the cumulative effect of a change in accounting principle	162	228	396	466	1,252
Net income	162	228	396	466	1,252
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.28	0.39	0.67	0.79	2.12
Diluted*	0.27	0.38	0.66	0.77	2.09
Earnings per share					
Basic*	0.28	0.39	0.67	0.79	2.12
Diluted*	0.27	0.38	0.66	0.77	2.09
2006					
Net sales	$ 7,528	$ 8,167	$ 8,390	$ 8,150	$ 32,235
Gross profit	922	1,048	1,212	1,247	4,429
Income before the cumulative effect of a change in accounting principle	165	165	338	367	1,035
Net income	165	165	338	360	1,028
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.29	0.28	0.58	0.62	1.77
Diluted*	0.28	0.28	0.57	0.62	1.75
Earnings per share					
Basic*	0.29	0.28	0.58	0.61	1.76
Diluted*	0.28	0.28	0.57	0.61	1.74

* Due to the use of the weighted-average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Risk Management” included in Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

PricewaterhouseCoopers LLP
100 E. Wisconsin Ave., Suite 1800
Milwaukee WI 53202
Telephone (414) 212 1600

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Johnson Controls, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Johnson Controls, Inc. and its subsidiaries at September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 1 and 14 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)," effective September 30, 2007. In addition, as discussed in Note 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment,” effective October 1, 2005, and as discussed in Note 5 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143,” in the fourth quarter of 2006.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
November 26, 2007

Johnson Controls, Inc.
Consolidated Statements of Income

(In millions, except per share data)	Year ended September 30, 2007	2006	2005
Net sales			
Products and systems*	$ 27,849	$ 27,108	$ 24,337
Services*	6,775	5,127	3,142
	34,624	32,235	27,479
Cost of sales			
Products and systems	24,253	23,861	21,463
Services	5,295	3,945	2,534
	29,548	27,806	23,997
Gross profit	5,076	4,429	3,482
Selling, general and administrative expenses	(3,281)	(2,933)	(2,228)
Restructuring costs	-	(197)	(210)
Net financing charges	(277)	(273)	(113)
Equity income	89	112	72
Income before income taxes and minority interests	1,607	1,138	1,003
Provision for income taxes	300	63	205
Minority interests in net earnings of subsidiaries	12	42	41
Income from continuing operations	1,295	1,033	757
Income (loss) from discontinued operations, net of income taxes	(10)	2	16
Gain (loss) on sale of discontinued operations, net of income taxes	(33)	-	136
Income before the cumulative effect of a change in accounting principle	1,252	1,035	909
Cumulative effect of a change in accounting principle, net of income taxes	-	(7)	-
Net income	$ 1,252	$ 1,028	$ 909
Earnings available for common shareholders	$ 1,252	$ 1,028	$ 909
Earnings per share from continuing operations			
Basic	$2.19	$1.77	$1.32
Diluted	$2.16	$1.75	$1.30
Earnings per share before the cumulative effect of a change in accounting principle			
Basic	$2.12	$1.77	$1.58
Diluted	$2.09	$1.75	$1.56
Earnings per share			
Basic	$2.12	$1.76	$1.58
Diluted	$2.09	$1.74	$1.56

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and global workplace solutions.

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

Johnson Controls, Inc.

Consolidated Statements of Financial Position

(In millions, except par value and share data)	September 30, 2007	September 30, 2006
Assets		
Cash and cash equivalents	$ 674	$ 293
Accounts receivable, less allowance for doubtful accounts of $75 and $80, respectively	6,600	5,697
Inventories	1,968	1,731
Other current assets	1,630	1,543
Current assets	10,872	9,264
Property, plant and equipment - net	4,208	3,968
Goodwill	6,131	5,910
Other intangible assets - net	773	799
Investments in partially-owned affiliates	795	463
Other noncurrent assets	1,326	1,517
Total assets	$ 24,105	$ 21,921
Liabilities and Shareholders' Equity		
Short-term debt	$ 264	$ 209
Current portion of long-term debt	899	368
Accounts payable	5,365	4,216
Accrued compensation and benefits	978	919
Accrued income taxes	97	229
Other current liabilities	2,317	2,205
Current liabilities	9,920	8,146
Long-term debt	3,255	4,166
Postretirement health and other benefits	256	349
Minority interests in equity of subsidiaries	128	129
Other noncurrent liabilities	1,639	1,776
Long-term liabilities	5,278	6,420
Commitments and contingencies (Note 18)		
Common stock, $.01 7/18 par value shares authorized: 1,800,000,000 shares issued: 2007 - 595,384,212; 2006 - 588,035,361	8	8
Capital in excess of par value	1,452	1,273
Retained earnings	6,698	5,715
Treasury stock, at cost (2007 - 1,617,978 shares; 2006 - 713,394 shares)	(33)	(7)
Accumulated other comprehensive income	782	366
Shareholders' equity	8,907	7,355
Total liabilities and shareholders' equity	$ 24,105	$ 21,921

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

Johnson Controls, Inc.
Consolidated Statements of Cash Flows

(In millions)	**September 30, 2007**	**2006**	**Revised 2005**
Operating Activities			
Net income	$ 1,252	$ 1,028	$ 909
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	687	661	615
Amortization of intangibles	45	44	24
Equity in earnings of partially-owned affiliates, net of dividends received	(1)	(15)	(47)
Deferred income taxes	(63)	(404)	(25)
Minority interests in net earnings of subsidiaries	12	42	41
Non-cash restructuring costs	-	51	46
Pension contributions in excess of expense	-	-	(138)
Loss/(gain) on sale of discontinued operations	33	-	(136)
Equity-based compensation	48	61	35
Other	25	18	-
Changes in working capital, excluding acquisitions and divestitures of businesses			
Receivables	(617)	244	(771)
Inventories	(150)	(77)	(64)
Other current assets	(262)	(32)	(114)
Restructuring reserves	(161)	59	102
Accounts payable and accrued liabilities	1,052	(379)	319
Accrued income taxes	13	116	81
Cash provided by operating activities	1,913	1,417	877
Investing Activities			
Capital expenditures	(828)	(711)	(664)
Sale of property, plant and equipment	83	90	39
Acquisition of businesses, net of cash acquired	(17)	(2,629)	(328)
Business divestitures	89	-	679
Settlement of cross-currency interest rate swaps	(145)	66	(62)
Changes in long-term investments	(233)	108	(2)
Cash used by investing activities	(1,051)	(3,076)	(338)
Financing Activities			
Decrease in short-term debt - net	(43)	(531)	(106)
Increase in long-term debt	115	2,739	83
Repayment of long-term debt	(505)	(359)	(311)
Payment of cash dividends	(195)	(218)	(192)
Proceeds from the exercise of stock options	104	97	66
Other	(18)	13	(36)
Cash provided (used) by financing activities	(542)	1,741	(496)
Effect of exchange rate changes on cash and cash equivalents	61	40	29
Increase in cash and cash equivalents	$ 381	$ 122	$ 72

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

Johnson Controls, Inc.
Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Total	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)
At September 30, 2004	$ 5,206	$ 8	$ 953	$ 4,188	$ (15)	$ 72
Comprehensive income:						
Net income	909	-	-	909	-	-
Foreign currency translation adjustments	(29)	-	-	-	-	(29)
Realized and unrealized gains/losses on derivatives	34	-	-	-	-	34
Minimum pension liability adjustment	(17)	-	-	-	-	(17)
Other comprehensive loss	(12)					
Comprehensive income	897					
Cash dividends						
Common ($0.33 per share)	(192)	-	-	(192)	-	-
Other, including options exercised	147	-	139	-	8	-
At September 30, 2005	6,058	8	1,092	4,905	(7)	60
Comprehensive income:						
Net income	1,028	-	-	1,028	-	-
Foreign currency translation adjustments	274	-	-	-	-	274
Realized and unrealized gains/losses on derivatives	20	-	-	-	-	20
Minimum pension liability adjustment	12	-	-	-	-	12
Other comprehensive income	306					
Comprehensive income	1,334					
Cash dividends						
Common ($0.37 per share)	(218)	-	-	(218)	-	-
Other, including options exercised	181	-	181	-	-	-
At September 30, 2006	7,355	8	1,273	5,715	(7)	366
Comprehensive income:						
Net income	1,252	-	-	1,252	-	-
Foreign currency translation adjustments	479	-	-	-	-	479
Realized and unrealized gains/losses on derivatives	(4)	-	-	-	-	(4)
Minimum pension liability adjustment	1	-	-	-	-	1
Other comprehensive income	476					
Comprehensive income	1,728					
Adjustment to initially adopt SFAS No. 158, net of tax	(60)	-	-	-	-	(60)
Adjustment for the change in measurement date due to the adoption of SFAS No. 158, net of tax	(9)	-	-	(9)	-	-
Cash dividends						
Common ($0.44 per share)	(260)	-	-	(260)	-	-
Other, including options exercised	153	-	179	-	(26)	-
At September 30, 2007	**$ 8,907**	**$ 8**	**$ 1,452**	**$ 6,698**	**$ (33)**	**$ 782**

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

Johnson Controls, Inc.
Notes to Consolidated Financial Statements
September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and non-U.S. subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest is between 20% and 50% and the Company does not have a controlling interest. Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), "Consolidation of Variable Interest Entities," the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. Gains and losses from the translation of substantially all foreign currency financial statements are recorded in the accumulated other comprehensive income account within shareholders' equity.

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. The fair value of long-term debt, which was $4.0 billion and $4.6 billion at September 30, 2007 and 2006, respectively, was determined using market quotes. See Note 11 for fair value of derivative instruments.

Cash and Cash Equivalents

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

Receivables

Receivables consist of amounts billed and currently due from customers and unbilled costs and accrued profits related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for doubtful accounts resulting from the inability or unwillingness of customers to make required payments. The allowance for doubtful accounts is based on historical experience, existing economic conditions and any specific customer collection issues the Company has identified.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using either the last-in, first-out (LIFO) method or the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

Pre-Production Costs Related to Long-Term Supply Arrangements

The Company's policy for engineering, research and development, and other design and development costs related to products that will be sold under long-term supply arrangements requires such costs to be expensed as incurred. Customer reimbursements are recorded as an increase in cash and a reduction of selling, general and administrative expense when reimbursement from the customer is received. Costs for molds, dies, and other tools used to make products that will be sold under long-term supply arrangements are capitalized within property, plant and equipment if the Company has title to the assets or has the non-cancelable right to use the assets during the term of the supply arrangement. Capitalized items, if specifically designed for a supply arrangement, are amortized over the term of the arrangement; otherwise, amounts are amortized over the estimated useful lives of the assets. The carrying values of assets capitalized in accordance with the foregoing policy are periodically reviewed for evidence of impairment. At September 30, 2007 and 2006, approximately $215 million and $270 million, respectively, of costs for molds, dies and other tools were capitalized within property, plant and equipment which represented assets to which the Company had title. In addition, at September 30, 2007 and 2006, the Company recorded within other current assets approximately $171 million and $136 million, respectively, of costs for molds, dies and other tools for which customer reimbursement is assured.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives range from 10 to 40 years for buildings and improvements and from 3 to 20 years for machinery and equipment.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Goodwill and Other Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company performs an annual goodwill impairment review of its operating segments during the fourth fiscal quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which an operating segment could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company in the fourth quarter of fiscal 2007 indicated that the estimated fair value of each operating segment exceeded its corresponding carrying amount, including recorded goodwill and as such, no impairment exists.

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. The Company believes the judgments and assumptions used in the impairment tests are reasonable and no impairment exists at September 30, 2007.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At September 30, 2007, the Company does not have any material long-lived assets whose recovery is at risk.

Percentage-of-Completion Contracts

The building efficiency business records certain long term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the consolidated statements of financial position. Amounts included within accounts receivable related to these contracts were $633 million and $455 million at September 30, 2007 and 2006, respectively. Amounts included within other current liabilities were $538 million and $314 million at September 30, 2007 and 2006, respectively.

Revenue Recognition

The Company's building efficiency business recognizes revenue from long-term systems installation contracts over the contractual period under the percentage-of-completion 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. Sales and gross profit are adjusted prospectively 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 amount of accounts receivable due after one year is not significant.

The building efficiency 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 Company's building efficiency business also sells certain heating, ventilating, and air conditioning (HVAC) products and services in bundled arrangements, where multiple products and/or services are involved. In accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative fair value of all elements or the fair value of undelivered elements.

In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statement of income. Such expenditures for the fiscal years ended September 30, 2007, 2006 and 2005 were $767 million, $743 million and $817 million, respectively.

A portion of the costs associated with these activities is reimbursed by customers and, for the fiscal years ended September 30, 2007, 2006 and 2005, were $276 million, $323 million and $402 million, respectively.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by diluted weighted average shares outstanding. Diluted weighted average shares include the dilutive effect of common stock equivalents which would arise from the exercise of stock options (see Note 19 regarding stock split).

Foreign Currency Translation

Substantially all of the Company's international operations use the respective local currency as the functional currency. Assets and liabilities of international entities have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is defined as the sum of net income and all other non-owner changes in equity. The components of the non-owner changes in equity, or accumulated other comprehensive income, were as follows (in millions, net of tax):

	September 30, 2007	September 30, 2006
Foreign currency translation adjustments	$ 882	$ 403
Realized and unrealized gains/losses on derivatives	59	63
Minimum pension liability adjustment	-	(100)
Adjustment pursuant to SFAS No. 158	(159)	-
Accumulated other comprehensive income	$ 782	$ 366

Derivative Financial Instruments

The Company has written policies and procedures that place all financial instruments under the direction of corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for speculative purposes is strictly prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates, commodity prices, 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 (OCI), depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional net exposures. The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. Gains and losses resulting from these contracts 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 underlying exposure. Gains and losses on these contracts are recorded in cost of sales in the consolidated statement of income and are recognized in the same period as gains and losses on the hedged items.

Cash Flow Hedges – The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the consolidated statement of financial position at fair value. The effective portion of the contracts' gains or losses due to changes in fair value are initially recorded as a component of accumulated OCI and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates or commodity price changes. As of September 30, 2005, the Company entered into three forward treasury lock agreements designated as cash flow hedges to reduce the market risk associated with changes in interest rates related to the Company's fixed-rate note issuance (see Note 11).

For the fiscal years ended September 30, 2007, 2006 and 2005, the net amounts recognized in earnings due to ineffectiveness were not material. The amount reported as unrealized gains/losses on derivatives in the accumulated OCI account within shareholders' equity represents the net gain/loss on derivatives designated as cash flow hedges.

Fair Value Hedges – The Company had one interest rate swap outstanding at September 30, 2007 designated as a hedge of the fair value of a portion of fixed-rate bonds (see Note 11). Both the swap and the hedged portion of the debt are recorded in the consolidated statement of financial position. The change in fair value of the swaps exactly offsets the change in fair value of the hedged debt, with no net impact on earnings. A second interest rate swap that was outstanding as of September 30, 2006 matured in conjunction with the maturity of the hedged debt on November 15, 2006.

Net Investment Hedges – The Company has cross-currency interest rate swaps and foreign currency-denominated debt obligations that are designated as hedges of the foreign currency exposure associated with its net investments in non-U.S. operations. The currency effects of the debt obligations are reflected in the accumulated OCI account where they offset translation gains and losses recorded on the Company's net investments in Europe and Japan. The cross-currency interest rate swaps are recorded in the consolidated statement of financial position at fair value, with changes in value attributable to changes in foreign exchange rates recorded in the foreign currency translation adjustments component of accumulated OCI. Net interest payments or receipts from the interest rate swaps are recorded as adjustments to interest expense in earnings on a current basis. A net loss of approximately $38 million associated with hedges of net investments in non-U.S. operations was recorded in the accumulated OCI account for the periods ended September 30, 2007 and 2006.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment to FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in fiscal 2009. The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R),” which requires that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in the balance sheet, with changes in the funded status recognized through accumulated other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status as of the date of its fiscal year-end. See Note 14 for the impact of the Company’s adoption of SFAS No. 158 in the fourth quarter of fiscal 2007.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in fiscal 2008. The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition or results of operations.

In June 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company beginning October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company’s consolidated financial position.

Reclassification

Certain prior year amounts have been revised to conform to the current year’s presentation. The Company has revised its consolidated statements of income for the fiscal years ended September 30, 2006 and 2005 to reclassify certain amounts previously reported within miscellaneous-net to cost of sales, selling, general and administrative expenses, and net financing charges. Additionally, the Company has revised its consolidated statements of cash flows for the fiscal year ended September 30, 2005 to combine cash flows from discontinued operations with cash flows from continuing operations. The Company had previously separated these amounts from continuing operations and reported them as cash flows from discontinued operations.

2. ACQUISITIONS

In September 2007, the Company recorded a $200 million equity investment in a joint venture with US Airconditioning Distributors, Inc., a California based, privately-owned HVAC distributor serving five western U.S. states, in order to enhance the distribution of residential and light-commercial products in that geography. This investment will be accounted for under the equity method as the Company does not have a controlling interest.

In December 2005, the Company completed its acquisition of York International Corporation (York). The total cost of the acquisition, excluding cash acquired, was approximately $3.1 billion, including the assumption of $563 million of debt, change in control payments and direct costs of the transaction. The Company initially financed the acquisition by issuing unsecured commercial paper, which was refinanced with long-term debt in January 2006. York’s results of operations have been included in the Company’s consolidated financial statements since the date of acquisition.

The acquisition of York enabled the Company to become a single source supplier of integrated products and services for building owners to optimize comfort and energy efficiency. The acquisition enhanced the Company’s HVAC equipment, controls, fire and security capabilities and positioned the Company in a strategic leadership position in the global building environment industry which the Company believes offers significant growth potential.

During the first quarter of fiscal 2007, the Company completed its York purchase price allocation. The adjustments to the initial purchase price allocation were primarily related to the finalization of the restructuring plans, fixed asset valuations and other immaterial adjustments.

The following table summarizes the fair values of the York assets acquired and liabilities assumed at the date of acquisition (in millions):

Current assets, net of cash acquired	$	1,919
Property, plant and equipment		390
Goodwill		2,075
Other intangible assets		507
Other noncurrent assets		381
Total assets		5,272
Current liabilities		1,379
Noncurrent liabilities		1,360
Total liabilities		2,739
Net assets acquired	$	2,533

In conjunction with the York acquisition, the Company recorded goodwill of approximately $2.1 billion, none of which is tax deductible, with allocation to the building efficiency business reporting segments as follows: $427 million to North America Systems; $602 million to North America Service; $480 million to North America Unitary Products; $149 million to Europe; and $417 million to Rest of World. In addition, intangible assets subject to amortization were valued at $251 million with useful lives between 1.5 and 30 years, of which $199 million was assigned to customer relationships with useful lives between 20 and 30 years. Intangible assets not subject to amortization, primarily trademarks, were valued at $256 million.

The Company recorded restructuring reserves of $161 million related to the York acquisition, including workforce reductions of approximately 3,150 building efficiency employees (850 for North America Systems, 300 for North America Service, 60 for North America Unitary Products, 1,150 for Europe and 790 for Rest of World), the closure of two manufacturing plants (one in North America Systems and one in Rest of World), the merging of other plants and branch offices with existing Company facilities and contract terminations. These restructuring activities were recorded as costs of the acquisition and were provided for in accordance with FASB Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Company anticipates that substantially all of the remaining non-contractual restructuring actions will be completed in the first half of fiscal 2008.

As of September 30, 2007, approximately 2,150 employees have been separated from the Company pursuant to the York restructuring, including 275 for North America Systems, 50 for North America Unitary Products, 1,090 for Europe and 735 for Rest of World.

The following table summarizes the changes in the Company's York restructuring reserves, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits		Other		Currency Translation		Total	
Balance at September 30, 2006	$	50	$	49	$	6	$	105
Adjustments		(3)		6		-		3
Utilized - Cash		(24)		(25)		-		(49)
Utilized - Noncash		-		-		(3)		(3)
Balance at September 30, 2007	$	23	$	30	$	3	$	56

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

Also in fiscal year 2006, the Company completed six additional acquisitions for a combined purchase price of $111 million, including the assumption of debt, none of which were material to the Company's consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $57 million.

In fiscal year 2005, the Company completed six acquisitions for a combined purchase price of approximately $333 million, including the assumption of debt. In conjunction with the fiscal 2005 acquisitions, the Company recorded goodwill of $155 million. The most significant of these acquisitions are as follows:

- In July 2005, the Company completed the acquisition of Delphi Corporation's global battery business. This acquisition enables the Company to participate in the rapidly growing Asian automotive battery market, particularly in China.

- In June 2005, the Company completed its acquisition of USI Companies, Inc. This acquisition provides clients with an expanded, integrated mix of global corporate real estate services and enables the Company to further align new and existing customers' real estate assets with their business objectives.

3. DISCONTINUED OPERATIONS

In March 2007, the Company completed the sale of the Bristol Compressor business, which was acquired in December 2005 as part of the York transaction (see Note 2), for approximately $40 million, of which $35 million was received in cash in the three months ended March 31, 2007 and $5 million was received in cash in the three months ended September 30, 2007 after final purchase price adjustments. The sale of the Bristol Compressor business resulted in a loss of approximately $49 million ($30 million after-tax), including related costs.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary, which had been included in the Company's former building efficiency segment, to IAP Worldwide Services, Inc. for $260 million. The sale resulted in a gain of approximately $139 million ($85 million after-tax), net of related costs.

In February 2005, the Company completed the sale of its engine electronics business, which had been included in the automotive experience - Europe segment, to Valeo for €316 million. This non-core business was acquired in fiscal 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of $81 million ($51 million after-tax), net of related costs, in fiscal 2005. In the second quarter of fiscal 2007, the Company settled a claim related to the engine electronics business that resulted in a loss of approximately $4 million ($3 million after-tax).

The following summarizes the net sales, income (loss) before income taxes and minority interests, and income (loss) per share from discontinued operations amounts for the fiscal years ended September 30, 2007, 2006 and 2005 (in millions, except per share amounts):

	Year Ended September 30,		
	2007	2006	2005
Net sales	$ 54	$ 178	$ 540
Income (loss) before income taxes and minority interests	(16)	3	26
Income (loss) per share from discontinued operations			
Basic	$ (0.02)	$ -	$ 0.03
Diluted	$ (0.02)	$ -	$ 0.03
Gain (loss) per share on sale of discontinued operations			
Basic	$ (0.06)	$ -	$ 0.24
Diluted	$ (0.06)	$ -	$ 0.23

Net assets of the Bristol Compressor business at the disposal date totaled approximately $86 million, which consisted of current assets of $97 million, fixed assets of $6 million and liabilities of $17 million.

4. INVENTORIES

Inventories consisted of the following (in millions):

	September 30, 2007	September 30, 2006
Raw materials and supplies	$ 774	$ 655
Work-in-process	329	294
Finished goods	930	834
FIFO inventories	2,033	1,783
LIFO reserve	(65)	(52)
Inventories	$ 1,968	$ 1,731

Inventories valued by the LIFO method of accounting were approximately 25% of total inventories at September 30, 2007 and 2006.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in millions):

	September 30, 2007	September 30, 2006
Buildings and improvements	$ 2,159	$ 1,794
Machinery and equipment	6,026	5,787
Construction in progress	536	589
Land	322	295
Total property, plant and equipment	9,043	8,465
Less accumulated depreciation	(4,835)	(4,497)
Property, plant and equipment - net	$ 4,208	$ 3,968

Interest costs capitalized during the fiscal years ended September 30, 2007, 2006, and 2005 were $13 million, $21 million and $11 million, respectively.

In March 2005, the FASB issued FIN 47, which clarified that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation (ARO) if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. Under FIN 47, companies must accrue for costs related to legal obligations associated with the retirement, disposal, removal or abandonment of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event and if the liability's fair value can be reasonably estimated. FIN 47 requires that the ARO estimate be recorded as a liability and as an increase to the related asset. The capitalized asset is depreciated over the remaining useful life of the asset.

The Company has identified certain legal and future environmental obligations at owned properties in the power solutions business as conditional AROs. In the fourth quarter of fiscal 2006, the Company adopted FIN 47 and, using site-specific surveys and other historical information, recorded an increase in net property, plant and equipment of $16 million, an ARO liability of $28 million and a non-cash, after-tax charge of $7 million ($0.01 per share), which is reported in the fiscal 2006 consolidated statement of income as a cumulative effect of a change in accounting principle, net of income taxes. Changes to the ARO assets and liabilities in fiscal 2007 were not significant.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill in each of the Company's reporting segments for the fiscal years ended September 30, 2007 and 2006 were as follows (in millions):

	September 30, 2005	Business Acquisitions	Currency Translation and Other	September 30, 2006
Building efficiency				
North America Systems	$ 45	$ 451	$ -	$ 496
North America Service	11	601	3	615
North America Unitary Products	-	473	-	473
Global Workplace Solutions	182	-	(16)	166
Europe	207	147	16	370
Rest of World	71	411	5	487
Automotive experience				
North America	1,186	-	(10)	1,176
Europe	1,013	6	47	1,066
Asia	192	7	1	200
Power solutions	826	8	27	861
Total	$ 3,733	$ 2,104	$ 73	$ 5,910

	September 30, 2006	Business Acquisitions	Currency Translation and Other	September 30, 2007
Building efficiency				
North America Systems	$ 496	$ -	$ 1	$ 497
North America Service	615	1	6	622
North America Unitary Products	473	-	8	481
Global Workplace Solutions	166	8	7	181
Europe	370	-	22	392
Rest of World	487	1	40	528
Automotive experience				
North America	1,176	-	1	1,177
Europe	1,066	12	89	1,167
Asia	200	-	5	205
Power solutions	861	-	20	881
Total	$ 5,910	$ 22	$ 199	$ 6,131

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

	September 30, 2007			September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Patented technology	$ 315	$ (147)	$ 168	$ 300	$ (126)	$ 174
Unpatented technology	21	(8)	13	31	(9)	22
Customer relationships	306	(24)	282	304	(15)	289
Miscellaneous	47	(32)	15	33	(20)	13
Total amortized intangible assets	689	(211)	478	668	(170)	498
Unamortized intangible assets						
Trademarks	295	-	295	295	-	295
Pension asset	-	-	-	6	-	6
Total unamortized intangible assets	295	-	295	301	-	301
Total intangible assets	$ 984	$ (211)	$ 773	$ 969	$ (170)	$ 799

Amortization of other intangible assets for the fiscal years ended September 30, 2007 and 2006 was $45 million and $44 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately $36 million per year over the next five years.

7. PRODUCT WARRANTIES

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the consolidated statement of financial position.

The changes in the carrying amount of the Company's total product warranty liability for the fiscal years ended September 30, 2007 and 2006 were as follows (in millions):

	Year Ended September 30,	
	2007	2006
Beginning balance	$ 162	$ 61
Accruals for warranties issued during the period	117	127
Accruals from business acquisition	5	83
Accruals related to pre-existing warranties (including changes in estimates)	(4)	(3)
Settlements made (in cash or in kind) during the period	(136)	(107)
Currency translation	6	1
Ending balance	$ 150	$ 162

8. LEASES

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were $60 million and $57 million at September 30, 2007 and 2006, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense for the fiscal years ended September 30, 2007, 2006 and 2005 was $336 million, $288 million and $242 million, respectively.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2007 were as follows (in millions):

	Capital Leases	Operating Leases
2008	$ 15	$ 209
2009	50	170
2010	8	123
2011	7	85
2012	1	61
After 2012	19	138
Total minimum lease payments	100	$ 786
Interest	(12)	
Present value of net minimum lease payments	$ 88	

9. SHORT-TERM DEBT AND CREDIT AGREEMENTS

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

	September 30, 2007	September 30, 2006
Bank borrowings	$ 264	$ 209
Weighted average interest rate on short-term debt outstanding	4.99%	5.85%

The Company has a $2.0 billion committed five-year credit facility to support its outstanding commercial paper. The facility expires in December 2011. Average outstanding commercial paper for the fiscal year ended September 30, 2007 was $770 million. There were no draws against the $2.0 billion facility during the year ended September 30, 2007.

In addition, the Company had uncommitted lines of credit from banks totaling approximately $1.7 billion at September 30, 2007 of which approximately $1.4 billion remained unused. The lines of credit are subject to the customary terms and conditions applied by banks.

10. LONG-TERM DEBT

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

	September 30, 2007	September 30, 2006
Unsecured notes		
5.0% due in 2007 ($350 million par value)	$ -	$ 352
6.3% due in 2008 ($175 million par value)	173	170
6.7% due in 2008 ($200 million par value)	202	204
5.25% due in 2011 ($800 million par value)	800	800
5.8% due in 2013 ($100 million par value)	100	100
4.875% due in 2013 ($300 million par value)	299	299
7.7% due in 2015 ($125 million par value)	125	125
5.5% due in 2016 ($800 million par value)	799	799
7.125% due in 2017 ($150 million par value)	150	149
6.0% due in 2036 ($400 million par value)	395	395
6.95% due in 2046 ($125 million par value)	125	125
Floating rate notes due in 2008 ($500 million par value)	500	500
Unsecured loans		
Floating rate loan due in 2009	-	50
Capital lease obligations	88	90
Foreign-denominated debt		
Euro	86	129
Japanese yen	312	237
Other	-	10
Gross long-term debt	4,154	4,534
Less: current portion	899	368
Net long-term debt	$ 3,255	$ 4,166

At September 30, 2007, the Company's euro-denominated long-term debt was at fixed rates with a weighted-average interest rate of 8.3% and the Company's yen-denominated debt was at floating rates with a weighted average interest rate of 1.2%.

The installments of long-term debt maturing in subsequent fiscal years are: 2008 — $899 million; 2009 — $276 million; 2010 — $123 million; 2011 — $807 million; 2012 — $1 million; 2013 and thereafter — $2 billion. The Company's long-term debt includes various financial covenants, none of which are expected to restrict future operations.

Total interest paid on both short and long-term debt for the fiscal years ended September 30, 2007, 2006 and 2005 was $273 million, $234 million and $133 million, respectively. The Company uses financial instruments to manage its interest rate exposure (see Note 11). These instruments affect the weighted average interest rate of the Company's debt and interest expense.

11. FINANCIAL INSTRUMENTS

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, compensation expense and interest rates. Under Company policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. See Note 1 for additional information regarding the Company's objectives for holding certain derivative instruments, its strategies for achieving those objectives, and its risk management and accounting policies applicable to these instruments.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in currency exchange rates. The Company primarily uses foreign currency exchange contracts to hedge certain of its foreign currency exposure.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates (fair value hedges). In October 2003, the Company entered into a four-year and three-month interest rate swap to hedge the Company's 6.3% notes maturing in February 2008 ($175 million). Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 6.3% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 283.5 basis points. A second interest rate swap that was outstanding as of September 30, 2006 matured in conjunction with the maturity of the hedged debt on November 15, 2006.

The Company also selectively uses cross-currency interest rate swaps to hedge the foreign currency exposure associated with its net investment in certain non-U.S. operations (net investment hedges). Under the swaps, the Company receives interest based on a variable U.S. dollar rate and pays interest based on variable euro rates on the outstanding notional principal amounts in dollars and euro, respectively.

In addition, 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 and stock appreciation rights. 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. In March 2004, the Company entered into an equity swap agreement. In connection with the swap agreement, as amended, a third party may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. Although the swap agreement has a stated expiration date, the Company's intention is to continually renew the swap agreement with the counterparty's consent. The net effect of the change in the fair value of the swap agreement and the change in equity compensation liabilities was not material to the Company's earnings for the fiscal years ended September 30, 2007 or 2006. The Company does not apply hedge accounting for this particular hedge.

In September 2005, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York (cash flow hedge). The three forward treasury lock agreements, which had a combined notional amount of $1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, is being amortized to interest expense over the life of the respective note issuance. In January 2006, in connection with the Company's debt refinancing, the three forward lock treasury agreements were terminated.

The Company uses commodity 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 upon purchase of the underlying commodities that will be used in the business. The maturities of the commodity contracts coincide with the expected purchase of the commodities. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the sales.

The Company's derivative instruments are recorded at fair value in the consolidated statement of financial position as follows (in millions at U.S. dollar equivalent):

	September 30,			
	2007		2006	
	Notional Amount	Fair Value Asset (Liability)	Notional Amount	Fair Value Asset (Liability)
Other current assets				
Foreign currency exchange contracts	$ 1,634	$ (3)	$ 2,801	$ 3
Interest rate swap	-	-	150	2
Commodity contracts	333	64	278	34
Other noncurrent assets				
Commodity contracts	5	17	20	5
Other current liabilities				
Cross-currency interest rate swaps	1,301	(63)	1,162	(63)
Interest rate swap	175	(2)	-	-
Equity swap	189	-	123	(1)
Other noncurrent liabilities				
Interest rate swap	-	-	175	(5)

It is important to note that the Company's derivative instruments are hedges protecting against underlying changes in foreign currency, interest rates, compensation liabilities and commodity price changes. Accordingly, the implied gains/losses associated with the fair values of foreign currency exchange contracts and cross-currency interest rate swaps would be offset by gains/losses on underlying payables, receivables and net investments in non-U.S. subsidiaries. Similarly, implied gains/losses associated with interest rate swaps offset changes in interest rates and the fair value of long-term debt. The Company will not enter into any derivative for speculative purposes.

The fair values of interest rate swaps were determined using dealer quotes. The fair values of cross-currency interest rate swaps and foreign currency exchange contracts were determined using the Company's treasury management system, which is based on market exchange rates.

12. STOCK-BASED COMPENSATION

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment," using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, 2005 results will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted SFAS No. 123. Pro forma net income and basic and diluted earnings per share have not been disclosed as the impact of applying the fair value based method to all outstanding and unvested awards is not material to the Company's consolidated results of operations.

The Company has two share-based compensation plans, which are described below. The compensation cost charged against income for those plans was approximately $82 million, $67 million and $38 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately $32 million, $27 million and $15 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

Prior to the adoption of SFAS No. 123(R), the Company applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognized compensation cost over the vesting period and, if the employee retired before the end of the vesting period, the Company recognized any remaining unrecognized compensation cost at the date of retirement. For stock-based payments issued after the adoption of SFAS No. 123(R), the Company applies a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting. Had the Company applied the non-substantive vesting period approach prior to the adoption of SFAS No. 123(R), an approximate $8 million, $11 million and $5 million reduction of pre-tax compensation cost would have been recognized for the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

Stock Option Plan

Stock Options

The Company's 2000 Stock Option Plan, as amended (the 2000 Plan), which is shareholder-approved, permitted the grant of stock options to the Company's employees for up to approximately 38 million shares of new common stock. Option awards were granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards vest between two and three years after the grant date and expire 10 years from the grant date.

In January 2007, the Company's shareholders approved replacement of the 2000 Plan with the 2007 Stock Option Plan (the 2007 Plan). The terms of the 2007 Plan are substantially similar to those of the 2000 Plan, and upon adoption of the 2007 Plan, the remaining shares under the 2000 Plan became available for grant under the 2007 Plan. The maximum number of shares of common stock the Company may issue under the 2007 Plan is approximately 38 million shares (post stock split; see Note 19) consisting of approximately 8 million shares that remained available under the 2000 Plan prior to its termination plus an additional 30 million shares (approximately 38 million shares of common stock remained available to be granted at September 30, 2007).

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended September 30,		
	2007	**2006**	**2005**
Expected life of option (years)	4.75	4.75	5.00
Risk-free interest rate	4.56%	4.46%	3.48%
Expected volatility of the Company's stock	22.00%	22.00%	20.00%
Expected dividend yield on the Company's stock	1.60%	1.70%	1.76%
Expected forfeiture rate	12.25%	12.75%	8.00%

A summary of stock option activity at September 30, 2007, and changes for the fiscal 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, 2006	$ 18.03	31,023,954		
Granted	24.12	7,495,017		
Exercised	14.46	(7,488,051)		
Forfeited or expired	22.29	(1,278,222)		
Outstanding, September 30, 2007	$ 20.28	29,752,698	7.3	$ 567

The weighted-average grant-date fair value of options granted during the fiscal years ended September 30, 2007, 2006 and 2005 was $5.59, $5.12 and $4.64, respectively.

The total intrinsic value of options exercised during the fiscal years ended September 30, 2007, 2006 and 2005 was approximately $125 million, $106 million and $57 million, respectively.

In conjunction with the exercise of stock options granted, the Company received cash payments for the fiscal years ended September 30, 2007, 2006, and 2005 of approximately $104 million, $97 million and $66 million, respectively.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). 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 SFAS 123(R). The tax benefit from the exercise of stock options, which is recorded in capital in excess of par value, was $39 million, $33 million and $28 million, respectively, for the fiscal years ended September 30, 2007, 2006 and 2005. The Company does not settle equity instruments granted under share-based payment arrangements for cash.

At September 30, 2007, the Company had approximately $26 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under both of the plans. That cost is expected to be recognized over a weighted-average period of 0.8 years.

Stock Appreciation Rights (SARs)

The 2000 Plan permitted, and the 2007 Plan permits SARs to be separately granted to certain employees. SARs vest under the same terms and conditions as option awards; however, they are settled in cash for the difference between the market price on the date of exercise and the exercise price. As a result, SARs are recorded in the Company's consolidated statements of financial position as a liability until the date of exercise.

The fair value of each SAR award is estimated using a similar method described for option awards. In accordance with SFAS No. 123(R), the fair value of each SAR award is recalculated at the end of each reporting period and the liability and expense adjusted based on the new fair value. Prior to the effective date of SFAS No. 123(R), the SAR liability and expense was determined based on the intrinsic value of each award at the end of each reporting period. The difference between the fair value and intrinsic value of SAR awards on the date of adoption of SFAS No. 123(R) was not material to the Company's consolidated results of operations.

The assumptions used to determine the fair value of the SAR awards at September 30, 2007 were as follows:

Expected life of SAR (years)	0.5 - 2.8
Risk-free interest rate	3.97 - 4.09%
Expected volatility of the Company's stock	22.00%
Expected dividend yield on the Company's stock	1.60%
Expected forfeiture rate	0-20%

A summary of SAR activity at September 30, 2007, and changes for the fiscal 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, 2006	$ 18.05	2,992,518		
Granted	23.97	898,950		
Exercised	16.15	(654,831)		
Forfeited or expired	18.37	(167,880)		
Outstanding, September 30, 2007	$ 20.18	3,068,757	7.1	$ 59
Exerciseable, September 30, 2007	$ 15.47	1,111,701	5.0	$ 27

In conjunction with the exercise of SARs granted, the Company made payments of $10 million for each of the fiscal years ended September 30, 2007 and 2006.

Restricted (Nonvested) Stock

In fiscal 2002, the Company adopted a restricted stock plan that provides for the award of restricted shares of common stock or restricted share units to certain key employees. Awards under the restricted stock plan vest 50% after two years from the grant date and 50% after four years from the grant date.

A summary of the status of the Company's nonvested restricted shares at September 30, 2007, and changes for the fiscal year then ended, is presented below:

	Weighted Average Price	Shares Subject to Restriction
Nonvested, September 30, 2006	$ 22.81	1,315,500
Granted	-	-
Vested	13.45	(42,000)
Forfeited or expired	23.34	(60,000)
Nonvested, September 30, 2007	$ 23.11	1,213,500

At September 30, 2007, the Company had approximately $4 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the restricted stock plan. That cost is expected to be recognized over a weighted-average period of 1.0 year.

13. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the year that are calculated using the treasury-stock method for stock options. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any windfall tax benefits that would be credited to additional paid-in capital when the award generates a tax deduction. If there would be a shortfall resulting in a charge to additional paid-in capital, such an amount would be a reduction of the assumed proceeds.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share for the fiscal years ended September 30, 2007, 2006 and 2005 (in millions):

	Year Ended September 30,		
	2007	2006	2005
Income Available to Common Shareholders			
Basic and diluted income available to common shareholders	$ 1,252	$ 1,028	$ 909
Weighted Average Shares Outstanding			
Basic weighted average shares outstanding	590.6	583.5	575.4
Effect of dilutive securities:			
Stock options	8.6	6.4	7.5
Diluted weighted average shares outstanding	599.2	589.9	582.9
Antidilutive Securities			
Options to purchase common shares	0.1	0.4	1.7

14. RETIREMENT PLANS

Pension Benefits

The Company has non-contributory defined benefit pension plans covering certain U.S. and non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Effective January 1, 2006, certain of the Company's U.S. pension plans were amended to prohibit new participants from entering the plans. Active participants will continue to accrue benefits under the amended plans. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-US plans observes the local legal and regulatory limits. Also, the Company makes contributions to union-trusteed pension funds for construction and service personnel.

The Company's investment policies employ an approach whereby a mix of equities and fixed income 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 domestic and non-domestic 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. 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 Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations monthly, or as appropriate, in order to stay within a range of allocation for each asset category.

The Company's pension plan asset allocations by asset category are shown below:

	2007	2006
Equity securities:		
U.S. plans	63%	63%
Non-U.S. plans	52%	51%
Debt securities:		
U.S. plans	30%	31%
Non-U.S. plans	41%	43%
Real estate:		
U.S. plans	5%	5%
Non-U.S. plans	6%	5%
Cash/liquidity:		
U.S. plans	2%	1%
Non-U.S. plans	1%	1%

The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

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 $1,090 million, $996 million and $562 million, respectively, as of September 30, 2007 and $1,360 million, $1,263 million and $802 million, respectively, as of September 30, 2006.

The Company expects to contribute approximately $100 million in cash to its defined benefit pension plans in fiscal 2008. Projected benefit payments from the plans as of September 30, 2007 are estimated as follows (in millions):

2008	$	132
2009		135
2010		142
2011		148
2012		161
2013-2017		971

Savings and Investment Plans

The Company sponsors various defined contribution savings plans primarily in the U.S. that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will contribute to certain savings plans based on the employees' eligible pay and/or will match a percentage of the employee contributions up to certain limits. Matching contributions charged to expense amounted to $76 million, $60 million and $42 million for the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

Postretirement Health and Other Benefits

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S. Most non-U.S. employees are covered by government sponsored programs, and the cost to the Company is not significant. The U.S. benefits are paid as incurred. No change in the Company's practice of funding these benefits on a pay-as-you-go basis is anticipated.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits. Effective January 31, 1994, the Company modified certain salaried plans to place a limit on the Company's cost of future annual retiree medical benefits at no more than 150% of the 1993 cost.

The September 30, 2007 accumulated postretirement benefit obligation (APBO) for both pre-65 and post-65 years of age employees was determined using assumed medical care cost trend rates of 9.0% decreasing one half percent each year to an ultimate rate of 5% and prescription drug trend rates of 11.0% decreasing one half percent each year to an ultimate rate of 6%. The September 30, 2006 APBO for both pre-65 and post-65 years of age employees was determined using medical care cost trend rates of 9.5% decreasing one half percent each year to an ultimate rate of 5% and prescription drug trend rates of 11.5% decreasing one half percent each year to an ultimate rate of 6%. The health care cost trend assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by $9 million at September 30, 2007 and the sum of the service and interest costs in fiscal 2007 by $1 million. A one percentage point decrease in the assumed health care cost trend rate would have decreased the accumulated benefit obligation by $11 million at September 30, 2007 and the sum of the service and interest costs by $1 million.

The Company expects to contribute approximately $25 million in cash to its postretirement health and other benefit plans in fiscal 2008. Projected benefit payments from the plans as of September 30, 2007 are estimated as follows (in millions):

2008	$	22
2009		22
2010		23
2011		24
2012		25
2013-2017		125

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) for employers sponsoring postretirement health 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 $4 million per year over the next ten years.

The table that follows contains the accumulated benefit obligation and reconciliations of the changes in the PBO, the changes in plan assets and the funded status (in millions):

	Pension				Postretirement	
	U.S. Plans		Non-U.S. Plans		Health and Other	
September 30,	2007	2006	2007	2006	2007	2006
Accumulated Benefit Obligation	$ 1,938	$ 1,810	$ 1,336	$ 1,232	$ -	$ -
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	2,018	1,749	1,340	1,047	327	185
Service cost	74	87	38	38	6	7
Interest cost	129	112	63	50	19	16
Plan participant contributions	-	-	4	5	-	-
Acquisitions (1)	-	423	-	194	-	177
Actuarial loss (gain)	64	(287)	(29)	(19)	(11)	(33)
Amendments made during the year	(4)	13	6	-	(36)	-
Benefits paid	(113)	(79)	(57)	(38)	(30)	(25)
Special termination benefits	1	2	-	-	-	-
Curtailment gain	(1)	(2)	(3)	-	(1)	(2)
Settlement	-	-	-	-	-	1
Measurement date change	34	-	-	-	4	-
Currency translation adjustment	-	-	90	63	2	1
Projected benefit obligation at end of year	$ 2,202	$ 2,018	$ 1,452	$ 1,340	$ 280	$ 327
Change in Plan Assets						
Fair value of plan assets at beginning of year	$ 1,853	$ 1,453	$ 914	$ 630	$ -	$ -
Actual return on plan assets	329	103	55	60	-	-
Acquisitions	-	328	-	112	-	-
Employer and employee contributions	8	48	94	108	30	25
Benefits paid	(113)	(79)	(57)	(38)	(30)	(25)
Currency translation adjustment	-	-	59	42	-	-
Fair value of plan assets at end of year	$ 2,077	$ 1,853	$ 1,065	$ 914	$ -	$ -
Funded status	$ (125)	$ (165)	$ (387)	$ (426)	$ (280)	$ (327)
Unrecognized net transition obligation	-	(2)	-	-	-	-
Unrecognized net actuarial loss (gain)	-	282	-	155	-	(14)
Unrecognized prior service cost (credit)	-	20	-	(2)	-	(6)
Employer contributions paid between the measurement date and September 30	-	1	-	3	-	-
Net accrued benefit (cost) recognized at end of year	$ (125)	$ 136	$ (387)	$ (270)	$ (280)	$ (347)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 78	$ 240	$ 39	$ 20	$ -	$ -
Accrued benefit liability	(203)	(129)	(426)	(410)	(280)	(347)
Intangible asset	-	6	-	1	-	-
Minimum pension liability	-	19	-	119	-	-
Net amount recognized	$ (125)	$ 136	$ (387)	$ (270)	$ (280)	$ (347)
Weighted Average Assumptions (2)						
Discount rate	6.50%	6.50%	4.90%	4.60%	6.50%	6.40%
Rate of compensation increase	4.30%	3.60%	3.00%	3.30%	NA	NA

(1) The acquisitions for the U.S. and non-U.S. pension plans for the fiscal year ended September 30, 2006 include $617 million of projected benefit obligations, $440 million of plan assets and $177 million of accumulated postretirement benefit obligations primarily related to the York acquisition.

(2) Plan assets and obligations are determined based on a September 30 measurement date at September 30, 2007. Plan assets and obligations are determined based on a July 31 measurement date at September 30, 2006 for U.S. plans and a September 30 measurement date at September 30, 2006 for non-U.S. plans, utilizing assumptions as of those dates.

The amounts in accumulated in other comprehensive income on the balance sheet, excluding tax effects, that have not yet been recognized as components of net periodic benefit cost at September 30, 2007 are as follows (in millions):

	Pension Benefits	Postretirement Health and Other Benefits
Accumulated other comprehensive loss (income)		
Net transition obligation	$ 3	$ -
Net actuarial loss (gain)	308	(25)
Net prior service cost (credit)	14	(35)
Total	$ 325	$ (60)

The incremental effects of adoption of SFAS No. 158 on individual line items in the September 30, 2007 consolidated balance sheet are shown below (in millions):

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Other intangible assets, net	$ 779	$ (6)	$ 773
Other noncurrent assets	1,226	100	1,326
Postretirement health and other benefits	324	(68)	256
Other noncurrent liabilities	1,408	231	1,639
Accumulated other comprehensive income	842	(60)	782
Retained earnings	6,707	(9)	6,698

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cover over the next fiscal year are shown below (in millions):

	Pension Benefits	Postretirement Health and Other Benefits
Amortization of:		
Net actuarial loss (gain)	$ 11	$ (2)
Net prior service cost (credit)	2	(7)
Total	$ 13	$ (9)

The table that follows contains the components of net periodic benefit cost (in millions).

	Pension						Postretirement Health and Other		
	U.S. Plans			Non-U.S. Plans					
Year ended September 30	2007	2006	2005	2007	2006	2005	2007	2006	2005
Components of Net Periodic Benefit Cost:									
Service cost	$ 74	$ 87	$ 64	$ 38	$ 38	$ 26	$ 6	$ 7	$ 5
Interest cost	129	112	89	63	50	40	19	16	10
Expected return on plan assets	(151)	(144)	(104)	(55)	(41)	(30)	-	-	-
Amortization of transitional obligation	(2)	(2)	(2)	-	-	-	-	-	-
Amortization of net actuarial loss	10	36	20	8	9	7	-	2	1
Amortization of prior service cost (credit)	2	1	2	-	-	(1)	(6)	(2)	(2)
Special termination benefits	1	2	-	-	-	-	-	-	-
Curtailment loss (gain)	(1)	-	2	(2)	-	(7)	(1)	(2)	-
Currency translation adjustment	-	-	-	1	-	-	-	-	-
Net periodic benefit cost	$ 62	$ 92	$ 71	$ 53	$ 56	$ 35	$ 18	$ 21	$ 14
Expense Assumptions:									
Discount rate	6.50%	5.50%	6.25%	4.60%	4.00%	4.50%	6.50%	5.50%	6.25%
Expected return on plan assets	8.25%	8.75%	8.75%	5.60%	5.90%	5.75%	NA	NA	NA
Rate of compensation increase	3.60%	3.80%	4.00%	3.30%	2.75%	3.00%	NA	NA	NA

15. RESTRUCTURING COSTS

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal 2006 and recorded a $197 million restructuring charge in that quarter. During the fourth quarter of fiscal 2006, the Company increased its 2006 Plan restructuring charge by $8 million for additional employee severance and termination benefits. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of the first quarter of fiscal 2008. The automotive experience business related restructuring is focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly relate to Europe where the Company has launched a systems redesign initiative.

The 2006 Plan included workforce reductions of approximately 5,000 employees (2,500 for automotive experience – North America, 1,400 for automotive experience – Europe, 200 for building efficiency – North America, 600 for building efficiency – Europe, 280 for building efficiency – Rest of World and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2007, approximately 4,400 employees have been separated from the Company pursuant to the 2006 Plan. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience – North America, 3 in automotive experience – Europe, 1 in building efficiency – Europe and 1 in building efficiency – Rest of World). As of September 30, 2007, 14 of the 15 plants have been closed. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

The following table summarizes the changes in the Company's 2006 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2006	$ 125	$ 12	$ 1	$ 138
Utilized - Cash	(87)	(6)	-	(93)
Balance at September 30, 2007	$ 38	$ 6	$ 1	$ 45

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

In the second quarter of fiscal 2005, the Company committed to a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge in that quarter. During the fourth quarter of fiscal 2006, the Company reversed $6 million of restructuring reserves that were not expected to be utilized. This restructuring charge included workforce reductions of approximately 3,900 employees. Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. In addition, the 2005 Plan included 12 plant closures, all of which have been completed as of September 30, 2007. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis. The closures/restructuring activities were primarily concentrated in Europe and North America.

As of September 30, 2007, the 2005 Plan restructuring reserves were substantially utilized. As of September 30, 2006, the remaining 2005 Plan reserves were $31 million. During fiscal 2007, the Company utilized $25 million of the reserve through cash payments ($23 million for employee severance and termination benefits and $2 million in other restructuring costs).

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of its operations or impairment charges.

16. INCOME TAXES

An analysis of effective income tax rates for continuing operations is shown below:

	Year Ended September 30,		
	2007	2006	2005
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	0.8	2.7	1.5
Foreign income tax expense at different rates and foreign losses without tax benefits	(10.7)	(22.5)	(11.6)
U.S. tax on foreign income	(5.6)	(2.6)	(17.6)
Reserve and valuation allowance adjustments	(0.9)	(8.3)	15.1
Other	0.1	1.2	(2.0)
Effective income tax rate	18.7%	5.5%	20.4%

The Company's base effective income tax rate for continuing operations for fiscal years 2007 and 2006 was 21.0% as compared to 25.7% in fiscal 2005. The rate remained stable and below the U.S. statutory rate due to continuing global tax planning initiatives and income in certain non-U.S. jurisdictions with a rate of tax lower than the U.S. statutory tax rate. The Company's effective tax rates were further reduced as a result of the following discrete items:

	Year Ended September 30,		
	2007	2006	2005
Federal, state and foreign income tax expense at base effective income tax rate	$ 337	$ 239	$ 258
Restructuring charge	-	(19)	-
Valuation allowance adjustments	(7)	(163)	28
Uncertain tax positions	(28)	(10)	-
Change in statutory tax rates	20	-	-
Foreign dividend repatriation	-	31	-
Disposition of a joint venture	-	(4)	-
Change in tax status of foreign subsidiaries	(22)	(11)	(81)
Provision for income taxes	$ 300	$ 63	$ 205

Restructuring Charge

In the third quarter of fiscal 2006, the Company recorded a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%.

Valuation Allowance Adjustments

The Company reviews 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 is considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

In the fourth quarter of fiscal 2007, the tax provision decreased $7 million due to a nonrecurring tax benefit related to the use of a portion of the Company’s capital loss carryforward valuation allowance.

In the third quarter of fiscal 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the quarter ended June 30, 2006 as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Based on the Company’s cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the quarter ended March 31, 2006, the Company reversed the valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

In fiscal 2005, there was an increase in the tax valuation allowance of $28 million. The increase related to restructuring charges for which no tax benefit was received in certain countries (primarily Germany and the U.K.) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in the country at that time.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company’s business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 “Accounting for Contingencies.”

In the second and fourth quarters of fiscal 2007, the Company reduced its income tax liability by $15 million and $13 million, respectively, due to the favorable resolution of certain tax audits. In the third quarter of fiscal 2006, the Company recorded a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. jurisdiction.

The Company’s federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service 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, 2007, the Company has recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities, may differ materially from the amounts accrued for each year.

FIN 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,” will be effective for the Company on October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company’s consolidated financial position.

Change in Statutory Tax Rates

The German Corporate Tax Reform Act was enacted on August 14, 2007, and resulted in a decrease of the combined Corporate Income Tax and Trade Tax rates. The new rates will apply to the Company's German entities effective October 1, 2007. The Company's tax provision increased $20 million in the fourth quarter of fiscal 2007 as a result of this German tax law change.

In March 2007, the People’s National Congress in the People’s Republic of China approved a new tax reform law to align the tax regime applicable to non-U.S.-owned Chinese enterprises with those applicable to domestically-owned Chinese enterprises. The new law will be effective on January 1, 2008. The tax reform law will not have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

On July 19, 2007, the U.K. enacted a new tax law, which reduces the main corporate income tax rate from 30% to 28%. The reduction goes into effect on April 1, 2008. The U.K. tax rate change will not have a material impact on the company's consolidated financial condition, results of operations or cash flows.

Foreign Dividend Repatriation

In October 2004, the U.S. President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled non-U.S. operations. The deduction was subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and approximately $674 million of non-U.S. earnings were designated for repatriation to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company’s AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the quarter ended March 31, 2006 as $11 million had been previously recorded by York prior to the acquisition in accordance with York’s approved repatriation plan.

Disposition of a Joint Venture

In the first quarter of fiscal 2006, the tax provision decreased due to a $4 million nonrecurring tax benefit related to a $9 million gain from the disposition of the Company’s interest in a German joint venture.

Change in Tax Status of non-U.S. Subsidiary

For the second quarter of fiscal 2007, the tax provision decreased as a result of a $22 million tax benefit realized by a change in tax status of an automotive experience subsidiary in the Netherlands. During the first quarter of fiscal 2006, the tax provision decreased as a result of an $11 million tax benefit realized by a change in tax status of an automotive experience subsidiary in Hungary and a building efficiency subsidiary in the Netherlands. In fiscal 2005, the tax provision decreased as a result of a $12 million and $69 million tax benefit from a change in tax status of subsidiaries in France and Germany, respectively.

The change in tax status in each respective period resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled non-U.S. corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc, and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Continuing Operations

Components of the provision for income taxes on continuing operations were as follows (in millions):

	Year Ended September 30,		
	2007	2006	2005
Current			
Federal	$ 95	$ 259	$ 171
State	28	67	19
Foreign	240	141	40
	363	467	230
Deferred			
Federal	(64)	(5)	34
State	(2)	(27)	2
Foreign	3	(372)	(61)
	(63)	(404)	(25)
Provision for income taxes	$ 300	$ 63	$ 205

Consolidated domestic income from continuing operations before income taxes and minority interests for the fiscal years ended September 30, 2007, 2006 and 2005 was $883 million, $754 million and $826 million, respectively. Consolidated non-U.S. income from continuing operations before income taxes and minority interests for the fiscal years ended September 30, 2007, 2006 and 2005 was $724 million, $384 million and $177 million, respectively.

Income taxes paid for the fiscal years ended September 30, 2007, 2006 and 2005 were $306 million, $156 million, and $177 million, respectively.

The Company has not provided additional U.S. income taxes on approximately $2,142 million of undistributed earnings of consolidated non-U.S. subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on such earnings.

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

	September 30, 2007	September 30, 2006
Other current assets	$ 388	$ 459
Other noncurrent assets	932	964
Other current liabilities	(30)	(48)
Other noncurrent liabilities	(134)	(502)
Net deferred tax asset	$ 1,156	$ 873

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

	September 30, 2007	September 30, 2006
Deferred tax assets		
Accrued expenses and reserves	$ 727	$ 593
Employee and retiree benefits	246	149
Net operating loss and other carryforwards	898	819
Reasearch and development	173	131
Other	-	114
	2,044	1,806
Valuation allowances	(326)	(355)
	1,718	1,451
Deferred tax liabilities		
Property, plant and equipment	65	81
Joint ventures	35	8
Intangible assets	282	300
Foreign currency translation adjustments	155	189
Other	25	-
	562	578
Net deferred tax asset	$ 1,156	$ 873

At September 30, 2007, the Company had available non-U.S. net operating loss carryforwards of approximately $2.3 billion, of which $756 million will expire at various dates between 2008 and 2022, and the remainder have an indefinite carryforward period. The valuation allowance, generally, represents loss carryforwards for which utilization is uncertain because it is unlikely that the losses will be utilized given the lack of sustained profitability and/or limited carryforward periods in certain countries.

17. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain segments are aggregated or combined based on materiality within building efficiency - rest of world and power solutions in accordance with the standard. The Company's ten reportable segments are presented in the context of its three primary businesses – building efficiency, automotive experience and power solutions.

Building efficiency

North America Systems designs, produces, markets and installs HVAC and control systems that monitor, automate and integrate critical building segment equipment and conditions including HVAC, fire-safety and security in commercial buildings and in various industrial applications in North America.

- North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

- North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

- North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

- Global workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

- Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

- Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

Automotive experience

Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover vehicles in North America, Europe and Asia. Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument panels and clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems.

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.

The accounting policies applicable to the reportable segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Management evaluates the performance of the segments based primarily on segment income, which represents income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. Segment revenues and expenses are allocated to business segments in determining segment income. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-segment assets. Financial information relating to the Company’s reportable segments is as follows (in millions):

	Year Ended September 30, 2007	2006	2005
Net Sales			
Building efficiency			
North America Systems	$ 2,027	$ 1,609	$ 1,158
North America Service	2,273	1,943	1,186
North America Unitary Products	953	853	-
Global Workplace Solutions	2,677	2,046	1,863
Europe	2,406	1,900	899
Rest of World	2,401	1,894	612
	12,737	10,245	5,718
Automotive experience			
North America	7,276	8,041	8,499
Europe	8,878	8,774	8,935
Asia	1,398	1,459	1,399
	17,552	18,274	18,833
Power solutions	4,335	3,716	2,928
Net Sales	$ 34,624	$ 32,235	$ 27,479

	Year Ended September 30, 2007	2006	2005
Segment Income			
Building efficiency			
North America Systems (1)	$ 216	$ 131	$ 111
North America Service (2)	197	146	85
North America Unitary Products	65	62	-
Global Workplace Solutions (3)	79	67	67
Europe (4)	77	2	(1)
Rest of World (5)	216	136	39
	850	544	301
Automotive experience			
North America (6)	72	188	382
Europe (7)	445	405	246
Asia (8)	2	12	52
	519	605	680
Power solutions (9)	515	459	345
	1,884	1,608	1,326
Net financing charges	(277)	(273)	(113)
Restructuring costs	-	(197)	(210)
Income from continuing operations before income taxes and minority interests	$ 1,607	$ 1,138	$ 1,003

	Year Ended September 30,		
	2007	2006	2005
Assets			
Building efficiency			
North America Systems	$ 1,424	$ 1,550	$ 450
North America Service	1,575	1,442	382
North America Unitary Products	1,316	1,055	-
Global Workplace Solutions	689	707	547
Europe	1,971	1,850	534
Rest of World	1,897	1,986	559
	8,872	8,590	2,472
Automotive experience			
North America	3,721	3,284	4,050
Europe	5,047	5,224	5,260
Asia	965	851	866
	9,733	9,359	10,176
Power solutions	4,509	2,827	3,000
Unallocated	991	1,145	496
Total	$ 24,105	$ 21,921	$ 16,144

	Year Ended September 30,		
	2007	2006	2005
Depreciation/Amortization			
Building efficiency			
North America Systems	$ 10	$ 15	$ 3
North America Service	15	18	13
North America Unitary Products	22	20	-
Global Workplace Solutions	10	12	8
Europe	28	24	7
Rest of World	17	25	16
	102	114	47
Automotive experience			
North America	212	201	207
Europe	238	226	238
Asia	29	29	25
	479	456	470
Power solutions	151	135	122
Total	$ 732	$ 705	$ 639

	Year Ended September 30,		
	2007	2006	2005
Capital Expenditures			
Building efficiency			
North America Systems	$ 43	$ 6	$ 7
North America Service	15	13	5
North America Unitary Products	10	13	-
Global Workplace Solutions	5	14	14
Europe	52	18	3
Rest of World	20	25	12
	145	89	41
Automotive experience			
North America	116	218	267
Europe	217	182	203
Asia	14	25	56
	347	425	526
Power solutions	336	197	97
Total	$ 828	$ 711	$ 664

(1) Building efficiency – North America Systems segment income for the fiscal year ended September 30, 2005 excludes $3 million of restructuring costs.

(2) Building efficiency – North America Service segment income for the fiscal year ended September 30, 2006 excludes $1 million of restructuring costs.

(3) Building efficiency – Global Workplace Solutions segment income for the fiscal years ended September 30, 2006 and 2005 excludes $7 million and $13 million, respectively, of restructuring costs.

(4) Building efficiency – Europe segment income for the fiscal years ended September 30, 2006 and 2005 excludes $40 million and $8 million, respectively, of restructuring costs.

(5) Building efficiency – Rest of world segment income for the fiscal years ended September 30, 2006 and 2005 excludes $17 million and $27 million, respectively, of restructuring costs.

(6) Automotive experience – North America segment income for the fiscal years ended September 30, 2006 and 2005 excludes $75 million and $12 million, respectively, of restructuring costs.

(7) Automotive experience – Europe segment income for the fiscal years ended September 30, 2006 and 2005 excludes $53 million and $130 million, respectively, of restructuring costs.

(8) Automotive experience – Asia segment income for the fiscal year ended September 30, 2006 excludes $1 million of restructuring costs.

(9) Power solutions segment income for the fiscal years ended September 30, 2006 and 2005 excludes $3 million and $17 million, respectively, of restructuring costs.

In fiscal 2006, the Company recorded income related to a favorable legal settlement associated with the recovery of previously incurred environmental costs in the power solutions segment ($33 million). The Company also recorded income related to this legal settlement in building efficiency – North America Systems ($7 million) and other segments ($6 million), which was offset by other unfavorable commercial and legal settlements.

The Company has significant sales to the automotive industry. The following is a summary of the percentages of net sales from major customers:

	Year ended September 30,		
	2007	2006	2005
Ford Motor Company	*	10%	11%
General Motors Corporation	*	11%	14%
DaimlerChrysler AG	*	11%	11%

* Sales to customer were less than 10% of consolidated net sales in fiscal 2007

As of September 30, 2007 and 2006, the Company had accounts receivable totaling approximately $1.0 billion and $1.4 billion, respectively, from these customers.

Geographic Segments

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

	Year ended September 30,		
	2007	2006	2005
Net Sales			
United States	$ 13,753	$ 12,822	$ 11,000
Germany	4,335	3,390	3,271
Other European countries	8,701	9,208	8,066
Other foreign	7,835	6,815	5,142
Total	$ 34,624	$ 32,235	$ 27,479
Long-Lived Assets (Year-end)			
United States	$ 1,547	$ 1,563	$ 1,355
Germany	578	448	640
Other European countries	1,052	1,044	723
Other foreign	1,031	913	863
Total	$ 4,208	$ 3,968	$ 3,581

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.

18. COMMITMENTS AND CONTINGENCIES

As previously reported, following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of York, York had made improper payments to the Iraqi regime, York and the Company jointly undertook to investigate the allegations and offered the companies' cooperation to the United States Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (SEC). After completing the York acquisition, the Company continued the internal inquiry and expanded its scope to include other aspects of York's Middle East operations, including a review of York's use of agents, consultants and other third parties, York's compliance with the Office of Foreign Assets Control licensing requirements, and York's compliance with other potentially applicable trade laws. The Company also reviewed certain of York's sales practices in other markets. In October 2007, York reached settlements relating to the SEC and DOJ investigations regarding payments made by York and its subsidiaries in connection with the United Nations' Oil-for-Food Program and other payments unrelated to the Oil-for-Food Program. Specifically, York entered into an agreement with the SEC under which York consented to the entry of a civil injunction proscribing future violations of law. York also entered into an agreement with the DOJ under which the DOJ agreed to defer prosecuting York for three criminal charges. The DOJ will not pursue the charges if York complies with the agreement for its three-year term. The agreements with both the SEC and DOJ required that York retain an independent compliance monitor for three years. York paid an aggregate of approximately $22 million to the SEC and the DOJ pursuant to these settlements, which payments were characterized as disgorgement of profits, criminal and civil penalties and interest. The Company had reserves adequate for this amount. The

Company is offering continued cooperation to other relevant authorities in the U.S. Departments of Treasury, Commerce and Navy. The Company has begun discussions with these relevant authorities to explore how these matters may be resolved and expects that any additional sanctions are not expected to be material. The Company is in the process of evaluations and implementing various remedial measures with respect to York operations.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Reserves for environmental costs totaled $27 million and $34 million at September 30, 2007 and 2006, respectively. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

The Company has entered into supply contracts with certain vendors that include minimum volume requirements which, if not met, could subject the Company to potential liabilities. At the end of fiscal 2007, there were no known volume shortfalls for which the Company was contractually obligated. If terminated, these supply contracts could result in liabilities that, if incurred, could be material to the Company’s consolidated financial condition, results of operations or cash flows.

A significant portion of the Company’s sales are to customers in the automotive industry. Future adverse developments in the automotive industry could impact the Company’s liquidity position and/or require additional restructuring of the Company’s operations or impairment charges. In addition, a downturn in the North America automotive market may also impact certain vendors’ financial solvency, including the ability to meet restrictive debt covenants, resulting in potential liabilities or additional costs to the Company to ensure uninterrupted supply to its customers.

19. STOCK SPLIT

On July 25, 2007, the Company's Board of Directors declared a three-for-one split of the Company’s outstanding common stock payable October 2, 2007 to shareholders of record on September 14, 2007. All prior year share and per share amounts disclosed in this document have been restated to reflect the three-for-one stock split. The stock split resulted in an increase of approximately 396 million in the outstanding shares of common stock. In connection with the stock split, the par value of the common stock was changed from $.04 1/6 per share to $.01 7/18 per share.

JOHNSON CONTROLS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Year Ended September 30,	2007	2006	2005
Accounts Receivable - Allowance for Doubtful Accounts			
Balance at beginning of period	$ 80	$ 47	$ 47
Provision charged to costs and expenses	40	30	25
Reserve adjustments	(25)	(14)	(10)
Accounts charged off	(22)	(17)	(17)
Acquisition of businesses	-	35	1
Currency translation	2	(1)	-
Other	-	-	1
Balance at end of period	$ 75	$ 80	$ 47
Deferred Tax Assets - Valuation Allowance			
Balance at beginning of period	$ 355	$ 573	$ 572
Allowance established for new operating and other loss carryforwards	22	26	96
Acquisition of businesses	-	60	-
Allowance reversed for loss carryforwards utilized and other adjustments	(51)	(304)	(95)
Balance at end of period	$ 326	$ 355	$ 573

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (“the Exchange Act”)) as of the end of the period covered by this report. Based on such evaluations, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the company’s management has concluded that, as of September 30, 2007, the Company’s internal control over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting as of September 30, 2007 as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There has not been any change in the Company's internal control over financial reporting during the quarter ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B OTHER INFORMATION

None

PART III

The information required by Part III, Items 10, 11, 13 and 14, and certain of the information required by Item 12, is incorporated herein by reference to the Company's Proxy Statement for its 2008 Annual Meeting of Shareholders (fiscal 2007 Proxy Statement), dated and to be filed with the SEC on or about December 7, 2007, as follows:

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the sections entitled "Proposal One: Election of Directors," "Q: Where can I find Corporate Governance materials for Johnson Controls?," "Director Compensation," "Board Information," "Audit Committee Report," and "Beneficial Ownership Reporting Compliance – Section 16(a)," of the fiscal 2007 Proxy Statement. Required information on executive officers of the Company appears at Part I, Item 4 of this report.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference to the sections entitled "Compensation Committee Report," "Executive Compensation - Compensation Discussion and Analysis," "Employment Agreements," "Board Information," and "Shareholder Information Summary" of the fiscal 2007 Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to sections entitled "Johnson Controls Share Ownership" and "Schedule 13G Filings" of the fiscal 2007 Proxy Statement.

The following table provides information about the Company's equity compensation plans as of October 31, 2007:

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders	32,752,363	$ 22.59	36,156,929
Equity compensation plans not approved by shareholders	-	-	-
Total	32,752,363	$ 22.59	36,156,929

(c) Includes shares of Common Stock that remain available for grant under Company Plans as follows: 33,983,711 shares under the 2007 Stock Option Plan, 1,977,000 shares under the 2001 Restricted Stock Plan, as amended, and 196,218 shares under the 2003 Stock Plan for Outside Directors, as amended and restated.

As of October 31, 2007, the Company had issued and outstanding 593,815,378 shares of Common Stock (including 709,500 shares of unvested restricted stock).

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference to sections entitled "Board Information – Related Person Transactions" and Board Information – Board Independence of the fiscal 2007 Proxy Statement.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the section entitled "Relationship with Independent Auditors" of the fiscal 2007 Proxy Statement.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Reference is made to the separate exhibit index contained on pages 86 through 88 filed herewith.

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less-owned companies have been omitted because the proportionate share of their profit before income taxes and total assets are less than 20% of the respective consolidated amounts, and investments in such companies are less than 20% of consolidated total assets.

Other Matters

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-30309, 33-31271, 33-58092, 33-58094, 333-10707, 333-66073, 333-41564, 333-117898 and 333-141578.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

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

JOHNSON CONTROLS, INC.

By /s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

Date: November 29, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of November 29, 2007, by the following persons on behalf of the registrant and in the capacities indicated:

/s/ John M. Barth
John M. Barth
Director (Chairman)

/s/ Stephen A. Roell
Stephen A. Roell
Chief Executive Officer
Director

/s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

/s/ Susan M. Kreh
Susan M. Kreh
Vice President and Corporate
Controller (Principal Accounting
Officer)

/s/ Dennis W. Archer
Dennis W. Archer
Director

/s/ Robert L. Barnett
Robert L. Barnett
Director

/s/ Natalie A. Black
Natalie A. Black
Director

/s/ Paul A. Brunner
Paul A. Brunner
Director

/s/ Robert A. Cornog
Robert A. Cornog
Director

/s/ Jeffrey A. Joerres
Jeffrey A. Joerres
Director

/s/ William H. Lacy
William H. Lacy
Director

/s/ Southwood J. Morcott
Southwood J. Morcott
Director

/s/ Eugenio Clariond Reyes-Retana
Eugenio Clariond Reyes-Retana
Director

/s/ Richard F. Teerlink
Richard F. Teerlink
Director

Johnson Controls, Inc.
Index to Exhibits

Exhibit	Title
3.(i)	Restated Articles of Incorporation of Johnson Controls, Inc., as amended through July 25, 2007 (incorporated by reference to Exhibit 3.1 to Johnson Controls, Inc. Current Report on Form 8-K dated July 31, 2007) (Commission File No. 1-5097).
3.(ii)	By-laws of Johnson Controls, Inc., as amended November 15, 2006 (incorporated by reference to Exhibit 3 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2006) (Commission File No. 1-5097).
4.A	Miscellaneous long-term debt agreements and financing leases with banks and other creditors and debenture indentures.*
4.B	Miscellaneous industrial development bond long-term debt issues and related loan agreements and leases.*
4.C	Letter of agreement dated December 6, 1990 between Johnson Controls, Inc., LaSalle National Trust, N.A. and Fidelity Management Trust Company which replaces LaSalle National Trust, N.A. as Trustee of the Johnson Controls, Inc. Employee Stock Ownership Plan Trust with Fidelity Management Trust Company as Successor Trustee, effective January 1, 1991 (incorporated by reference to Exhibit 4.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991) (Commission File No. 1-5097).
4.D	Indenture for debt securities dated January 17, 2006 between Johnson Controls, Inc. and US Bank N.A. as successor trustee to JP Morgan Chase (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc. Registration Statement on Form S-3ASR [Reg. No. 333-130714]).
4.E	Amended and restated Credit Agreement, dated December 5, 2006, among Johnson Controls, Inc., the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 4.E to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) (Commission File No. 1-5097).
10.A	Johnson Controls, Inc. 1992 Stock Option Plan, amended as of September 14, 2007, filed herewith.**
10.B	Johnson Controls, Inc. Common Stock Purchase Plan for Executives as amended November 17, 2004 and effective December 1, 2004 (incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004) (Commission File No. 1-5097).**
10.D	Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors, amended and restated effective January 1, 2008, filed herewith.**
10.H	Johnson Controls, Inc. Executive Survivor Benefits Plan amended through October 1, 2001 (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.K	Form of employment agreement between Johnson Controls, Inc. and all elected officers and named executives, amended and restated effective January 1, 2008, filed herewith.**
10.L	Form of indemnity agreement effective October 16, 2006, between Johnson Controls, Inc. and each of the directors and elected officers, filed herewith. **
10.M	Johnson Controls, Inc. Director Share Unit Plan, amended and restated effective January 1, 2008, filed herewith.**
10.N	Johnson Controls, Inc. 2000 Stock Option Plan, amended as of September 14, 2007, filed herewith.**

Exhibit	Title
10.O	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended through October 1, 2001, as in use through March 20, 2006 (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2004) (Commission File No. 1-5097).**
10.P	Johnson Controls, Inc. 2001 Restricted Stock Plan, amended and restated effective January 1, 2008, filed herewith.**
10.Q	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003, as in use through January 2004 (incorporated by reference to Exhibit 10.Q to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2005) (Commission File No. 1-5097).**
10.R	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended March 21, 2006, as in effect since August 1, 2006 (incorporated by reference to Exhibit 10.R to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) (Commission File No. 1-5097).**
10.S	Johnson Controls, Inc. Executive Deferred Compensation Plan, amended and restated effective January 1, 2008, filed herewith.**
10.T	Johnson Controls, Inc. 2003 Stock Plan for Outside Directors, as amended and restated as of October 1, 2006 (incorporated by reference to Exhibit 10.T to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) (Commission File No. 1-5097).
10.U	Letter agreement as accepted by the Company on November 6, 2006 between Johnson Controls, Inc. and Giovanni Fiori relating to Mr. Fiori's retirement date (incorporated by reference to Exhibit 10.U to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) in accordance with the terms of the letter agreement dated November 29, 2004 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.S to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005), relating to the letter agreement dated November 21, 2002 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.R to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003), and to the Johnson Controls, Inc. Executive Survivor Benefits Plan (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.W	Johnson Controls, Inc. Annual Incentive Performance Plan, amended and restated effective January 1, 2008, filed herewith. **
10.X	Johnson Controls, Inc. Retirement Restoration Plan, amended and restated effective January 1, 2008, filed herewith.**
10.Y	Compensation Summary for Non-Employee Directors approved on November 14, 2007, filed herewith.**
10.Z	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, for grants made on January 3, 2006, (incorporated by reference to Exhibit 10.BB to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) (Commission File No. 1-5097).**
10.AA	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended September 16, 2006, as in effect since October 2, 2006 (incorporated by reference to Exhibit 10.CC to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2006) (Commission File No. 1-5097).**

Johnson Controls, Inc.
Index to Exhibits

Exhibit	Title
10.BB	Johnson Controls, Inc. Long Term Incentive Performance Plan, amended and restated effective January 1, 2008, filed herewith.**
10.CC	Johnson Controls, Inc. 2007 Stock Option Plan, amended as of September 14, 2007, filed herewith. **
10.DD	Form of stock option award agreement for Johnson Controls, Inc. 2007 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated March 21, 2007) (Commission File No. 1-5097).**
21	Subsidiaries of the Registrant, filed herewith.
23	Consent of Independent Registered Public Accounting Firm dated November 26, 2007, filed herewith.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* These instruments are not being filed as exhibits herewith because none of the long-term debt instruments authorizes the issuance of debt in excess of 10% of the total assets of Johnson Controls, Inc. and its subsidiaries on a consolidated basis. Johnson Controls, Inc. agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

** Denotes a management contract or compensatory plan.

2006 Form 10-K

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

FORM 10–K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Annual Period Ended September 30, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Transition Period From __________ To

Commission File Number 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	**39-0380010**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue **P.O. Box 591** **Milwaukee, Wisconsin**	**53201**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(414) 524-1200

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.04-1/6 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☑

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the registrant's stock held by non-affiliates of the registrant on March 31, 2006 was approximately $14.8 billion.

195,787,050 shares of the registrant's Common Stock, par value $0.04 1/6 per share, were outstanding on October 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the Proxy Statement dated and to be filed with the Securities and Exchange Commission on December 6, 2006.

JOHNSON CONTROLS, INC.

Index to Annual Report on Form 10-K

Year Ended September 30, 2006

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

Unless otherwise indicated, references to “Johnson Controls,” the “Company,” “we,” “our” and “us” in this Annual Report on Form 10-K refer to Johnson Controls, Inc. and its consolidated subsidiaries.

We have made forward-looking statements in this document pertaining to our financial results for future years that are based on preliminary data and are subject to risks and uncertainties. All statements other than statements of historical fact are statements that are or could be deemed forward-looking statements, including information concerning possible or assumed future risks. For those statements, we caution that numerous important factors as described in Item 1A of this report could affect our actual results and could cause our actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

PART I

ITEM 1 BUSINESS

General Development of Business

Johnson Controls is a Wisconsin corporation organized in 1885. Its principal office is located at 5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, Wisconsin 53201. From 1885 through 1978, the Company's operations were predominantly in the building efficiency business. Since 1978, the Company’s operations have been diversified through acquisitions and internal growth. In December 2005, the Company significantly expanded the building efficiency business with the acquisition of York International Corporation (York), a global supplier of heating, ventilation, and air-conditioning (HVAC) mechanical equipment and services. The Company operates in three primary businesses: building efficiency, automotive experience, and power solutions.

The building efficiency business is a global market leader in designing, producing, marketing and installing HVAC equipment and building control systems that monitor, automate and integrate critical building operating equipment and conditions. In addition, the building efficiency business provides technical and facility management services, including comfort, energy and security management for the non-residential buildings market. The business’s installed systems integrate the management and operation of the building control systems such as temperature, ventilation, humidity, fire-safety and security. The business’s technical and facility management services provide a complete suite of integrated solutions to improve building operations and maintenance.

In 1985, the Company entered the automotive seating market through the acquisition of Hoover Universal, Inc. During the late 1990’s, the Company expanded into additional interior systems and geographic markets. The Company’s automotive seating and interior systems business operates under the name automotive experience, and the Company believes it is among the world’s largest automotive suppliers. Automotive experience provides seating, instrument panel, overhead, floor console and door systems to more than 35 million vehicles annually.

In 1978, the Company entered the North American battery market through the acquisition of Globe-Union, Inc. and the Company has grown in this market through internal growth and strategic acquisitions. The Company’s power solutions business services both automotive original equipment manufacturers and the general vehicle battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company produces more than 110 million lead-acid batteries annually, and offers nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles.

Financial Information About Business Segments

Statement of Financial Accounting Standards (SFAS) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain operating segments are aggregated or combined based on materiality within building efficiency - rest of world and power solutions in accordance with the standard. The Company’s ten reportable segments are presented in the context of its three primary businesses: building efficiency, automotive experience and power solutions.

Refer to Note 18, "Segment Information," of the notes to the consolidated financial statements in Item 8 of this report for financial information about business segments.

For purposes of the following discussion of the Company's businesses, the three automotive experience segments and the five building efficiency segments are presented together due to their similar customers and the similar nature of their products, production processes, and distribution channels.

Products/Systems and Services

Building efficiency

Building efficiency is the global leader in delivering integrated control systems, mechanical equipment, services and solutions designed to improve the comfort, safety and energy efficiency of non-residential buildings in more than 125 countries. Approximately 75% of revenues come from technical services and the replacement and upgrade of controls and heating, ventilating and air conditioning mechanical equipment in the existing buildings market, where the Company's large base of current customers leads to repeat business and low cyclicality. The remaining 25% of revenues is associated with installing controls and equipment during the construction of new buildings. Customer relationships often span entire building lifecycles.

Building efficiency sells its control systems, mechanical equipment and services primarily through the Company's extensive global network of sales and service offices. Some types of controls and mechanical systems are sold to distributors of air-conditioning, refrigeration and commercial heating systems throughout the world. Approximately 45% of building efficiency's sales are derived from HVAC products and installed control systems. Approximately 55% originate from its service offerings. In fiscal year 2006, building efficiency sales accounted for 32% of the Company's consolidated net sales.

The Company's systems include York® chillers, air handlers and other HVAC mechanical equipment that provide heating and cooling in non-residential buildings. The Metasys® control system monitors and integrates HVAC equipment with other critical buildings systems to maximize comfort while reducing energy and operating costs. As the largest global supplier of technical services, building efficiency supplements or serves as in-house staff to maintain, optimize and repair building systems made by the Company or by competitors. The Company offers a wide range of solutions such as performance contracting under which energy savings are used by the customer to pay a third party financier for the project costs over a number of years. In addition, workplace solutions provides full-time on-site operations staff and real estate consulting services to help customers, especially multi-national companies, reduce costs and improve the performance of their facility portfolios. The Company's on-site staff typically self-performs tasks related to the comfort and reliability of the facility, and manages the subcontractors for functions like foodservice and landscaping. Through its unitary products business, the Company produces air conditioning and heating equipment for the residential market.

Automotive experience

Automotive experience designs and manufactures products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. The business produces automotive interior systems for original equipment manufacturers and operates approximately 110 wholly- and majority-owned manufacturing or assembly plants in 28 countries worldwide (see Item 2 "Properties"). Additionally, the business has partially-owned affiliates in Asia, Europe, North America and South America.

Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems. In fiscal year 2006, automotive experience sales accounted for 57% of the Company's consolidated net sales.

The business operates assembly plants that supply automotive manufacturers with complete seats on a "just-in-time/in-sequence" basis. Seats are assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line. Certain of the business's other automotive interior systems are also supplied on a "just-in-time/in-sequence" basis. Foam and metal seating components, seat covers, seat mechanisms and other components are shipped to these plants from the business's production facilities or outside suppliers.

The business has substantially grown its interior systems capabilities through internal growth aided by acquisitions. In fiscal year 2002, the business expanded its capabilities in vehicle electronics with its acquisition of the automotive electronics business of France-based Sagem SA. In fiscal year 2003, the Company acquired Borg Instruments AG, an automotive electronics company with headquarters in Germany.

Power solutions

Power solutions services both automotive original equipment vehicle manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company is the largest automotive battery manufacturer in the world, producing more than 110 million lead-acid batteries annually in approximately 60 manufacturing or assembly plants in 9 countries. Investments in new product and process technology have expanded product offerings to nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles.

Sales of automotive batteries generated 11% of the Company's fiscal year 2006 consolidated net sales. In fiscal year 2002, power solutions expanded its battery operations into the European market through the acquisition of the German automotive battery manufacturer Hoppecke Automotive GmbH and Co. KG. In fiscal year 2003, the Company continued its expansion into the European market with its acquisition of VARTA Automotive GmbH and the 80% majority ownership in VB Autobatterie GmbH (collectively "VARTA"), a major European automotive battery manufacturer headquartered in Germany. In fiscal year 2004, the Company acquired the remaining 51% interest in its Latin American joint venture with Grupo IMSA, S.A. de C. V. In fiscal year 2005, the Company acquired Delphi Corporation's global battery business and received a global long-term contract to supply General Motors Corporation with original equipment and original equipment service batteries. The acquisitions support the Company's growth strategies and provide new opportunities to strengthen the Company's global leadership position in the automotive battery industry. Batteries and plastic battery containers are manufactured at wholly and partially owned plants in North America, South America, Asia, the Middle East and Europe (see Item 2 "Properties").

Major Customers and Competition

As described previously, the Company is a major supplier to the automotive industry. Sales from all three businesses to its major customers, as a percentage of consolidated net sales, were as follows for the most recent fiscal years:

Customer	2006	2005	2004
General Motors Corporation	11%	14%	14%
DaimlerChrysler AG	11%	11%	11%
Ford Motor Company	10%	11%	14%

In fiscal year 2006, approximately 40% of the Company's sales to these manufacturers originated in the U.S., 43% originated in Europe and 17% originated in other foreign markets. Because of the importance of new vehicle sales of major automotive manufacturers to its operations, the Company is affected by general business conditions in this industry. Sales to additional automakers in fiscal year 2006 that accounted for more than 5% of the Company's consolidated net sales included Nissan Motor Co., Ltd. and Volkswagen AG. The Company is also a major supplier to Toyota Motor Corporation through wholly owned facilities and unconsolidated joint ventures.

Building efficiency

The building efficiency business conducts certain of 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 quality, price, design, reputation, technology, efficiency, acoustics, application engineering capability and construction management expertise. Competition for contracts includes many regional, national and international controls providers; larger competitors include Honeywell International, Inc.; Siemens Building Technologies, an operating group of Siemens AG; Carrier Corporation, a subsidiary of United Technologies Corporation; The Trane Company, a subsidiary of American Standard Companies Inc.; Rheem Manufacturing Company; Lennox International, Inc.; and Goodman Global, Inc. The services market is highly fragmented, with no one company being dominant. Sales of these services are largely dependent upon numerous individual contracts with commercial businesses worldwide; the loss of any individual contract would not have a material adverse effect on the Company.

Automotive experience

The automotive experience business faces competition from other automotive suppliers and, with respect to certain products, from the automobile manufacturers who produce or have the capability to produce certain products the business supplies. Competition is based on technology, quality, reliability of delivery and price. Design, engineering and product planning are increasingly important factors. Independent suppliers that represent the principal automotive experience competitors include Lear Corporation, Faurecia SA, and Magna Automotive Inc.

Power solutions

Approximately 80% of automotive battery sales worldwide in fiscal year 2006 were to the automotive replacement market, with the remaining sales to the original equipment market. 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, Costco, Interstate Battery System of America, Pep Boys, Sears, Roebuck & Co and Wal-Mart stores. Automotive batteries are sold throughout the world under private label and under the Company’s brand names (Optima®, Varta®, LTH® and Heliar®) to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The power solutions business primarily competes in the battery market with Exide Technologies, GS Yuasa Corporation, East Penn Manufacturing Company and Fiamm Group.

Backlog

At September 30, 2006, the Company’s automotive experience backlog of net new incremental business to be executed within the next three fiscal years was approximately $3.5 billion, $1.0 billion of which relates to fiscal year 2007. The backlog as of September 30, 2005 was approximately $3.3 billion, $1.2 billion which related to fiscal year 2006. The decrease in the subsequent year backlog is primarily due to lower vehicle production volumes in North America. The automotive backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes, the timing of related production launches and changes in customer development plans.

The Company's backlog relating to the building efficiency business is applicable to its sales of systems and services. At September 30, 2006, the backlog was $3.7 billion, compared with $1.9 billion for the prior year, primarily due to the acquisition of York. The preceding data does not include amounts associated with facility management service contracts because such contracts are typically multi-year service awards. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the coming fiscal year period.

Raw Materials

Raw materials used by the businesses in connection with their operations, including steel, urethane chemicals, lead, copper, sulfuric acid and polypropylene, were readily available during the year and such availability is expected to continue. Except for volatility in lead prices, the Company expects other key commodity costs, such as copper, steel, foam chemicals, resin and fuel to be stable in fiscal year 2007, with the possibility of some softening during the year.

Intellectual Property

Generally, the Company seeks statutory protection for strategic or financially important intellectual property developed in connection with its business. Certain intellectual property, where appropriate, is protected by contracts, licenses, confidentiality or other agreements.

The Company owns numerous U.S. and foreign patents (and their respective counterparts), the more important of which cover those technologies and inventions embodied in current products, or which are used in the manufacture of those products. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, no single patent, or group of patents, is critical to the success of the business. The Company, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Company's trademarks, certain of which are material to its business, are registered or otherwise legally protected in the U.S. and many foreign countries throughout the world in which products and services of the Company are sold. The Company, from time to time, becomes involved in trademark licensing transactions.

Most works of authorship produced for the Company, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Company's claim to copyright protection under U.S. law and appropriate international treaties.

Environmental, Health and Safety Matters

Laws addressing the protection of the environment (Environmental Laws) and workers' safety and health (Worker Safety Laws) govern the Company's ongoing global operations. They generally provide for civil and criminal penalties, as well as injunctive and remedial relief, for noncompliance or require remediation of sites where Company-related materials have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with Environmental Laws and Worker Safety Laws and maintains procedures designed to foster and ensure compliance. Certain of the Company's businesses are or have been engaged in the handling or use of substances that may impact workplace health and safety or the environment. The Company is committed to protecting its workers and the environment against the risks associated with these substances.

The Company's operations and facilities have been, and in the future may become, the subject of formal or informal enforcement actions or proceedings for noncompliance with such laws or for the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities that result in commitments to compliance, abatement, or remediation programs and, in some cases, payment of penalties. Historically, neither such commitments nor such penalties have been material. (See Item 3 "Legal Proceedings" of this report for a discussion of the Company's potential environmental liabilities.)

Environmental Capital Expenditures

The Company's ongoing environmental compliance program often results in capital expenditures. Environmental considerations are a part of all significant capital expenditures; however, expenditures in fiscal year 2006 related solely to environmental compliance were not material. It is management's opinion that the amount of any future capital expenditures related solely to environmental compliance will not have a material adverse effect on the Company's financial results or competitive position in any one year.

Employees

As of September 30, 2006, the Company employed approximately 136,000 employees, of whom approximately 75,000 were hourly and 61,000 were salaried.

Seasonal Factors

Sales of automotive seating & interior systems and batteries to automobile manufacturers for use as original equipment are dependent upon the demand for new automobiles. Management believes that demand for new automobiles generally reflects sensitivity to overall economic conditions with no material seasonal effect. The automotive replacement battery market is affected by weather patterns because batteries are more likely to fail when extremely low temperatures place substantial additional power requirements upon a vehicle's electrical system. Also, battery life is shortened by extremely high temperatures, which accelerate corrosion rates. Therefore, either mild winter or moderate summer temperatures may adversely affect automotive replacement battery sales. Certain of building efficiency's sales are seasonal as the demand for residential air conditioning equipment generally increases in the summer months, while the demand for furnaces peaks during the autumn months. This seasonality is mitigated by the other products and services provided by the building efficiency business which have no material seasonal effect.

Financial Information About Geographic Areas

Refer to Note 18, "Segment Information," of the notes to the consolidated financial statements in Item 8 of this report for financial information about geographic areas.

Research and Development Expenditures

Refer to Note 1, "Summary of Significant Accounting Policies," of the notes to the consolidated financial statements in Item 8 of this report for research and development expenditures.

Available Information

The Company's filings with the U.S. Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Exchange Act, are made available free of charge through the Investor Relations section of the Company's Internet website at http://www.johnsoncontrols.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at http://www.sec.gov, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC's Office of Investor Education and Assistance at 1-800-732-0330. The Company also makes available, free of charge, its Ethics Policy, Corporate Governance Guidelines, committee charters and other information related to the Company on the Company's Internet website or in printed form upon request. The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

ITEM 1A RISK FACTORS

General Risks

We are subject to pricing pressure from our larger customers.

We face significant competitive pressures in all of our business segments. Because of their purchasing size, our larger customers can influence market participants to compete on price terms. If we are not able to offset pricing reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those pricing reductions may have an adverse impact on our business.

We are subject to risks associated with our non-U.S. operations which could adversely affect our results of operations.

We have significant operations in a number of countries outside the U.S., some of which are located in emerging markets. The persistence of long-term economic uncertainty in some of the regions of the world in which we operate, such as Asia, South America, the Middle East and other emerging markets, could result in the disruption of markets and negatively affect the adequacy of cash flows from our operations to cover our capital needs and debt service.

In addition, as a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than U.S. dollars. We are therefore subject to foreign currency risks and foreign exchange exposure. Our primary exposures are to the euro, British pound, Mexican peso, Canadian dollar, Czech koruna, Slovak koruna and Japanese yen. While we employ financial instruments to hedge transactional and foreign exchange exposure, these activities do not insulate us completely from those exposures.

There are other risks that are inherent in our non-U.S. operations, including the potential for changes in socio-economic conditions, laws and regulations, including import, export, labor and environmental laws and monetary and fiscal policies, protectionist measures that may prohibit acquisitions or joint ventures, unsettled political conditions and possible terrorist attacks against American interests.

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.

We are subject to regulation of our international operations that could adversely affect our business and results of operations.

Due to our global operations, we are subject to many laws governing international relations, including those that prohibit improper payments to foreign government officials and restrict where we can do business, what information or products we can supply to certain countries and what information we can provide to a foreign government, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws, which are complex and often times difficult to interpret and apply, may result in severe criminal penalties or sanctions that could have a material adverse effect on the Company's business, financial condition and results of operations. As disclosed in previous filings with the Securities and Exchange Commission, we have learned that York engaged in conduct that may lead to enforcement actions against us under applicable U.S. trade and similar laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties.

We are subject to costly requirements relating to environmental regulation and environmental remediation matters, which could adversely affect our business and results of operations.

At September 30, 2006, we recorded a liability of $34 million relating to environmental matters. Because of the uncertainties associated with environmental regulation and environmental remediation activities at sites where we may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability, which could have a material adverse effect on our business and results of operations.

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 changes in our valuation allowances against deferred tax assets and other tax reserves that could materially and adversely affect our results of operations.

Additionally, we are subject to tax audits by governmental authorities in the U.S. and foreign jurisdictions. Because the results of tax audits are inherently uncertain, negative or unexpected results from one or more such tax audits could adversely affect our results of operations.

We may be adversely affected by legal proceedings in which we are, or may be, a party.

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 and employment claims. There exists the possibility that such claims may have an adverse impact on our results of operations that is greater than we anticipate.

An increase in our level of indebtedness could lead to a downgrade in the ratings of our debt and, in turn, restrict our ability to access the debt capital markets.

Our access to the debt capital markets may ultimately be impacted by changes in the ratings that rating agencies assign to our debt. An increase in the level of our indebtedness in the future, to the extent that we finance future acquisitions with debt, for example, may result in a downgrade in the ratings that are assigned to our debt. If ratings for our debt fell below investment grade, our access to the debt capital markets would become restricted.

Additionally, several of our credit agreements generally include an increase in interest rates if the ratings for our debt are downgraded. Consequently, an increase in the level of our indebtedness may result in an increase in our interest expense. 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.

We may be unable to complete or integrate acquisitions effectively, which may adversely affect our profitability and results of operations.

We intend to grow through the acquisition of businesses and assets that will complement our current businesses. To date, a material portion of our growth has come through acquisitions. We cannot be certain that we will be able to identify attractive acquisition targets, obtain financing for acquisitions on satisfactory terms or successfully acquire identified targets. Additionally, we may not be successful in integrating acquired businesses into our existing operations and achieving projected synergies. 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. These and other acquisition-related factors may negatively and adversely impact our growth, profitability and results of operations.

Automotive Experience Risks

Decreased demand from our customers in the automotive industry may adversely affect our results of operations.

In fiscal year 2006, our three largest customers were automobile manufacturers General Motors Corporation, DaimlerChrysler AG and Ford Motor Company (the Big 3), with sales to these customers representing approximately 32% of total company net sales. Sales to the Big 3 originating in the U.S. represented approximately 13% of our total net sales in fiscal year 2006. Our financial performance depends, in part, on conditions in the automotive industry. The Big 3 have experienced declining market shares in North America and have recently announced significant restructuring actions in an effort to improve profitability. The North American automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. If our customers, especially the Big 3, reduce their orders to us, our results of operations would be adversely impacted. Additionally, we have significant component production for manufacturers of motor vehicles in the U.S., Europe, South America, Japan and other Asia/Pacific Rim countries. Continued uncertainty relating to the financial condition of the Big 3 and others in the automotive industry may have a negative impact on our business.

The financial distress of our suppliers could harm our results of operations.

Our supplier base has been adversely affected by industry conditions. Lower production levels for our key customers and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supplier base may lead to increased commercial disputes and possible supply chain interruptions. In addition, the adverse industry environment has required us to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. The continuation or worsening of these industry conditions may have a negative impact on our business.

Change in consumer demand may adversely affect our results of operations.

Recent and any future increases in energy costs that consumers incur could result in shifts in consumer demand away from motor vehicles that typically have higher amounts of content that we supply, such as light trucks, cross-over vehicles, minivans and SUVs, to smaller vehicles that have lower amounts of content that we supply. The loss of business with respect to, or a lack of commercial success of, one or more particular vehicle models for which we are a significant supplier could reduce our sales and harm our profitability, thereby adversely affecting our results of operations.

We may not be able to successfully negotiate pricing terms with our customers in the automotive experience business, which may adversely affect our results of operations.

We negotiate sales prices annually with our automotive seating and interiors customers. Cost-cutting initiatives adopted by our customers generally result in increased downward pressure on pricing. Our customer supply agreements generally require reductions in component pricing over the period of production. Pricing pressures may further intensify, particularly in North America, as domestic automotive manufacturers pursue restructuring and cost cutting initiatives to better compete with their foreign competitors. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our results of operations may be adversely affected.

Increases in commodity prices may adversely affect our results of operations.

Commodity prices have risen rapidly in the past three years. In our two largest markets, North America and Europe, the cost of commodities, primarily steel, resin and chemicals, increased (net of recoveries through price increases to customers). If commodity prices continue to rise, and if we are not able to recover these cost increases through price increases to our customers, then such increases may have an adverse affect on our results of operations.

The cyclicality of original equipment automobile production rates may adversely affect the results of operations in our automotive experience and power solutions businesses.

Our automotive experience business and, to a lesser extent, our power solutions business are directly related to automotive sales and automotive vehicle production by our customers. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences. Any significant economic decline that results in a reduction in automotive production and sales by our automotive experience and power solutions customers may have a material adverse impact on our results of operations.

A variety of factors could adversely affect the results of operations of our automotive experience business.

Any of the following could materially and adversely impact the results of operations of our automotive experience business: the loss of, or changes in, automobile seating and interiors supply contracts or sourcing strategies with our major customers or suppliers; inability to meet minimum vendor volume requirements; start-up expenses associated with new vehicle programs or delays or cancellations of such programs; underutilization of our manufacturing facilities, each of which is generally located near, and devoted to, a particular customer’s facility; inability to recover engineering and tooling costs; market and financial consequences of any recalls that may be required on products that we have supplied; delays or difficulties in new product development; the potential introduction of similar or superior technologies; global overcapacity and vehicle platform proliferation.

Power Solutions Risks

We face increasing competition and pricing pressure from other companies in the power solutions business.

The power solutions business competes with a number of major domestic and international 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 results of operations may be adversely affected.

A variety of 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 contribute to a growth slowdown in the lead-acid battery market; 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 nickel-metal-hydride/lithium-ion technology; financial instability or market declines of our customers or suppliers; the increasing global environmental regulation related to the manufacture of lead-acid batteries; factors adversely affecting the supply and availability of raw materials, primarily lead and poly/plastics, necessary for production; and rapid increases and volatility of commodity prices, particularly with respect to lead, resin and fuel.

Building Efficiency Risks

Our building efficiency business relies to a great extent on contracts and business with government entities, the loss of which may adversely affect our results of operations.

Our building efficiency business contracts with government entities and is subject to specific rules, regulations and approvals applicable to government contractors. We are subject to routine audits by the federal Defense Contract Audit Agency to assure our compliance with these requirements. Our failure to comply with these or other laws and regulations could result in contract terminations, suspension or debarment from contracting with the U.S. federal government, civil fines and damages and criminal prosecution. In addition, sales to government entities may be affected by changes in procurement policies, budget considerations, unexpected U.S. developments, such as terrorist attacks, or similar political developments or events abroad that may change the U.S. federal government's national security defense posture.

A variety of factors could adversely affect the results of operations of our building efficiency business.

Any of the following could materially and adversely impact the results of operations of our building efficiency business: loss of, or changes in, building automation or facility management supply contracts with our major customers; delays or difficulties in new product development; the potential introduction of similar or superior technologies; financial instability or market declines of our major or component suppliers; the unavailability of raw materials, primarily steel, copper and electronic components, necessary for production of HVAC equipment; rapid increases and volatility of commodity prices; unseasonable weather conditions in various parts of the world; a significant decline in the construction of new commercial buildings requiring interior control systems; changes in energy costs or governmental regulations that would decrease the incentive for customers to update or improve their interior control systems; increased energy efficiency legislation requirements worldwide; and a decline in the outsourcing of facility management services.

ITEM 1B UNRESOLVED STAFF COMMENTS

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year 2006 that remain unresolved.

ITEM 2 PROPERTIES

At September 30, 2006, the Company conducted its operations in 52 countries throughout the world, with its world headquarters located in Milwaukee, Wisconsin. The Company's wholly- and majority-owned facilities, which are listed in the table on the following pages by business and location, totaled approximately 92 million square feet of floor space and are owned by the Company except as noted. The facilities primarily consisted of manufacturing, assembly and/or warehouse space. The Company considers its facilities to be suitable and adequate. The majority of the facilities are operating at normal levels based on capacity.

Automotive Experience

Alabama	Cottondale (1),(3)
	Eastaboga
California	Livermore (2),(3)
Georgia	Norcross (1)
	Suwanee (1)
Illinois	Sycamore (2),(3)
Indiana	Ossian
Kentucky	Bardstown (3)
	Cadiz (3)
	Georgetown (3)
	Shelbyville (1)
	Winchester (1)
Louisiana	Shreveport
Michigan	Battle Creek
	Detroit (3)
	Holland (2),(3)
	Lansing (3)
	Mt. Clemens (1),(3)
	Plymouth (2),(3)
	Rockwood (3)
	Taylor (1),(3)
	Van Buren (3)
	Warren (3)
	Zeeland (1),(3)
Mississippi	Madison
Missouri	Earth City (1),(3)
	Jefferson City (3)
New Jersey	Dayton (1),(3)
Ohio	Greenfield
	Northwood
	Oberlin (1),(3)
	West Carrollton (1)
Oklahoma	Oklahoma City (3)
Tennessee	Athens (2)
	Lexington (3)
	Murfreesboro (2)
	Pulaski (2),(3)
Texas	El Paso (1),(3)
	San Antonio (2),(3)
Virginia	Chesapeake (1)
Wisconsin	Hudson (1),(3)
Argentina	Buenos Aires (1)
	Rosario
Austria	Graz (1),(3)
	Mandling (3)
	Schmiedlstrabe (1),(3)
Belgium	Geel (3)
	Gent (1),(3)
Brazil	Gravatai (3)
	Pouso Alegre
	San Bernardo do Campo (1)
	Santo Andre
	Sao Jose dos Campos
	Sao Jose dos Pinhais (1)

Automotive Experience (cont.)

Canada	Milton (1),(3)
	Mississauga (1),(3)
	Orangeville
	Saint Mary's
	Tecumseh
	Tilsonburg (3)
	Whitby
China	Beijing (3)
Czech Republic	Benatky nad Jizerou (1),(3)
	Ceska Lipa (2),(3)
	Mlada Boleslav (1),(3)
	Ni Ebohy (1)
	Roudnice (2),(3)
	Rychnov nad Kneznou (1),(3)
	Straz pod Ralskem (3)
France	Brioude (1),(3)
	Compagnie (3)
	Conflans (3)
	Happich (3)
	La Ferte Bernard (1),(3)
	Rosny
	Schweighaus (3)
	Strasbourg (3)
Germany	Boblingen (1),(3)
	Bochum (1),(3)
	Bremen (1),(3)
	Burscheid (2),(3)
	Espelkamp (3)
	Grefrath (1),(3)
	Hansastr (1),(3)
	Holzgerlingen (1),(3)
	Lahnwerk (2),(3)
	Luneburg
	Neustadt (3)
	Rastatt (1),(3)
	Remchingen (3)
	Saarlouis (1)
	Uberherrn (1),(3)
	Unterriexingen (2),(3)
	Waghausel (3)
	Wuppertal (2),(3)
	Zwickau (3)
Hungary	Pilis
	Solymar (2)
Italy	Cicerale (3)
	Grugliasco (1),(3)
	Melfi (1),(3)
	Rocca D'Evandro (1)
Japan	Ayase (3)
	Hamakita
	Mouka
	Toyotsucho (3)
	Yokosuka (2)

Automotive Experience (cont.)

Korea	Asan (3)
	Dangjin (3)
	Hwasung
	Jeongeup (1)
	Namsa (1)
Malaysia	Johor Bahru
	Peramu Jaya (1)
	Persiaran Sabak Bernam
Mexico	Monclova (3)
	Naucalpan de Juarez (1)
	Puebla (2),(3)
	Ramos Arizpe
	Tlaxcala (3)
	Tlazala (1)
Netherlands	Ned Car (1),(3)
Poland	Tychy (3)
Portugal	Nelas (3)
	Portalegre (3)
Romania	Mioveni (1),(3)
	Ploiesti (3)
Russia	St. Petersburg (1),(3)
Slovak Republic	Bratislava (1),(3)
	Kostany nad Turcom (3)
Slovenia	Slovenj Gradec (1),(3)
South Africa	East London (1)
	Pretoria (2),(3)
	Uitenhage (1)
Spain	Alagon (3)
	Barcelona (3)
	Madrid (1),(3)
	Prat de Llobregat
	Valencia (2),(3)
	Valladolid
	Zaragoza (3)
Thailand	Rayong (3)
Tunisia	Bi'r al Bay (3)
United Kingdom	Burton-Upon-Trent (2),(3)
	Hedera (1),(3)
	Leamington Spa (1),(3)
	Speke (3)
	Sunderland
	Telford (2),(3)
	Wednesbury (3)

Building Efficiency

California	Santa Fe Springs (1), (3)
Florida	Lagro (1)
Illinois	Dixon (2),(3)
	Polo
Indiana	Goshen (3)
Kansas	Wichita (2),(3)
Mississippi	Hattiesburg
Missouri	Albany
Oklahoma	Norman (1),(3)
Pennsylvania	York
	Waynesboro (3)
Texas	San Antonio
Virginia	Bristol (3)
	Roanoke
Wisconsin	Milwaukee (2),(4)
	Waukesha (1),(3)
Brazil	Pinhais
	São Paulo (1),(3)
China	Guangzhou (1),(3)
	Shanghai (1),(3)
	Qingyuan (2),(3)
	Wuxi (1),(3)
Denmark	Aarhus (1),(3)
	Hornslet (2),(3)
	Viby
France	Craquefou (2),(3)
	Nantes
	Saint Quentin Fallavier (1),(3)
Germany	Essen (2),(3)
Hong Kong	Hong Kong
Japan	Koga (3)
Mexico	Apodaca (2)
	Cienega de Flores (1)
	Cuidad Juarez (1),(3)
	Durango
	Monterrey
	Reynosa (3)
South Africa	Johannesburg (1),(3)
Switzerland	Basel (1),(3)
	Zurich
Thailand	Laem Chanbang - Chonburi
Turkey	Istanbul (1),(3)
	Izmir (1),(3)
United Arab Emirates	Dubai (2),(3)

Power Solutions	
Arizona	Yuma (2)
California	Fullerton
Colorado	Aurora (2),(3)
Delaware	Middletown (2)
Florida	Tampa (2)
Illinois	Geneva
Indiana	Ft. Wayne
Iowa	Red Oak
Kentucky	Florence
Missouri	St. Joseph (2)
New Jersey	New Brunswick
North Carolina	Winston-Salem (2)
Ohio	Toledo
Oregon	Portland
South Carolina	Oconee (2)
Texas	San Antonio (1)
Wisconsin	Milwaukee (4)
Austria	Graz (1)
Brazil	Sorocaba (3)
China	Shanghai (3)
Czech Republic	Ceska Lipa (3)
France	Rouen
	Sarreguemines (3)

Power Solutions (cont.)	
Germany	Hannover (3)
	Krautscheid (3)
	Otzenhausen
	Zwickau (2),(3)
Mexico	Celaya
	Cienega de Flores
	Escobedo
	Monterrey (2),(3)
	Torreon
Spain	Burgos (3)
	Guadamar del Segura

Corporate	
Wisconsin	Milwaukee (4)

(1) Leased facility
(2) Includes both leased and owned facilities
(3) Includes both administrative and manufacturing facilities
(4) Administrative facility only

In addition to the above listing, which identifies large properties (greater than 25,000 square feet), there are approximately 390 building efficiency branch offices and other administrative offices located in major cities throughout the world. These offices vary in size in proportion to the volume of business in the particular locality.

ITEM 3 LEGAL PROCEEDINGS

As noted in Item 1, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 50 sites in the U.S. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with U.S. generally accepted accounting principles; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Its reserves for environmental costs totaled $34 million and $28 million at September 30, 2006 and 2005, respectively. The Company reviews the status of the sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court’s decision in *City of Edgerton v. General Casualty Co. of Wisconsin*. The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts’ judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the Edgerton case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court’s decision remanded the case to the Circuit Court for further consideration. In fiscal years 2005 and 2006, the Company filed motions for declaratory judgment, in which it sought a ruling that some of its insurers breached their respective duties to defend, thus waiving defenses against the Company’s environmental claims. The Company is currently in settlement negotiations with certain of the insurance company defendants and, in the third quarter of fiscal year 2006, reached agreement with one of the defendants. The ultimate outcome of claims against the other defendants cannot be determined at this time; however, the Company expects a decision on its motions for declaratory judgment during fiscal year 2007.

In 2003, the Company was involved in an asbestos release during the renovation of a building in Lakeland, Florida. Following an investigation, the U.S. EPA turned its findings over to the U.S. Attorney for the Middle District of Florida. In November 2005, the U.S. Attorney advised the Company that it is considering proceedings against the Company, including proceedings that would involve criminal charges pursuant to Section 113(c) of the Clean Air Act, 42 U.S.C. § 7413(c), and Section 103 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 103. The Company believes the release was totally inadvertent and does not believe this should be a criminal matter. The Company also believes that any monetary sanctions resulting from the U.S. Attorney’s pursuit of this matter would not be material.

As previously reported, following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of York, York had made improper payments to the Iraqi regime, York and the Company jointly undertook to investigate the allegations and offered the companies' cooperation to the Department of Justice (DOJ) and Securities and Exchange Commission. After completing the York acquisition, the Company continued the internal inquiry and expanded its scope to include other aspects of York's Middle East operations, including a review of York's use of agents, consultants and other third parties, York's compliance with the Office of Foreign Assets Control licensing requirements, and York's compliance with other potentially applicable trade laws. The Company has also reviewed certain of York's sales practices in selected Asian markets. The factual inquiry is now substantially complete and indicates that, in a number of instances, York engaged in conduct that may lead to enforcement actions against the Company under applicable U.S. laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties. The Company has been voluntarily disclosing this information and offering continued cooperation with the DOJ and SEC, as well as to other relevant authorities in the U.S. Departments of Treasury, Commerce and Defense. The Company has begun preliminary discussions with the relevant authorities to explore how these matters may be resolved. The Company is in the process of evaluating and implementing various remedial measures with respect to York operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of November 15, 2006 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company's fiscal year 2006 Proxy Statement.

John M. Barth, 60, was elected Chairman in January 2004, Chief Executive Officer in October 2002 and a member of the Board of Directors in November 1997. He previously served as President from September 1998 to July 2006, Chief Operating Officer from September 1998 to October 2002 and an Executive Vice President with responsibility for automotive experience from 1992 to September 1998. Mr. Barth joined the Company in 1969.

Stephen A. Roell, 56, was elected Vice Chairman in May 2005 and a member of the Board of Directors and Executive Vice President in October 2004. He previously served as Chief Financial Officer between 1991 and May 2005, Senior Vice President from September 1998 to October 2004 and Vice President from 1991 to September 1998. Mr. Roell joined the Company in 1982.

Keith E. Wandell, 56, was elected President and Chief Operating Officer in July 2006. He previously served as Executive Vice President from May 2005 to July 2006, Corporate Vice President from 1997 to May 2005, President of automotive experience from October 2003 to July 2006 and President of battery operations for automotive experience. Mr. Wandell joined the Company in 1988.

R. Bruce McDonald, 46, was elected Executive Vice President in September 2006 and Chief Financial Officer in May 2005. He previously served as Corporate Vice President from January 2002 to September 2006, Assistant Chief Financial Officer from January 2002 to May 2005 and as Corporate Controller from November 2001 to January 2002. Prior to that time, Mr. McDonald was Vice President of Finance for the automotive business of TRW Inc., a supplier of automotive systems, modules and components to automotive original equipment manufacturers and related after-markets worldwide. Mr. McDonald joined the Company in 2001.

C. David Myers, 43, was elected a Corporate Vice President and President of the building efficiency business in December 2005, when he joined the Company in connection with the acquisition of York International Corporation. At York, Mr. Myers most recently served as Chief Executive Officer from February 2004 to December 2005, President from June 2003 to December 2005, Executive Vice President and Chief Financial Officer from January 2003 to June 2003 and Vice President and Chief Financial Officer from February 2000 to January 2003.

Jeffrey G. Augustin, 44, was elected a Corporate Vice President and Corporate Controller in March 2005, when he joined the Company. From 2001 to March 2005, Mr. Augustin was Vice President of Finance and Corporate Controller of Gateway, Inc, a seller of desktop and notebook computers and servers (PCs), and PC-related products globally.

Beda Bolzenius, 50, was elected a Corporate Vice President in November 2005 and serves as President of the automotive experience business. He previously served as Executive Vice President and General Manager Europe, Africa and South America for automotive experience from November 2004 to November 2005. Dr. Bolzenius joined the Company in November 2004 from Robert Bosch GmbH, a global manufacturer of automotive and industrial technology, consumer goods and building technology, where he most recently served as the president of the energy and body systems division.

Susan F. Davis, 53, was elected Executive Vice President of Human Resources in September 2006. She previously served as Vice President of Human Resources from April 1994 to July 2006 and as Vice President of Organizational Development for automotive experience from August 1993 to April 1994. Ms. Davis joined the Company in 1983.

Jeffrey S. Edwards, 44, was elected a Corporate Vice President in May 2004 and serves as Group Vice President and General Manager for Japan and Asia Pacific for the automotive experience business. He previously served as Group Vice President and General Manager for automotive experience North America from August 2002 to May 2004 and Group Vice President and General Manager for product and business development. Mr. Edwards joined the Company in 1984.

Giovanni "John" Fiori, 63, was elected an Executive Vice President in August 2002 and serves as President of Johnson Controls International. He previously served as the President of automotive operations in Europe, Africa, South America and Asia and Vice President of automotive seating operations in Europe. Mr. Fiori joined the Company in 1987.

Charles A. Harvey, 54, was elected Corporate Vice President of Diversity and Public Affairs in November 2005. He previously served as Vice President of human resources for the automotive experience business and in other human resources leadership positions. Mr. Harvey joined the company in 1991.

John P. Kennedy, 63, was elected an Executive Vice President in May 2005. He previously served as President of the building efficiency business from October 2004 to December 2005, was a Senior Vice President from August 2002 to May 2005, served as Secretary from 1987 to October 2004 and served as General Counsel from 1984 to November 2004. Mr. Kennedy joined the Company in 1984.

Sean D. Major, 42, was elected Assistant Secretary and appointed Assistant General Counsel in November 2004. He formerly served as group Vice President and General Counsel International. Mr. Major joined the Company in 1998.

Alex A. Molinaroli, 47, was elected a Corporate Vice President in May 2004 and serves as Vice President and General Manager for North America Systems & the Middle East for the building efficiency business. He previously has held increasing levels of responsibility for controls systems and services sales and operations. Mr. Molinaroli joined the Company in 1983.

Jerome D. Okarma, 54, was elected Vice President, Secretary and General Counsel in November 2004 and was named a Corporate Vice President in September 2003. He previously served as Assistant Secretary from 1990 to November 2004 and as Deputy General Counsel from June 2000 to November 2004. Mr. Okarma joined the Company in 1989.

Gregg M. Sherrill, 53, was elected a Corporate Vice President in May 2004 and serves as President of the power solutions business. He previously served as Group Vice President and General Manager of battery operations for the automotive experience business, Group Vice President and Managing Director, Japan and Asia Pacific and Group Vice President and Managing Director, Europe, South Africa and South America. Mr. Sherrill joined the Company in 1998.

Michael D. Su, 48, was elected a Corporate Vice President in May 2004 and serves as Vice President and Managing Director of the Asia Pacific region for the building efficiency business. He previously served in various building efficiency management positions in Asia and North America. Mr. Su joined the Company in 1984.

Subhash "Sam" S. Valanju, 63, was elected a Corporate Vice President in 1999 and has served as Chief Information Officer since joining the Company in 1996.

Frank A. Voltolina, 46, was elected a Corporate Vice President and Corporate Treasurer in July 2003 when he joined the Company. Prior to joining the Company, Mr. Voltolina was Vice President and Treasurer at ArvinMeritor, Inc., a global supplier of a broad range of integrated systems, modules and components to the motor vehicle industry.

Denise M. Zutz, 55, was elected Vice President of Strategy, Investor Relations and Communication in November 2004. She previously served as Vice President, Corporate Communication from 1991 to November 2004. Ms. Zutz joined the Company in 1973.

There are no family relationships, as defined by the instructions to this item, among the Company's executive officers.

All officers are elected for terms that expire on the date of the meeting of the Board of Directors following the Annual Meeting of Shareholders or until their successors are elected and qualified.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's shares are traded on the New York Stock Exchange under the symbol "JCI."

Title of Class	Number of Record Holders as of September 30, 2006
Common Stock, $.04-1/6 par value	51,240

	Common Stock Price Range		Dividends	
	2006	2005	2006	2005
First Quarter	$60.28-73.94	$53.05-63.98	$ 0.28	$ 0.25
Second Quarter	66.74-77.44	55.25-63.88	0.28	0.25
Third Quarter	74.00-90.00	52.57-58.20	0.28	0.25
Fourth Quarter	68.40-85.81	55.88-62.70	0.28	0.25
Year	$60.28-90.00	$52.57-63.98	$ 1.12	$ 1.00

On November 19, 2003, the Company's Board of Directors declared a two-for-one stock split of the common stock payable January 2, 2004 to shareholders of record on December 12, 2003. This stock split resulted in the issuance of approximately 91 million additional shares of common stock and was accounted for by the transfer of approximately $7 million from common stock to capital in excess of par value. All share or per share data in this Annual Report on Form 10-K reflect the two-for-one stock split.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006 (Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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.

Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the Swap Agreement with Citibank's consent. The net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company's earnings for the three months and year ended September 30, 2006. There were no purchases by Citibank in the three months or year ended September 30, 2006.

In September 2006, the Company's Board of Directors authorized a stock repurchase program to acquire up to $200 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice. There were no repurchases made under the stock repurchase program as of September 30, 2006.

The Company has filed as exhibits to this Annual Report on Form 10-K the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Company also submitted the Annual CEO certification to the New York Stock Exchange.

The Company's transfer agent's contact information is as follows:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services Department
P.O. Box 64856
St. Paul, MN 55164-0856
(877) 602-7397

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations, balance sheet data, and common share information for the fiscal years ended September 30, 2002 through September 30, 2006 (in millions, except per share data, number of employees and shareholders).

	As of and For the Year Ended September 30,				
	2006 (1)	**2005**	**2004**	**2003**	**2002**
OPERATING RESULTS					
Net sales	$ 32,235	$ 27,479	$ 24,603	$ 21,171	$ 18,782
Operating income	1,282	1,066	1,135	1,028	1,006
Income from continuing operations	1,033	757	767	645	584
Net income	1,028	909	818	683	601
Earnings per share from continuing operations					
Basic	$ 5.31	$ 3.95	$ 4.08	$ 3.57	$ 3.26
Diluted	5.25	3.90	3.98	3.40	3.09
Earnings per share					
Basic	$ 5.29	$ 4.74	$ 4.35	$ 3.78	$ 3.35
Diluted	5.23	4.68	4.24	3.60	3.18
Return on average shareholders' equity (2)	15%	13%	16%	17%	18%
Capital expenditures	$ 711	$ 664	$ 817	$ 606	$ 473
Depreciation	661	615	572	511	482
Number of employees	136,000	114,000	113,000	108,000	102,000
FINANCIAL POSITION					
Working capital (deficiency) (3)	$ 1,073	$ 298	$ (422)	$ (186)	$ (41)
Total assets	21,921	16,144	14,758	12,917	10,982
Long-term debt (excluding current portion)	4,166	1,577	1,631	1,777	1,826
Total debt	4,743	2,342	2,671	2,355	1,972
Shareholders' equity	7,355	6,058	5,206	4,261	3,500
Total debt to total capitalization	39%	28%	34%	36%	36%
Book value per share	$ 37.57	$ 31.41	$ 27.41	$ 23.23	$ 19.35
COMMON SHARE INFORMATION					
Dividends per share	$ 1.12	$ 1.00	$ 0.90	$ 0.72	$ 0.66
Market prices					
High	$ 90.00	$ 63.98	$ 62.32	$ 50.44	$ 46.60
Low	$ 60.28	$ 52.57	$ 47.60	$ 34.55	$ 32.03
Weighted average shares (in millions)					
Basic	194.5	191.8	187.7	178.7	176.7
Diluted	196.6	194.3	192.6	189.1	188.2
Number of shareholders	51,240	52,964	55,460	55,823	57,551

(1) In December 2005, the Company significantly expanded the building efficiency business with the acquisition of York. See Items 1, 7 and 8 for additional details of the acquisition.

(2) Return on average shareholders’ equity represents income from continuing operations divided by average equity computed on an annual basis. Income from continuing operations includes $197 million, $210 million and $82 million of restructuring costs in fiscal years 2006, 2005 and 2004, respectively. Additionally, fiscal year 2004 includes an $84 million Japanese pension gain.

(3) Working capital excludes net assets of discontinued operations of $45 million, $351 million, $352 million and $230 million for fiscal years ended September 30, 2006, 2004, 2003 and 2002, respectively.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company operates in three primary businesses: building efficiency, automotive experience and power solutions. Building efficiency provides facility systems and services including comfort, energy and security management for the residential and non-residential buildings market. Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. Power solutions designs and manufactures automotive batteries for the replacement and original equipment markets.

On December 9, 2005, the Company acquired York International Corporation (York), a leading global provider of heating, ventilating, air conditioning (HVAC) equipment and services. The results of York's operations are included in the Company's consolidated financial statements from the date of acquisition. As part of the York integration, the Company reorganized its building efficiency business to maximize the synergies related to the York and legacy Johnson Controls operations. The new building efficiency structure is organized by product, service and/or region, with both York and Johnson Controls operations integrated within these segments as applicable.

In fiscal year 2005, the Company completed six acquisitions, most notably Delphi Corporation's (Delphi) global battery business, which enabled participation in the rapidly growing Asian automotive battery market, particularly in China.

In fiscal year 2004, the Company acquired the remaining 51% ownership of a power solutions joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV) in order to expand its presence in the Mexican battery market.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company for the three-year period ended September 30, 2006. This discussion should be read in conjunction with Item 8, the consolidated financial statements and notes to the consolidated financial statements.

Executive Overview

In fiscal year 2006, the Company recorded record net sales and record net income. Net sales were $32.2 billion, a 17% increase over the prior year, and net income was $1.0 billion, a 13% increase over the prior year, with such increases primarily from the impact of the York and Delphi battery business acquisitions. With the successful integration of York into the building efficiency business, the Company was able to improve its earnings diversification and to further expand globally. The Company continues to introduce new and enhanced technology applications in all businesses and markets served, while at the same time improving the quality of its products.

Building efficiency business net sales and operating income increased 79% and 93%, respectively, over the prior year, primarily due to the York acquisition, global workplace solutions customer wins and the leveraging of expanded product offerings to customers. Improvements in cost structure and productivity have resulted in higher operating margins and a platform for future growth.

The automotive experience business was unfavorably impacted by lower North American automobile production and the unfavorable impact of foreign currency translation in Europe. Net sales and operating income decreased 3% and 24%, respectively, from the prior year. The Company expects that recently announced restructuring programs, program wins in North America, Europe and China, improvements in the cost structure and investments to strengthen technology will improve future results.

Net sales and operating income for the power solutions business increased by 27% and 33%, respectively, over the prior year, primarily due to aftermarket and original equipment market share growth in North America, strong aftermarket demand in Europe and increased market share in Asia. With recent acquisitions, the power solutions business continues to expand its global reach and is building leadership in the emerging hybrid battery market.

In connection with the York acquisition, the Company issued $2.5 billion in floating and fixed rate notes to repay unsecured commercial paper obligations and entered into a three-year, 24 billion yen loan. Since December 2005, the Company has repaid approximately $800 million of debt to reduce its total debt to capitalization ratio from 46% at December 30, 2005 to 39% at September 30, 2006. The Company expects continued reduction of this ratio in fiscal year 2007.

In fiscal year 2007, the Company anticipates that net sales will grow to approximately $34 billion, an increase of 6% from the prior year, which includes 25% growth in the building efficiency business, 5% growth in the power solutions business and an approximate 3% to 5% decrease in the automotive experience business. The Company anticipates that diluted earnings per share from continuing operations to be approximately $6.00, a 14% increase over fiscal year 2006.

Segment Analysis

Management evaluates the performance of the segments based primarily on operating income, excluding restructuring costs and other significant non-recurring gains and losses. Operating revenues and expenses are allocated to business segments in determining segment operating income. Items excluded from the determination of segment operating income include interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses, foreign currency gains and losses, and other miscellaneous income and expense.

In the second quarter of fiscal year 2006, in connection with the York acquisition, the Company reevaluated its operating and reportable segments in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company determined that it had ten reportable segments for financial reporting purposes. Certain operating segments are aggregated within the building efficiency - rest of world and power solutions reportable segments. The following is a description of each building efficiency reportable segment.

- North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

- North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

- North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

- Workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

- Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

- Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005

Summary

	Year Ended September 30,		
(In millions)	2006	2005	Change
Net sales	$ 32,235	$ 27,479	17%
Operating income	1,282	1,066	20%

- The increase in net sales was primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions segment, partially offset by lower North American automobile production and unfavorable foreign currency translation (approximately $500 million).

- Excluding the unfavorable effects of foreign currency translation, consolidated net sales increased 19% as compared to the prior year.

- The increase in operating income was primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions segment, partially offset by increased raw material costs, including lead and petroleum-based products, lower North American automobile production and unfavorable foreign currency translation (approximately $25 million). Operating income was also favorably impacted on a net basis in fiscal year 2006 by legal and customer contract settlements which were partially offset by York integration costs.

- Excluding the unfavorable effects of foreign currency translation, operating income increased 23% as compared to the prior year.

Building Efficiency

(In millions)	Net Sales for the for the Year Ended September 30, 2006	2005	Change	Operating Income for the for the Year Ended September 30, 2006	2005	Change
North America Systems	$ 1,609	$ 1,158	39%	$ 132	$ 112	18%
North America Service	1,943	1,186	64%	145	84	73%
North America Unitary Products	853	-	*	71	-	*
Workplace Solutions	2,046	1,863	10%	67	68	-1%
Europe	1,900	899	111%	(7)	(7)	0%
Rest of World	1,894	612	209%	128	38	237%
	$ 10,245	$ 5,718	79%	536	295	82%
Restructuring costs				(65)	(51)	
				$ 471	$ 244	93%

* Measure not meaningful as segment relates to December 2005 York acquisition

Net Sales:

- The increase in net sales for North America systems, North America service, North America unitary products, Europe and rest of world was primarily due to the impact of the York acquisition.

- The Company did not operate in the North American unitary products markets prior to the York acquisition.

- The increase in net sales for workplace solutions primarily reflects new and expanded contracts in North America and Europe, including Royal Dutch Shell plc, British Broadcasting Corporation, DHL International GmbH, Eastman Kodak Company, T-Mobile, and Intel Corporation.

Operating Income:

- Excluding restructuring costs, the increase in total building efficiency operating income was primarily due to the impact of the York acquisition.

- Restructuring costs by building efficiency reporting segment for the years ended September 30, 2006 and 2005 are as follows: North America systems ($0 and $3 million); North America service ($1 million and $0 million); workplace solutions ($7 million and $13 million); Europe ($40 million and $8 million); and rest of world ($17 million and $27 million). Please see the restructuring costs section below for further details.

- Similarly, the increase in operating income for North America service, North America unitary products and rest of world was primarily due to the impact of the York acquisition.

- The increase in operating income for North America systems was primarily due to an increase in gross profit percentage resulting from operational efficiencies associated with the Company's branch office redesign initiative and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($7 million). The benefit from the legal settlement was substantially offset by other unfavorable commercial and legal settlements.

Automotive Experience

(In millions)	Net Sales for the for the Year Ended September 30, 2006	2005	Change	Operating Income for the for the Year Ended September 30, 2006	2005	Change
North America	$ 8,041	$ 8,499	-5%	$ 145	$ 350	-59%
Europe	8,774	8,935	-2%	383	252	52%
Asia	1,459	1,399	4%	(28)	30	-193%
	$ 18,274	$ 18,833	-3%	500	632	-21%
Restructuring costs				(129)	(142)	
				$ 371	$ 490	-24%

Net Sales:

- North American net sales decreased slightly as higher volumes with DaimlerChrysler AG and Hyundai Motor Co. were more than offset by volume reductions with Ford Motor Co., General Motors Corporation and Nissan Motor Co. and an unfavorable mix of production from light trucks to passenger cars.
- European net sales declined slightly as higher volumes across all major customer platforms were more than offset by the unfavorable impact of foreign currency translation (approximately $300 million).
- Asian net sales increased primarily due to higher volumes with Honda Motor Co. in Japan, partially offset by volume reductions with Nissan Motor Co. in Japan, seating and interiors businesses in Korea and the unfavorable impact of foreign currency translation (approximately $30 million).

Operating Income:

North America

- Operating income (excluding $75 million of restructuring costs) decreased 59% from the prior year (excluding $12 million of restructuring costs).
- Unfavorable vehicle volume and sales mix decreased operating income by $139 million as compared to the prior year.
- Cost reduction programs, purchasing savings and other operational efficiencies contributed approximately $253 million in operating improvements.
- Operations were unfavorably impacted by customer vehicle program adjustments ($133 million), tooling and launch costs ($68 million), higher labor costs ($48 million) and fuel cost increases ($47 million).
- Selling, General and Administrative (SG&A) expenses increased primarily due to the timing of customer engineering recoveries ($18 million), employee benefit related expenses ($12 million) and plant closure costs related to a customer closure of an assembly plant to which the Company supplied interior products ($8 million), partially offset by administrative efficiencies and cost reduction programs.

Europe

- Operating income (excluding $53 million of restructuring costs) increased 52% from the prior year (excluding $130 million of restructuring costs).

- Cost reduction programs, purchasing savings and other operational efficiencies contributed approximately $134 million in savings as compared to the prior period.
- SG&A expenses increased $21 million, primarily due to information technology infrastructure expenses ($16 million) and net engineering expenses ($5 million).

Asia

- Asia reported an operating loss in fiscal year 2006, primarily due to lower volumes and product mix, start-up and engineering costs associated with new programs within Japan, Korea and Malaysia and unfavorable material costs.
- Restructuring costs were $1 million in fiscal year 2006 compared to none in fiscal year 2005.

Power Solutions

(In millions)	Year Ended September 30, 2006	2005	Change
Net sales	$ 3,716	$ 2,928	27%
Restructuring costs	3	17	-82%
Operating income	443	349	27%

- The increase in net sales was due to substantially higher unit shipments, primarily from the Delphi battery business acquisition, and the favorable impact of higher lead costs on pricing, partially offset by the unfavorable impact of foreign currency translation (approximately $40 million). Unit sales increased 22% in North America from new account growth in the aftermarket and increased sales to General Motors Corporation related to the Delphi battery business acquisition, 17% in Europe from strong aftermarket demand and 114% in Asia from increased market share.
- The increase in operating income was primarily due to the higher sales volumes and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($33 million), partially offset by unfavorable commodity costs, primarily lead ($72 million).

Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal year 2006 and recorded a $197 million restructuring charge. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of the third quarter of fiscal year 2007. The automotive experience business related restructuring is focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly relate to Europe where the Company has launched a systems redesign initiative. During the fourth quarter of fiscal year 2006, automotive experience – North America recorded an additional $8 million for employee severance and termination benefits. The Company expects to incur other related and ancillary costs associated with some of these restructuring activities in future periods. These costs are not expected to be material and will be expensed as incurred.

The 2006 Plan includes workforce reductions of approximately 4,700 employees (2,200 for automotive experience – North America, 1,400 for automotive experience – Europe, 200 for building efficiency – North America, 600 for building efficiency – Europe, 280 for building efficiency – rest of world and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits will be paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2006, approximately 350 employees have been separated from the Company. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience – North America, 3 in automotive experience – Europe, 1 in building efficiency – Europe and 1 in building efficiency – rest of world). The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

The Company recorded the restructuring charge as a result of management's ongoing review of the Company's cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of its most significant customers. Company management is continually analyzing its businesses for opportunities to consolidate current operations and to locate its facilities in low cost countries in close proximity to its customers. This ongoing analysis includes the review of its manufacturing, engineering and purchasing operations as well as its overall Company footprint.

Other Income/Expense

	Year Ended September 30,		
(In millions)	2006	2005	Change
Interest expense - net	$ 248	$ 108	130%
Equity income	112	72	56%
Miscellaneous expense - net	8	27	-70%

- Net interest expense increased primarily due to the financing associated with the York acquisition, partially offset by debt reduction from operating cash flows.
- Equity income increased primarily due to joint ventures included in the Delphi acquisition, higher income from automotive experience joint ventures in China and certain power solutions joint ventures.
- Miscellaneous expense – net decreased primarily due to a $9 million gain from the sale of the Company's interest in an automotive experience joint venture and non-recurring losses on the sale of assets in the prior year ($5 million).

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal year 2006 declined to 21.0% from 25.7% in fiscal year 2005, primarily due to continuing global tax planning initiatives, increased income in certain foreign jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions. The Company's effective tax rate for fiscal year 2006 was further reduced as a result of a reversal of valuation allowances at Mexican and German subsidiaries of $32 million and $131 million, respectively, a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%, a $10 million tax benefit related to a favorable tax audit resolution in a foreign country, an $11 million tax benefit related to a change in tax status for subsidiaries in Hungary and the Netherlands and a $4 million tax benefit related to the disposition of an interest in a German joint venture, partially offset by $31 million of tax expense related to the repatriation of foreign earnings.

Valuation Allowance Adjustments

Based on the Company's cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal year 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the second quarter of fiscal year 2006 the Company reversed a valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

In the third quarter of fiscal year 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the third quarter as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Uncertain Tax Positions

The Company's effective tax rate was reduced in the third quarter of fiscal year 2006 by a $10 million tax benefit related to a favorable tax audit resolution in a foreign jurisdiction.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 "Accounting for Contingencies." The Company's federal income tax returns and certain foreign income tax returns for fiscal years 1997 through 2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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, 2006, the Company has 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.

Foreign Dividend Repatriation

In October 2004, the President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign operations. The deduction is subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and $674 million of foreign earnings were repatriated to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company's AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the second quarter of fiscal year 2006, as $11 million had been previously recorded by York prior to it becoming a subsidiary of the Company in accordance with York's approved repatriation plan.

Other Discrete Period Items

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by $11 million due to a change in tax status for subsidiaries in Hungary and the Netherlands. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by a $4 million tax benefit related to a $9 million gain resulting from the disposition of the Company's interest in a German joint venture.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc. and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $42 million compared with $41 million in the prior year primarily due to the acquisition of a minority interest in York's China operations in December 2005 and higher earnings at certain European and Asian automotive experience joint ventures, partially offset by lower earnings at certain automotive experience and building efficiency subsidiaries in North America.

Net Income

Net income for fiscal year 2006 was $1.0 billion, 13% above the prior year's $909 million, primarily due to the impact from the York and Delphi acquisitions and a reduced effective income tax rate on continuing operations, partially offset by lower North America automobile sales and increased interest expense resulting from financing associated with the York acquisition. Fiscal year 2006 diluted earnings per share from continuing operations was $5.25, a 35% increase from the prior year's $3.90.

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Building Efficiency

(In millions)	Net Sales for the for the Year Ended September 30, 2005	Net Sales for the for the Year Ended September 30, 2004	Change	Operating Income for the for the Year Ended September 30, 2005	Operating Income for the for the Year Ended September 30, 2004	Change
North America Systems	$ 1,158	$ 1,132	2%	$ 112	$ 91	23%
North America Service	1,186	987	20%	84	52	62%
Workplace Solutions	1,863	1,753	6%	68	59	15%
Europe	899	866	4%	(7)	(6)	-17%
Rest of World	612	586	4%	38	45	-16%
	$ 5,718	$ 5,324	7%	295	241	22%
Restructuring costs				(51)	(13)	
				$ 244	$ 228	7%

Net Sales:

- Excluding the favorable impact of foreign currency translation (approximately $125 million), building efficiency net sales increased 5%, primarily due to growth in North America service markets.
- North America systems showed slight growth in both the existing buildings and new construction market.
- North America service sales increased primarily due to the incremental effect of fiscal year 2005 acquisitions and higher technical services revenues.
- Europe net sales increased primarily due to the positive effects of currency translation.
- Rest of world net sales increased primarily due to new construction market growth in Japan.

Operating Income:

- Excluding restructuring costs, operating income increased 22%, primarily due to sales growth and higher gross profit in North America, partially offset by higher SG&A expenses in all reporting segments.
- North America system and North America service gross margins benefited from improved operational efficiencies associated with the Company's branch office redesign initiative, partially offset by higher SG&A expenses in North America from fiscal year 2005 acquisitions ($32 million).
- Workplace solutions operating income increased primarily due to higher sales volume in Europe.

Automotive Experience

(In millions)	Net Sales for the for the Year Ended September 30, 2005	2004	Change	Operating Income for the for the Year Ended September 30, 2005	2004	Change
North America	$ 8,499	$ 8,237	3%	$ 350	$ 504	-31%
Europe	8,935	7,677	16%	252	113	123%
Asia	1,399	1,093	28%	30	38	-21%
	$ 18,833	$ 17,007	11%	632	655	-4%
Restructuring costs				(142)	(56)	
Japaneese pension gain				-	84	
				$ 490	$ 683	-28%

Net Sales:

- North America net sales increased slightly, primarily due to new business awards and a favorable mix of vehicle platforms compared to an estimated 2% decrease in the domestic vehicle production.
- Excluding the favorable impact of currency translation (approximately $400 million), Europe net sales increased 11%, primarily due to new contract awards in seating and interior systems, growth in electronics revenue and a slightly positive mix relative to the estimated slight decline in industry production in Europe.
- Excluding the favorable impact of currency translation (approximately $50 million), Asia net sales increased 24%, primarily due to the introduction of significant new models in Japan by original equipment manufacturers and strong sales in our seating business in Korea.

Operating Income:

North America

- Operating income (excluding $12 million of restructuring costs) decreased 31% (excluding $5 million of restructuring costs), primarily due to selling price reductions and material cost increases in excess of cost savings, partially offset by lower SG&A expenses.
- Lower sales mix of mature vehicle programs and sales price reductions under long term agreements with the Company's customers exceeded cost reductions and operational efficiencies by $71 million for the year. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.
- Commodity costs, primarily steel, resin and chemicals, increased by approximately $132 million, net of recoveries, compared to the prior year. The Company addresses fluctuations in commodity costs through negotiations with both its customers and suppliers. In order to address future fluctuations, the Company continues to modify the duration and terms of its direct material buy contracts.
- SG&A expenses decreased $49 million, primarily due to lower net engineering expenses compared to the prior year which included increased engineering expenses incurred for new vehicle programs.

Europe

- Excluding the favorable impact of foreign currency (approximately $15 million), operating income (excluding $130 million of restructuring costs) increased $125 million (excluding $51 million of restructuring costs), primarily due to increased volumes of higher margin interior systems, lower launch costs and operational improvements, partially offset by commodity cost increases and higher SG&A expenses.

- Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded incremental sales price reductions by approximately $202 million for the year. The segment benefited from implemented cost reductions resulting from the 2005 restructuring plan and continued to benefit from the 2003 turnaround program which concentrated on the implementation of best business practices and six sigma activities on its existing operations. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.

- The incremental effect of commodity costs totaled approximately $53 million. The increases were less than those incurred in North America due to the timing of contract renewals and variations in certain terms of the agreements.

- SG&A expenses increased approximately $24 million primarily due to higher program management costs from purchasing and information technology activities, partially offset by lower net engineering expenses.

Asia

- Operating income decreased primarily due to start-up and engineering costs associated with new program wins in Japan. The net effect of foreign currency translation was neutral to the segment's operating income.

Power Solutions

	Year Ended September 30,		
(In millions)	2005	2004	Change
Net sales	$ 2,928	$ 2,272	29%
Restructuring costs	17	13	31%
Operating income	349	237	47%

- Excluding the favorable effects of currency translation (approximately $45 million), net sales increased 27%, primarily due to growth in North America and Europe.

- North American sales of automotive batteries increased 35% primarily due to the acquisition of the remaining 51% interest in the Latin American JV in the fourth quarter of fiscal year 2004, which added $258 million of sales. Sales were also favorably impacted by the pass-through pricing of higher lead costs and higher shipments to existing customers.

- European sales of automotive batteries increased 15% primarily due to higher shipments to existing customers, the favorable impact of currency translation, and the pass-through pricing of higher lead costs to customers.

- Excluding restructuring costs, operating income increased $112 million, primarily due to higher sales volumes in both the Americas and Europe and the acquisition of the remaining interest in the Latin American JV ($24 million). The power solutions business also benefited from a favorable product mix in North America and operational improvements in Europe. The increases were partially offset by the incremental effect of commodity costs, which negatively impacted global operating income by approximately $8 million net of the benefit from the implementation of lead hedges and improved pass through of lead costs.

Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge. These restructuring charges include workforce reductions of approximately 3,100 employees within automotive experience and power solutions and 800 employees in the building efficiency business. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2006, approximately 2,900 employees have separated from the Company pursuant to the 2005 Plan. In addition, the 2005 Plan includes eight plant closures within automotive experience and power solutions and four plant closures within building efficiency. The write-downs of the long-lived assets associated with the plant closures were determined using an undiscounted cash flow analysis. The automotive experience and power solutions actions are primarily concentrated in Europe, while the building efficiency restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed by December 2006.

Other Income/Expense

(In millions)	Year Ended September 30, 2005	Year Ended September 30, 2004	Change
Interest expense - net	$ 108	$ 98	10%
Equity income	72	97	-26%
Miscellaneous expense - net	27	64	-58%

- Interest expense – net increased, primarily due to higher interest rates.
- Equity income decreased, primarily due to lower earnings at certain automotive experience joint ventures in China and Europe.
- Miscellaneous expense – net decreased as the prior year included foreign currency losses of approximately $16 million (compared to a slight gain in the fiscal year 2005), approximately $6 million of expense in fiscal year 2004 associated with the early redemption of outstanding bonds and higher non-recurring litigation expenses in fiscal year 2004.

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal year 2005 declined to 25.7% from 26.0% for the prior year primarily due to continuing global tax planning initiatives. The Company's base effective tax rate is calculated by adjusting the effective tax rate for significant one time tax items. For the year ended September 30, 2005, the effective rate was impacted by a $12 million and $69 million tax benefit in the first and second quarters, respectively, due to a change in tax status of a French and a German subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the French and German entities from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." The voluntary tax election related to the German subsidiary resulted in a capital loss for tax purposes of $539 million, $187 million of which was utilized in the second quarter. The tax benefit on the remaining capital loss has not been recorded as the remaining capital loss can only be used to the extent of future capital gains resulting from non-recurring transactions in the U.S., none of which are contemplated at this time; there are no prudent or feasible tax planning strategies in place at this time to utilize such capital losses; the capital loss carryforward period for U.S. federal income tax purposes is 5 years thereby limiting the time period in which the Company could utilize the U.S. capital losses; and certain assumptions and estimates in determining the amount of capital loss were used that may change the ultimate capital loss to be realized. These tax benefits were partially offset by an increase in the tax valuation allowance of $28 million in the second quarter related to restructuring charges for which no tax benefits were recorded in certain countries given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. In addition, other valuation allowance adjustments during the year related primarily to continuing losses at certain foreign subsidiaries for which no tax benefit was recognized were offset by the utilization of losses in certain foreign subsidiaries for which sustained profitability has not yet been demonstrated, thereby resulting in no significant change in the Company's total valuation allowance during the year. The fiscal year ended September 30, 2004 benefited from a $27 million favorable tax settlement related to prior periods.

The annual effective tax rate for income from discontinued operations approximated 39% and 35% for Johnson Controls World Services, Inc. and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company's income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $41 million compared with $52 million in the prior year. The decrease was primarily due to lower earnings at certain automotive experience subsidiaries in North America, partially offset by higher earnings at certain Asian joint ventures.

Net Income

Net income for fiscal year 2005 reached $909 million, 11% above the prior year's $818 million, primarily due to increased gross profit from increased revenues ($204 million), the gain on the sale of discontinued operations ($136 million), and a reduced effective income tax rate on continuing operations, partially offset by higher restructuring costs ($128 million) and a non-recurring pension gain in the prior year ($84 million). Fiscal year 2005 diluted earnings per share were $4.68, 10% above the prior year's $4.24.

Fiscal Year 2007 Outlook

Net Sales

In fiscal year 2007, the Company anticipates that net sales will grow to approximately $34 billion, an increase of 6% from prior year net sales. The increase assumes a euro to U.S. dollar exchange rate of $1.25, which is slightly higher than the average exchange rate of $1.23 in fiscal year 2006.

The Company expects building efficiency net sales to increase approximately 25% from the prior year, primarily due to the full year impact of the York acquisition, service growth, enhanced global capabilities, expansion into emerging markets and realization of acquisition synergies from joint-selling and cross-selling a full range of product and service offerings.

Building efficiency's backlog relates to its control systems and service activity. At September 30, 2006, the unearned backlog was $3.7 billion, compared to $1.9 billion at September 30, 2005, primarily due to the York acquisition.

The Company expects automotive experience net sales to decrease approximately 3% to 5% from the prior year, primarily reflecting lower revenue in North America. Lower industry production volume, unfavorable vehicle mix between light trucks and passenger cars and vehicle program rationalization are the key factors contributing to the decrease.

At September 30, 2006, automotive experience had an incremental backlog of net new incremental business to be executed within the next three fiscal years of $3.5 billion, $1.0 billion of which relates to fiscal year 2007. The backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes and the timing of production launches.

The Company expects power solutions net sales to increase approximately 5% from the prior year, primarily due to growth in the aftermarket and the pass-through of higher lead prices.

Operating Margin

The Company anticipates that the overall operating margin percentage in fiscal year 2007 will increase from fiscal year 2006, excluding restructuring costs. The margin improvement reflects the growth and synergy realization in the building efficiency business.

Except for volatility in lead prices, the Company expects other key commodity costs, such as copper, steel, foam chemicals, resin and fuel to be stable in fiscal year 2007, with the possibility of some softening during the year.

The Company expects building efficiency operating margin percentage for fiscal year 2007 to improve as compared to the prior year, primarily due to the realization of York integration cost synergies and restructuring benefits, non-recurring acquisition accounting expenses taken in fiscal year 2006 and market growth initiatives in all operating segments.

The Company expects power solutions operating margin percentage to be level with the prior year, primarily due to continued operational efficiency improvements and benefits from the Delphi battery integration offset by advanced technology spending and a favorable environmental litigation settlement in the prior year.

The Company expects automotive experience operating margin percentage for fiscal year 2007 to decrease slightly compared to the prior year, primarily due to lower production volumes, vehicle program rationalization, unfavorable product mix in North America and higher engineering and launch costs, partially offset by continued strong performance in Europe. Automotive experience has supply agreements with certain of its customers that provide for annual sales price reductions and, in some instances, for the recovery of material cost increases. The business expects to continue its historical trend of being able to significantly offset any sales price changes with cost reductions from design changes and productivity improvements and through similar programs with its own suppliers.

Other

The Company expects the base effective income tax rate for fiscal year 2007 to be 23.0%, compared to 21.0% in fiscal year 2006, primarily due to expected income mix changes between entities with higher tax rates and entities with lower tax rates.

GOODWILL AND OTHER INVESTMENTS

Goodwill at September 30, 2006 was $5.9 billion, $2.2 billion higher than the prior year. The increase was primarily associated with the acquisition York (see Notes 2 and 6 to the consolidated financial statements).

Investments in partially-owned affiliates at September 30, 2006 were $463 million, $18 million more than the prior year. The increase was primarily due to equity income exceeding dividends in building efficiency and automotive experience investments and new building efficiency investments from the acquisition of York, offset by the sale of an automotive experience investment.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

(In millions)	September 30, 2006	September 30, 2005	Change
Working capital	$ 1,073	$ 298	260%
Accounts receivable	5,697	4,987	14%
Inventories	1,731	983	76%
Accounts payable	4,216	3,938	7%

- The increase in working capital, which excludes the net assets of discontinued operations of $45 million at September 30, 2006, is primarily due to the York acquisition and the overall sales and manufacturing growth experienced in fiscal year 2006. Acquired York-related accounts receivable, inventories and other current assets were significantly higher than acquired current liabilities.

- Days sales in accounts receivable for the year ended September 30, 2006, increased to 57 from 54 in the prior year, primarily due to the impact from the York acquisition. There has been no significant deterioration in the credit quality of the Company's receivables or material changes in revenue recognition methods.

- Inventory turnover for the year ended September 30, 2006, decreased to 11 from 18 the prior year, primarily due to the York acquisition. York product inventories turn less frequently than the Company's other businesses where just-in-time production methods are generally used.

Cash Flow

	Year Ended September 30,	
(In millions)	2006	2005
Cash provided by operating activities	$ 1,417	$ 877
Cash used by investing activities	3,076	338
Cash provided (used) by financing activities	1,741	(496)
Capital expenditures	711	664

- The increase in cash provided by operating activities primarily reflects increased net income ($119 million), gain from the sale of discontinued operations ($136 million) and pension contributions in excess of expense ($138 million) in the prior year, and favorable working capital changes in receivables and other current assets, partially offset by changes in deferred income taxes ($379 million) and unfavorable working capital changes in accounts payable and accrued liabilities.

- The increase in cash used in investing activities primarily relates to the York acquisition ($2.5 billion) in the current fiscal year and cash provided by business divestitures ($679 million) in the prior year.

- Cash provided by financing activities in fiscal year 2006 is primarily related to the York acquisition financing.

- Consistent with the prior year, the majority of the fiscal year 2006 capital expenditures were associated with the automotive experience business and are related to investments in launches of new business and cost reduction projects. Management expects fiscal year 2007 capital expenditures to increase slightly with a reinvestment ratio, which is calculated as capital expenditures divided by depreciation expense, of 1.2 to 1, reflecting expected investments in power solutions global capacity expansion and automation.

- A significant portion of the Company's sales are to customers in the automotive industry (See Note 18 to the consolidated financial statements for disclosure of major customers). Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Germany Italy, the Netherlands and the U.S., which have generated operating and capital losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries in accordance with SFAS No. 109. SFAS No. 109 requires the Company to record a valuation allowance for each legal entity or consolidated group based on the tax rules in the applicable jurisdiction and evaluate both positive and negative historical evidences as well as expected future events.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company's long-lived asset impairment analyses indicate that assets are not impaired based on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. At September 30, 2006, the Company does not have any material assets whose recovery is at risk.

Capitalization

(In millions)	September 30, 2006	September 30, 2005	Change
Short-term debt	$ 209	$ 684	-69%
Long-term debt	4,534	1,658	173%
Shareholders' equity	7,355	6,058	21%
Total capitalization	$ 12,098	$ 8,400	44%
Total debt as a % of total capitalization	39.2%	27.9%	

- In August 2006, the Company issued commercial paper to repay the $200 million York note that matured.
- In February 2006, the Company executed additional euro cross currency swaps to hedge its net investment position in foreign operations. Any fluctuation in exchange rates related to hedging transactions is offset by the change in value of the underlying investment.
- In January 2006, the Company issued $2.5 billion in floating and fixed rate notes consisting of the following four series: $500 million floating rate notes due in fiscal year 2008, $800 million fixed rate notes due in fiscal year 2011, $800 million fixed rate notes due in fiscal year 2016 and $400 million fixed rate notes due in fiscal year 2036. The Company also entered into a 24 billion yen (approximately $206 million), three year, floating rate loan. The net proceeds of the note offering and the bank loan were used to repay the unsecured commercial paper obligations that were used to initially finance the York acquisition.
- In October 2005, the Company entered into a five-year, $1.6 billion revolving credit facility which expires in October 2010. This facility replaced the five-year $625 million revolving credit facility, which would have expired in October 2008, and the 364-day $625 million facility, which expired in October 2005. There were no draws on any of the committed credit lines through September 30, 2006. The revolving credit facility was amended and restated effective December 5, 2006 (see Item 9B “Other Information” in this report for further information).
- In October 2005, the Company entered into a $2.8 billion revolving credit facility. The Company used the revolving credit facility to provide a liquidity backstop for commercial paper that the Company issued to fund the acquisition of York. Subsequent to the repayment of the commercial paper in January 2006, the Company terminated the revolving credit facility.
- The Company also selectively makes use of short-term money market loans. The Company estimates that it could borrow $200 million to $400 million at its current debt ratings in money market loans.
- The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company’s debt agreements require accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets. The Company believes its capital resources and liquidity position at September 30, 2006 were adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal year 2007 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

A summary of the Company’s significant contractual obligations as of September 30, 2006 is as follows:

Contractual Obligations	Total	2007	2008-2009	2010-2011	2012 and Beyond
Long-term debt (including capital lease obligations)*	$ 4,534	$ 368	$ 1,307	$ 830	$ 2,029
Interest on long-term debt (including capital lease obligations)*	2,115	231	357	299	1,228
Operating leases	677	173	256	138	110
Unconditional purchase obligations	1,991	1,621	352	16	2
Pension and postretirement contributions	509	127	75	82	225
Total contractual cash obligations	$ 9,826	$ 2,520	$ 2,347	$ 1,365	$ 3,594

* See "Capitalization" for additional information related to the Company's long-term debt.

Unconditional purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, and delivery. Pension and postretirement contributions include amounts expected to be paid by the Company to the plans. Other noncurrent liabilities primarily consist of pension and postretirement obligations included in the table and other amounts whose settlement dates cannot be reasonably determined.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Company’s consolidated financial statements and the uncertainties that could impact the Company’s results of operations, financial position and cash flows.

Revenue Recognition

The Company recognizes revenue from long-term systems installation contracts of the building efficiency business over the contractual period 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 the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded in accounts receivable. Likewise, contracts where billings to date have exceeded recognized revenues are recorded 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 prospectively 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 reviews have not resulted in adjustments that were significant to the Company’s results of operations. The Company continually evaluates all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The building efficiency 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 Company's building efficiency business also sells certain HVAC products and services in bundled arrangements, where multiple products and/or services are involved. In accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative fair value of all elements or the fair value of undelivered elements.

In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Goodwill and Other Intangible Assets

In conformity with U.S. GAAP, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at September 30, 2006, indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and, as such, no impairment existed at that time. Other intangible assets with definite lives continue to be amortized over their estimated useful lives and are subject to impairment testing if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived intangible assets are also subject to impairment testing on at least an annual basis. A considerable amount of management judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of each reporting unit. While the Company believes its judgments and assumptions were reasonable, different assumptions could change the estimated fair values and, therefore, impairment charges could be required.

Employee Benefit Plans

The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement health care. Plan assets and obligations are recorded annually based on the Company's measurement date utilizing various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates as of that date. Measurements of net periodic benefit cost are based on the assumptions used for the previous year-end measurements of assets and obligations. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required by U.S. GAAP, the effects of the modifications are recorded currently or amortized over future periods.

The discount rate used by the Company is based on the interest rate of noncallable high-quality corporate bonds, with appropriate consideration of the Company's pension plans' participants' demographics and benefit payment terms. At July 31, 2006, the Company increased its discount rate on U.S. plans to 6.50% from 5.50% at July 31, 2005. The increase of 100 basis points was consistent with the changes in published bond indices as adjusted for the pension plan liability profile. The change decreased the Company's U.S. projected benefit obligation at September 30, 2006 by approximately $300 million.

In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plans' invested assets. Reflecting the relatively long-term nature of the plans' obligations, approximately 60% of the plans' assets were invested in equities, with the balance primarily invested in fixed income instruments. At July 31, 2006, the Company decreased its expected long-term return on U.S. plan assets from 8.75% to 8.25%.

The Company uses a market-related value of assets that recognizes the difference between the expected return and the actual return on plan assets over a three-year period. As of September 30, 2006, the Company had approximately $22 million of unrecognized asset losses associated with its U.S. pension plans, which will be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.

Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company's financial position, results of operations or cash flows.

Primarily as a result of a $180 million voluntary cash contribution in fiscal year 2005, the Company has recorded a prepaid benefit cost of $240 million for its U.S. pension plans as of September 30, 2006 in accordance with SFAS No. 87 "Employers' Accounting for Pensions." SFAS No. 87 requires that an asset be recognized if the net periodic pension cost is less than the amounts the employer has contributed to the plan and a liability be recognized if the net periodic pension cost exceeds amounts the employer has contributed to the plan. The funded status of a retirement plan is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service. At September 30, 2006, the Company's U.S. pension plans were underfunded by $165 million since the projected benefit obligation exceeded the fair value of its plan assets. Material differences may result between the funded status of a retirement plan and the recorded asset or liability due to certain items that have an immediate impact on the projected benefit obligation, but are recognized over a longer period of time in the net periodic pension cost. For example, at September 30, 2006, the Company had an unrecognized net actuarial loss on its U.S. pension plans of $282 million. This actuarial loss is included in the projected benefit obligation at September 30, 2006, but in accordance with SFAS No. 87, in general, the amount of the loss is amortized to net periodic pension expense over the average remaining service period of the employees in the plan where the loss was generated.

Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate of future warranty-related costs based on actual historical return rates. At September 30, 2006, the Company had recorded $162 million of warranty reserves based on an analysis of return rates and other factors. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could differ significantly from those estimates.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance that primarily represents foreign operating and other loss carryforwards for which utilization is uncertain. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company's net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year. In determining the need for a valuation allowance, the historical and projected financial performance of the operation recording the net deferred tax asset is considered along with any other pertinent information. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowance may be necessary. At September 30, 2006, the Company had a valuation allowance of $355 million, of which $215 million relates to net operating loss carryforwards, primarily in Germany, Italy, and the Netherlands, for which sustainable taxable income has not been demonstrated; $82 million relates to net capital loss carryforwards, primarily in the U.S., for which future capital gains are not assured; and $58 million of other deferred tax assets. The Company does not provide additional U.S. income taxes on undistributed earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R)." SFAS No. 158 requires that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in the fiscal year 2007 year-end balance sheet, with changes in the funded status recognized through other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status of a plan as of the date of its fiscal year-end. The Company is assessing the potential impact the adoption of SFAS No. 158 will have on its consolidated financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in fiscal year 2008. The Company is assessing the potential impact the adoption of SFAS No. 157 will have on its consolidated financial condition, results of operations or cash flows.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company beginning October 1, 2007. The Company is assessing the potential impact that the adoption of FIN 48 will have on its previously established tax reserves, consolidated financial condition, results of operations or cash flows.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. Under FIN 47, companies must accrue for costs related to legal obligations associated with the retirement, disposal, removal or abandonment of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event and if the liability's fair value can be reasonably estimated. In the fourth quarter of fiscal year 2006, the Company adopted FIN 47 and recorded a non-cash, after-tax charge of $7 million, which is reported in the fiscal year 2006 consolidated statement of income as a cumulative effect of a change in accounting principle. The charge primarily relates to legal obligations at owned properties in the power solutions business.

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (SFAS No. 123(R)) using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, prior periods will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS 123."

RISK MANAGEMENT

The Company selectively uses financial instruments to reduce market risk associated with changes in foreign currency, interest rates and commodity prices. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which strictly prohibit the use of financial instruments for speculative purposes. At the inception of the hedge, the Company assesses the effectiveness of the hedge instrument and designates the hedge instrument as either (1) a hedge of a recognized asset or liability or of a recognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an unrecognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a foreign operation (a net investment hedge). The Company performs hedge effectiveness testing on an ongoing basis depending on the type of hedging instrument used.

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 hedging contracts, the Company aligns the critical terms of its derivative contracts with the terms of the supply contracts.

For net investment hedges, the Company assesses its net investment positions in the foreign 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 foreign operation does not exceed the Company’s net investment positions in the respective foreign operation.

A discussion of the Company’s accounting policies for derivative financial instruments is included in Note 1, “Summary of Significant Accounting Policies,” in the notes to consolidated financial statements, and further disclosure relating to financial instruments is included in Note 11 to the consolidated financial statements.

Foreign Exchange

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. In order to maintain strict control and achieve the benefits of the Company’s global diversification, foreign exchange exposures for each currency are netted internally so that only its net foreign exchange exposures are, as appropriate, hedged with financial instruments.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. The Company also selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149.

The Company selectively finances its foreign operations with local, non-U.S. dollar debt. In those instances, the foreign currency denominated debt serves as a natural hedge of the foreign operations’ net asset positions. The Company has also entered into several foreign currency denominated debt obligations and cross-currency interest rate swaps to hedge portions of its net investments in Europe and Japan. The currency effects of the debt obligations and swaps are reflected in the accumulated other comprehensive income account within shareholders’ equity where they offset gains and losses recorded on the net investments in Europe and Japan.

Sensitivity Analysis

The following table indicates the total U.S. dollar (USD) equivalents of net foreign exchange contracts (hedging transactional exposure) and non-USD denominated cash, debt and cross-currency interest rate swaps (hedging translation exposure) outstanding by currency and the corresponding impact on the value of these instruments assuming a 10% appreciation/depreciation of the USD relative to all other currencies on September 30, 2006.

As previously noted, the Company's policy prohibits the trading of financial instruments for speculative purposes. It is important to note that gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying receivables, payables and net investments in foreign subsidiaries described above (in millions, in USD equivalent):

	September 30, 2006				
	Non-USD Financial Instruments Designated as Hedges of:			Foreign Exchange Gain/(Loss) from:	
	Transactional Foreign Exposure Long/ (Short)	Translation Foreign Exposure Long/ (Short)	Net Amounts of Instruments Long/ (Short)	10% Appreciation of USD	10% Depreciation of USD
Brazilian real	$ -	$ (34)	$ (34)	$ 3	$ (3)
British pound	225	(30)	195	(19)	19
Canadian dollar	167	(27)	140	(14)	14
Chinese renminbi	-	65	65	(7)	7
Czech koruna	332	(79)	253	(25)	25
Danish kroner	105	8	113	(11)	11
Euro	(440)	(715)	(1,155)	116	(116)
Japanese yen	(55)	11	(44)	4	(4)
Mexican peso	99	8	107	(11)	11
Polish zloty	(36)	(2)	(38)	4	(4)
Slovenska koruna	118	(3)	115	(12)	12
South African rand	10	14	24	(2)	2
Swiss franc	47	8	55	(6)	6
Other	38	15	53	(5)	5
Total	$ 610	$ (761)	$ (151)	$ 15	$ (15)

Interest Rates

The Company's earnings exposure related to adverse movements in interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to short-term market rates. The Company, as needed, uses interest rate swaps to modify its exposure to interest rate movements. In accordance with SFAS No. 133, the swaps qualify and are designated as cash flow hedges or fair value hedges. A 10% increase or decrease in the average cost of the Company's variable rate debt, including outstanding swaps, would result in a change in pre-tax interest expense of approximately $6 million.

In September 2005, following a definitive merger agreement unanimously approved by the Boards of Directors of the Company and York, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York. The three forward treasury lock agreements, which had a combined notional amount of $1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The treasury lock agreements were designated as cash flow hedges. The agreements were unwound at the time the bonds were issued. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, is amortized to interest expense over the life of the respective note issuance.

Commodities

The Company uses commodity 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 upon purchase of the underlying commodities that will be used in the business. The maturities of the commodity contracts coincide with the expected purchase of the commodities.

ENVIRONMENTAL, HEALTH AND SAFETY AND OTHER MATTERS

The Company's global operations are governed by laws addressing protection of the environment (Environmental Laws) and worker safety and health (Worker Safety Laws). Under various circumstances, these laws impose civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where Company-related substances have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with applicable Environmental Laws and Worker Safety Laws, and to protect the environment and workers. The Company believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with such laws or the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities resulting in commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in 2006 related solely to environmental compliance were not material. At September 30, 2006, the Company had an accrued liability of $34 million relating to environmental matters compared with $28 million one year ago. A charge to income is recorded when it is probable that a liability has been incurred and the cost can be reasonably estimated. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where the Company may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability. However, while neither the timing nor the amount of ultimate costs associated with known environmental remediation matters can be determined at this time, the Company does not expect that these matters will have a material adverse effect on its financial position, results of operations or cash flows.

Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a materially adverse effect on the Company's financial position, results of operations or cash flows (see Note 19 to the consolidated financial statements). Costs related to such matters were not material to the periods presented.

QUARTERLY FINANCIAL DATA

In millions, except per share data; (unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2006					
Net sales	$ 7,528	$ 8,167	$ 8,390	$ 8,150	$ 32,235
Gross profit	917	1,053	1,213	1,237	4,420
Income before the cumulative effect of a change in accounting principle	165	165	338	367	1,035
Net income	165	165	338	360	1,028
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.86	0.85	1.73	1.87	5.32
Diluted*	0.85	0.84	1.71	1.85	5.26
Earnings per share					
Basic*	0.86	0.85	1.73	1.84	5.29
Diluted*	0.85	0.84	1.71	1.82	5.23
2005					
Net sales	$ 6,618	$ 6,899	$ 7,062	$ 6,900	$ 27,479
Gross profit	806	827	900	949	3,482
Income before the cumulative effect of a change in accounting principle	168	203	255	283	909
Net income	168	203	255	283	909
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.88	1.06	1.33	1.47	4.74
Diluted*	0.87	1.04	1.31	1.45	4.68
Earnings per share					
Basic*	0.88	1.06	1.33	1.47	4.74
Diluted*	0.87	1.04	1.31	1.45	4.68

* Due to the use of the weighted-average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Risk Management” included in Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8   FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

PRICEWATERHOUSECOOPERS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Johnson Controls, Inc.

We have completed integrated audits of Johnson Controls, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Johnson Controls, Inc. and its subsidiaries at September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," effective October 1, 2005. In addition, as discussed in Notes 1 and 5 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," in the fourth quarter of 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
December 1, 2006

Johnson Controls, Inc.
Consolidated Statements of Income

(In millions, except per share data)	**Year ended September 30, 2006**	**2005**	**2004**
Net sales			
Products and systems*	$ 26,570	$ 24,337	$ 21,653
Services*	5,665	3,142	2,950
	32,235	27,479	24,603
Cost of sales			
Products and systems	23,737	21,463	18,911
Services	4,078	2,534	2,414
	27,815	23,997	21,325
Gross profit	4,420	3,482	3,278
Selling, general and administrative expenses	2,941	2,206	2,145
Restructuring costs	197	210	82
Japanese pension gain	-	-	(84)
Operating income	1,282	1,066	1,135
Interest expense - net	(248)	(108)	(98)
Equity income	112	72	97
Miscellaneous - net	(8)	(27)	(64)
Other income (expense)	(144)	(63)	(65)
Income before income taxes and minority interests	1,138	1,003	1,070
Provision for income taxes	63	205	251
Minority interests in net earnings of subsidiaries	42	41	52
Income from continuing operations	1,033	757	767
Income from discontinued operations, net of income taxes	2	16	51
Gain on sale of discontinued operations, net of income taxes	-	136	-
Income before the cumulative effect of a change in accounting principle	1,035	909	818
Cumulative effect of a change in accounting principle, net of income taxes	(7)	-	-
Net income	$ 1,028	$ 909	$ 818
Earnings available for common shareholders	$ 1,028	$ 909	$ 816
Earnings per share from continuing operations			
Basic	$5.31	$3.95	$4.08
Diluted	$5.25	$3.90	$3.98
Earnings per share before the cumulative effect of a change in accounting principle			
Basic	$5.32	$4.74	$4.35
Diluted	$5.26	$4.68	$4.24
Earnings per share			
Basic	$5.29	$4.74	$4.35
Diluted	$5.23	$4.68	$4.24

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

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

Johnson Controls, Inc.
Consolidated Statements of Financial Position

(In millions, except par value and share data)	September 30, 2006	September 30, 2005
Assets		
Cash and cash equivalents	$ 293	$ 171
Accounts receivable, less allowance for doubtful accounts of $80 and $47, respectively	5,697	4,987
Inventories	1,731	983
Other current assets	1,543	998
Current assets	9,264	7,139
Property, plant and equipment - net	3,968	3,581
Goodwill	5,910	3,733
Other intangible assets - net	799	289
Investments in partially-owned affiliates	463	445
Other noncurrent assets	1,517	957
Total assets	$ 21,921	$ 16,144
Liabilities and Shareholders' Equity		
Short-term debt	$ 209	$ 684
Current portion of long-term debt	368	81
Accounts payable	4,216	3,938
Accrued compensation and benefits	919	704
Accrued income taxes	229	44
Other current liabilities	2,205	1,390
Current liabilities	8,146	6,841
Long-term debt	4,166	1,577
Postretirement health and other benefits	349	159
Minority interests in equity of subsidiaries	129	196
Other noncurrent liabilities	1,776	1,313
Long-term liabilities	6,420	3,245
Commitments and contingencies (Note 19)		
Common stock, $.04 1/6 par value shares authorized: 600,000,000 shares issued: 2006 - 196,011,787; 2005 - 193,253,563	8	8
Capital in excess of par value	1,273	1,092
Retained earnings	5,715	4,905
Treasury stock, at cost (2006 - 237,798 shares; 2005 - 382,628 shares)	(7)	(7)
Accumulated other comprehensive income	366	60
Shareholders' equity	7,355	6,058
Total liabilities and shareholders' equity	$ 21,921	$ 16,144

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

Johnson Controls, Inc.
Consolidated Statements of Cash Flows

(In millions)	**September 30,**		
		Revised	
	2006	**2005**	**2004**
Operating Activities			
Net income	$ 1,028	$ 909	$ 818
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	661	615	572
Amortization of intangibles	44	24	22
Equity in earnings of partially-owned affiliates, net of dividends received	(15)	(47)	(19)
Deferred income taxes	(404)	(25)	100
Minority interests in net earnings of subsidiaries	42	41	52
Non-cash restructuring costs	51	46	7
Pension contributions in excess of expense	-	(138)	-
Gain on sale of discontinued operations	-	(136)	-
Japanese pension settlement gain	-	-	(84)
Other	60	26	(26)
Changes in working capital, excluding acquisitions and divestitures of businesses			
Receivables	244	(771)	(346)
Inventories	(77)	(64)	(3)
Other current assets	(32)	(114)	33
Restructuring reserves	59	102	42
Accounts payable and accrued liabilities	(360)	328	225
Accrued income taxes	116	81	14
Cash provided by operating activities of continuing operations	1,417	877	1,407
Investing Activities			
Capital expenditures	(711)	(664)	(817)
Sale of property, plant and equipment	90	39	51
Acquisition of businesses, net of cash acquired	(2,629)	(328)	(420)
Business divestitures	-	679	-
Settlement of cross-currency interest rate swaps	66	(62)	(143)
Changes in long-term investments	108	(2)	(79)
Cash used by investing activities	(3,076)	(338)	(1,408)
Financing Activities			
Increase (decrease) in short-term debt - net	(531)	(106)	660
Increase in long-term debt	2,739	83	214
Repayment of long-term debt	(359)	(311)	(727)
Payment of cash dividends	(218)	(192)	(171)
Proceeds from the exercise of stock options	97	66	59
Other	13	(36)	(25)
Cash provided (used) by financing activities	1,741	(496)	10
Effect of exchange rate changes on cash and cash equivalents	40	29	6
Increase in cash and cash equivalents	$ 122	$ 72	$ 15

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

Johnson Controls, Inc.
Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Total	Preferred Stock	Employee Stock Ownership Plan - Unearned Compensation	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)
At September 30, 2003	$ 4,261	$ 97	$ (23)	$ 15	$ 748	$ 3,541	$ (10)	$ (107)
Comprehensive income:								
Net income	818	-	-	-	-	818	-	-
Foreign currency translation adjustments	171	-	-	-	-	-	-	171
Realized and unrealized gains/losses on derivatives	11	-	-	-	-	-	-	11
Minimum pension liability adjustment	(3)	-	-	-	-	-	-	(3)
Other comprehensive income	179							
Comprehensive income	997							
Reduction of guaranteed ESOP debt	23	-	23	-	-	-	-	-
Cash dividends								
Series D preferred ($0.99 per one ten-thousandth of a share), net of tax benefit	(2)	-	-	-	-	(2)	-	-
Common ($0.90 per share)	(169)	-	-	-	-	(169)	-	-
Par value reduction	-	-	-	(7)	7	-	-	-
Conversion of preferred stock to common stock	-	(96)	-	-	96	-	-	-
Other, including options exercised	96	(1)	-	-	102	-	(5)	-
At September 30, 2004	5,206	-	-	8	953	4,188	(15)	72
Comprehensive income:								
Net income	909	-	-	-	-	909	-	-
Foreign currency translation adjustments	(29)	-	-	-	-	-	-	(29)
Realized and unrealized gains/losses on derivatives	34	-	-	-	-	-	-	34
Minimum pension liability adjustment	(17)	-	-	-	-	-	-	(17)
Other comprehensive loss	(12)							
Comprehensive income	897							
Cash dividends								
Common ($1.00 per share)	(192)	-	-	-	-	(192)	-	-
Other, including options exercised	147		-	-	139	-	8	-
At September 30, 2005	6,058	-	-	8	1,092	4,905	(7)	60
Comprehensive income:								
Net income	1,028	-	-	-	-	1,028	-	-
Foreign currency translation adjustments	274	-	-	-	-	-	-	274
Realized and unrealized gains/losses on derivatives	20	-	-	-	-	-	-	20
Minimum pension liability adjustment	12	-	-	-	-	-	-	12
Other comprehensive income	306							
Comprehensive income	1,334							
Cash dividends								
Common ($1.12 per share)	(218)	-	-	-	-	(218)	-	-
Other, including options exercised	181	-	-		181	-	-	-
At September 30, 2006	**$ 7,355**	**$ -**	**$ -**	**$ 8**	**$ 1,273**	**$ 5,715**	**$ (7)**	**$ 366**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and foreign subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest exceeds 20%. Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), "Consolidation of Variable Interest Entities," the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. Gains and losses from the translation of substantially all foreign currency financial statements are recorded in the accumulated other comprehensive income account within shareholders' equity.

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. The fair value of long-term debt, which was $4.6 billion and $1.7 billion at September 30, 2006 and 2005, respectively, was determined using market quotes. See Note 11 for fair value of derivative instruments.

Cash and Cash Equivalents

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

Receivables

Receivables consist of amounts billed and currently due from customers and unbilled costs and accrued profits related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for doubtful accounts resulting from the inability or unwillingness of customers to make required payments. The allowance for doubtful accounts is based on historical experience, existing economic conditions and any specific customer collection issues the Company has identified.

Percentage-of-Completion Contracts

The building efficiency business records certain long term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable – net and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the consolidated statements of financial position. Amounts included within accounts receivable – net related to these contracts were $455 million and $315 million at September 30, 2006 and 2005, respectively. Amounts included within other current liabilities were $314 million and $226 million at September 30, 2006 and 2005, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using either the last-in, first-out (LIFO) method or the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

Pre-Production Costs Related to Long-Term Supply Arrangements

The Company's policy for engineering, research and development, and other design and development costs related to products that will be sold under long-term supply arrangements requires such costs to be expensed as incurred. Customer reimbursements are recorded as an increase in cash and a reduction of selling, general and administrative expense when reimbursement from the customer is received. Costs for molds, dies, and other tools used to make products that will be sold under long-term supply arrangements are capitalized within property, plant and equipment if the Company has title to the assets or has the non-cancelable right to use the assets during the term of the supply arrangement. Capitalized items, if specifically designed for a supply arrangement, are amortized over the term of the arrangement; otherwise, amounts are amortized over the estimated useful lives of the assets. The carrying values of assets capitalized in accordance with the foregoing policy are periodically reviewed for evidence of impairment. At September 30, 2006 and 2005, approximately $270 million and $268 million, respectively, of costs for molds, dies and other tools were capitalized within property, plant and equipment which represented assets to which the Company had title. In addition, at September 30, 2006 and 2005, the Company recorded within other current assets approximately $136 million and $280 million, respectively, of costs for molds, dies and other tools for which customer reimbursement is assured.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives range from 10 to 40 years for buildings and improvements and from 3 to 20 years for machinery and equipment.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Goodwill and Other Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company performs an annual goodwill impairment review of its operating segments during the fourth fiscal quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which an operating segment could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses historical multiples of earnings and published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company in the fourth quarter of fiscal year 2006 indicated that the estimated fair value of each operating segment exceeded its corresponding carrying amount, including recorded goodwill and, as such, no impairment exists.

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. The Company believes the judgments and assumptions used in the impairment tests are reasonable and no impairment exists at September 30, 2006.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At September 30, 2006, the Company does not have any material long-lived assets whose recovery is at risk.

Revenue Recognition

The Company's building efficiency business recognizes revenue from long-term systems installation contracts over the contractual period under the percentage-of-completion 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. Sales and gross profit are adjusted prospectively 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 amount of accounts receivable due after one year is not significant.

The building efficiency 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 Company's building efficiency business also sells certain HVAC products and services in bundled arrangements, where multiple products and/or services are involved. In accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative fair value of all elements or the fair value of undelivered elements.

In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statement of income. Such expenditures for the years ended September 30, 2006, 2005 and 2004 were $743 million, $817 million and $844 million, respectively.

A portion of the costs associated with these activities is reimbursed by customers and, for the years ended September 30, 2006, 2005 and 2004, were $323 million, $402 million and $352 million, respectively.

Earnings Per Share

Basic earnings per share are computed by dividing net income, after deducting dividend requirements on the Series D Convertible Preferred Stock, by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing net income, after deducting the after-tax compensation expense that would arise from the assumed conversion of the Series D Convertible Preferred Stock, by diluted weighted average shares outstanding. Diluted weighted average shares assume the conversion of the Series D Convertible Preferred Stock, if dilutive, plus the dilutive effect of common stock equivalents which would arise from the exercise of stock options. Effective December 31, 2003, the Company converted all the outstanding Series D Convertible Preferred Stock (see Note 13).

Foreign Currency Translation

Substantially all of the Company's international operations use the respective local currency as the functional currency. Assets and liabilities of international entities have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is defined as the sum of net income and all other non-owner changes in equity. The components of the non-owner changes in equity, or accumulated other comprehensive income, were as follows (in millions, net of tax):

	September 30, 2006	September 30, 2005
Foreign currency translation adjustments	$ 403	$ 129
Realized and unrealized gains/losses on derivatives	63	43
Minimum pension liability adjustment	(100)	(112)
Accumulated other comprehensive income	$ 366	$ 60

Derivative Financial Instruments

The Company has written policies and procedures that place all financial instruments under the direction of corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for speculative purposes is strictly prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates, commodity prices, 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 (OCI), depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. Gains and losses resulting from these contracts 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. Gains and losses on these contracts are recorded in miscellaneous — net in the consolidated statement of income and are recognized in the same period as gains and losses on the hedged items.

Cash Flow Hedges – The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the consolidated statement of financial position at fair value. The effective portion of the contracts' gains or losses due to changes in fair value are initially recorded as a component of accumulated OCI and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates or commodity price changes. The Company also selectively uses interest rate swaps to modify its exposure to interest rate movements. These swaps also qualify as cash flow hedges, with changes in fair value recorded as a component of accumulated OCI. Interest expense is recorded in earnings at the fixed rate set forth in the swap agreement. As of September 30, 2005, the Company entered into three forward treasury lock agreements designated as cash flow hedges to reduce the market risk associated with changes in interest rates related to the Company's fixed-rate note issuance (see Notes 10 and 11). There were no interest rate swaps designated as cash flow hedges outstanding at September 30, 2006.

For the years ended September 30, 2006, 2005, and 2004, the net amounts recognized in earnings due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not material. The amount reported as realized and unrealized gains/losses on derivatives in the accumulated OCI account within shareholders' equity represents the net gain/loss on derivatives designated as cash flow hedges.

Fair Value Hedges – The Company had two interest rate swaps outstanding at September 30, 2006 and 2005 designated as a hedge of the fair value of a portion of fixed-rate bonds (see Note 11). Both the swap and the hedged portion of the debt are recorded in the consolidated statement of financial position. The change in fair value of the swaps exactly offsets the change in fair value of the hedged debt, with no net impact on earnings.

Net Investment Hedges – The Company has cross-currency interest rate swaps and foreign currency-denominated debt obligations that are designated as hedges of the foreign currency exposure associated with its net investments in foreign operations. The currency effects of the debt obligations are reflected in the accumulated OCI account where they offset translation gains and losses recorded on the Company's net investments in Europe and Japan. The cross-currency interest rate swaps are recorded in the consolidated statement of financial position at fair value, with changes in value attributable to changes in foreign exchange rates recorded in the foreign currency translation adjustments component of accumulated OCI. Net interest payments or receipts from the interest rate swaps are recorded as adjustments to interest expense in earnings on a current basis. A net loss of approximately $29 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2006. A net gain of approximately $5 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2005.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R)." SFAS No. 158 requires that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in the fiscal year 2007 year-end balance sheet, with changes in the funded status recognized through other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status of a plan as of the date of its fiscal year-end. The Company is assessing the potential impact that the adoption of SFAS No. 158 will have on its consolidated financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for us beginning in fiscal year 2008. The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition, results of operations or cash flows.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company beginning October 1, 2007. The Company is assessing the potential impact that the adoption of FIN 48 will have on its previously established tax reserves, consolidated financial condition, results of operations or cash flows.

Effective for the year ended September 30, 2006, the Company adopted FIN 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. See Note 5 for the impact of the Company's adoption of FIN 47 in the fourth quarter of fiscal year 2006.

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (SFAS No. 123(R)), using the modified prospective method. See Note 12 for additional information regarding stock-based compensation.

Reclassification

Certain prior year amounts have been revised to conform to the current year's presentation. Specifically, the Company has revised its consolidated statements of cash flows for the years ended September 30, 2005 and 2004 to combine cash flows from discontinued operations with cash flows from continuing operations. The Company had previously separated these amounts from continuing operations and reported them as cash flows from discontinued operations.

2. ACQUISITIONS

On December 9, 2005, the Company completed its acquisition of York International Corporation (York). The Company paid $56.50 for each outstanding share of York common stock. The total cost of the acquisition, excluding cash acquired, was approximately $3.1 billion, including the assumption of $563 million of debt, change in control payments and direct costs of the transaction. The Company initially financed the acquisition by issuing unsecured commercial paper, which was refinanced with long-term debt on January 17, 2006. York's results of operations have been included in the consolidated financial statements since the date of acquisition.

The acquisition of York enabled the Company to become a single source supplier of integrated products and services for building owners to optimize comfort and energy efficiency. The acquisition enhanced the Company's heating, ventilating, and air conditioning equipment (HVAC), controls, fire and security capabilities and positions the Company in a strategic leadership position in the global building environment industry which offers significant growth potential.

The following table summarizes the preliminary fair values of the York assets acquired and liabilities assumed at the date of acquisition (in millions):

Current assets, net of cash acquired	$ 1,928
Property, plant and equipment	399
Goodwill	2,047
Other intangible assets	502
Other noncurrent assets	382
Total assets	5,258
Current liabilities	1,365
Noncurrent liabilities	1,360
Total liabilities	2,725
Net assets acquired	$ 2,533

In conjunction with the York acquisition, the Company recorded goodwill of approximately $2.0 billion, none of which is tax deductible, with allocation to the building efficiency business reporting segments as follows: $422 million to North America systems; $594 million to North America service; $473 million to North America unitary products group; $147 million to Europe; and $411 million to rest of world. In addition, intangible assets subject to amortization were valued at $246 million with useful lives between 1.5 and 30 years, of which $194 million was assigned to customer relationships with useful lives between 20 and 30 years. Intangible assets not subject to amortization, primarily trademarks, were valued at $256 million. The York purchase price allocation has been substantially completed as of September 30, 2006, and final adjustments, if any, are not expected to be material.

The Company has recorded restructuring reserves of approximately $158 million related to the York acquisition, comprised of $80 million of severance costs, $62 million related to contract terminations and facility closures and $16 million of other direct costs associated with exiting certain activities of the acquired business. These restructuring reserves include workforce reductions of approximately 3,000 employees and calls for two manufacturing plants to be closed while other plants and branch offices will be merged into existing facilities of the Company. The costs of these restructuring activities were recorded as costs of the acquisition and were provided for in accordance with FASB Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Company anticipates that the restructuring actions will be completed by the end of the third quarter of fiscal year 2007. As of September 30, 2006, $59 million of the restructuring reserves have been utilized, including severance ($30 million), contract termination and facility closure costs ($23 million) and other costs associated with exiting certain activities of the acquired business ($6 million).

Had the York acquisition been completed on October 1, 2004, the Company's unaudited pro forma consolidated results of operations would have been as follows (in millions, except per share amounts):

	Year Ended September 30,	
	2006	2005
Net sales	$ 32,983	$ 31,901
Income from continuing operations	1,028	694
Net income	1,023	851
Earnings per share from continuing operations		
Basic	$ 5.29	$ 3.62
Diluted	$ 5.23	$ 3.57
Earnings per share		
Basic	$ 5.26	$ 4.44
Diluted	$ 5.20	$ 4.38

The pro forma information for the year ended September 30, 2005 includes expense of approximately $51 million for the amortization of the inventory write-up. The pro forma information for the year ended September 30, 2006 includes the reversal of approximately $51 million related to the amortization of the inventory write-up that was included in the Company's consolidated operating results. The pro forma information does not purport to be indicative of the results that actually would have been achieved if the operations were combined during the periods presented and is not intended to be a projection of future results or trends.

Also in fiscal year 2006, the Company completed six additional acquisitions for a combined purchase price of $111 million, including the assumption of debt, none of which were material to the Company's consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $57 million.

In fiscal year 2005, the Company completed six acquisitions for a combined purchase price of approximately $333 million, including the assumption of debt. The most significant of these acquisitions are as follows:

- In July 2005, the Company completed the acquisition of Delphi Corporation's global battery business. This acquisition enables the Company to participate in the rapidly growing Asian automotive battery market, particularly in China.

- In June 2005, the Company completed its acquisition of USI Companies, Inc. This acquisition provides clients with an expanded, integrated mix of global corporate real estate services and enables the Company to further align new and existing customers' real estate assets with their business objectives.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the dates of acquisition in fiscal year 2005 (in millions).

Current assets, net of cash acquired	$ 163
Property, plant and equipment	134
Goodwill	155
Other intangible assets	61
Other noncurrent assets	63
Total assets	576
Current liabilities	179
Long-term liabilities	69
Total liabilities	248
Net assets acquired	$ 328

The operating results of these acquisitions have been included in the Company's consolidated financial statements from the dates of acquisition. Pro forma information reflecting these acquisitions has not been disclosed as the impact on consolidated net income was not material.

In conjunction with the fiscal year 2005 acquisitions, the Company recorded goodwill of $155 million, with allocation to the reporting segments as follows: $11 million, all of which is tax deductible, to building efficiency – North America service; $50 million, all of which is tax deductible, to the building efficiency – global facilities management; $8 million, none of which is tax deductible, to automotive experience — North America; and $86 million, $82 million of which is tax deductible, to power solutions. In addition, intangible assets subject to amortization, all of which were customer relationships, were valued at $61 million with useful lives between 10 and 50 years.

The Company has recorded restructuring reserves of $67 million related to the Delphi battery acquisition. These restructuring reserves included workforce reductions of approximately 1,500 employees and called for three plants to be closed or merged into existing facilities of the Company. The Company anticipates that the restructuring actions will be completed by the end of the first quarter of fiscal year 2007. As of September 30, 2006, $30 million of these restructuring reserves have been utilized.

In fiscal year 2004, the Company acquired 100% ownership of its power solutions joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV). The purchase price for the remaining 51% interest in the joint venture was $525 million, including the assumption of debt. The acquisition was funded initially with short-term debt. Management believed that the acquisition was in line with the Company's growth strategies and would provide new opportunities to strengthen the Company's global leadership position in the automotive battery industry.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Latin American JV acquisition, which was effective on August 1, 2004 (in millions).

Current assets, net of cash acquired	$	164
Property, plant and equipment		219
Goodwill		458
Other intangible assets		37
Other noncurrent assets		4
Total assets		882
Current liabilities		168
Long-term liabilities		214
Total liabilities		382
Less historical investment balance in partially-owned affiliate		117
Net assets acquired	$	383

The operating results of the Latin American JV have been included in the Company's consolidated financial statements from the date of acquisition. For periods prior to the acquisition, the Company's investment was accounted for by the equity method. Pro forma information reflecting this acquisition has not been disclosed as the impact on consolidated net income was not material.

In conjunction with the Latin American JV acquisition, the Company recorded goodwill of $458 million, none of which is tax deductible, and assigned it to the power solutions reporting segment. In addition, intangible assets subject to amortization, all of which were customer relationships, were valued at $12 million with a weighted average useful life of approximately 39 years. Intangible assets not subject to amortization, primarily trademarks, were valued at $25 million.

3. DISCONTINUED OPERATIONS

In December 2005, the Company acquired York's Bristol Compressor business as part of its acquisition of York (see Note 2) and engaged a firm to actively market the business. The Bristol Compressor business included Scroll Technologies, Inc., an unconsolidated joint venture with Carrier Corporation that was divested in September 2006. The Company continues to market the remainder of the Bristol Compressor business.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary, which had been included in the Company's former building efficiency segment, to IAP Worldwide Services, Inc. for $260 million. The sale resulted in a gain of approximately $139 million ($85 million after-tax), net of related costs.

In February 2005, the Company completed the sale of its engine electronics business, which had been included in the automotive experience - Europe segment, to Valeo for €316 million. This non-core business was acquired in fiscal year 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of $81 million ($51 million after-tax), net of related costs.

The following summarizes the net sales and income before income taxes and minority interests of the discontinued operations for the years ended September 30, 2006, 2005, and 2004 (in millions):

	Year Ended September 30,		
	2006	2005	2004
Net sales	$ 178	$ 540	$ 1,190
Income before income taxes and minority interests	3	26	82
Earnings per share from discontinued operations			
Basic	$ 0.01	$ 0.08	$ 0.27
Diluted	$ 0.01	$ 0.08	$ 0.26
Earnings per share from gain on sale of discontinued operations			
Basic	$ -	$ 0.71	$ -
Diluted	$ -	$ 0.70	$ -

The consolidated statement of financial position at September 30, 2006 includes assets of discontinued operations of $81 million within other current assets, which consisted of accounts receivable – net ($27 million), inventories ($44 million), other current assets ($7 million) and property, plant and equipment – net ($3 million). Liabilities of discontinued operations at September 30, 2006 within other current liabilities totaled $36 million, which consisted of accounts payable ($26 million) and other current liabilities ($10 million). At September 30, 2005 there were no assets or liabilities of discontinued operations recorded in the consolidated statement of financial position.

Assets of Johnson Controls World Services, Inc. as of the disposal date totaled $178 million, which consisted of accounts receivable ($127 million), goodwill ($30 million), property, plant and equipment — net ($10 million) and other miscellaneous assets ($11 million). Liabilities of Johnson Controls World Services, Inc. as of the disposal date totaled $57 million, which consisted of accounts payable ($40 million) and other miscellaneous liabilities ($17 million).

Assets of the engine electronics business as of the disposal date totaled $427 million, which consisted of goodwill ($154 million), accounts receivable ($100 million), property, plant and equipment — net ($69 million), other intangible assets — net ($59 million) and other miscellaneous assets ($45 million). Liabilities of the engine electronics business as of the disposal date totaled $89 million, which consisted of accounts payable ($82 million) and other miscellaneous liabilities ($7 million).

4. INVENTORIES

Inventories consisted of the following (in millions):

	September 30,	
	2006	2005
Raw materials and supplies	$ 655	$ 497
Work-in-process	294	158
Finished goods	854	378
FIFO inventories	1,803	1,033
LIFO reserve	(72)	(50)
Inventories	$ 1,731	$ 983

Inventories valued by the LIFO method of accounting were approximately 25% and 31% of total inventories at September 30, 2006 and 2005, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in millions):

	September 30, 2006	September 30, 2005
Buildings and improvements	$ 1,794	$ 1,784
Machinery and equipment	5,787	5,086
Construction in progress	589	479
Land	295	249
Total property, plant and equipment	8,465	7,598
Less accumulated depreciation	(4,497)	(4,017)
Property, plant and equipment - net	$ 3,968	$ 3,581

Interest costs capitalized during the years ended September 30, 2006, 2005, and 2004 were $21 million, $11 million and $16 million, respectively.

In March 2005, the FASB issued FIN 47, which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation (ARO) if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. Under FIN 47, companies must accrue for costs related to legal obligations associated with the retirement, disposal, removal or abandonment of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event and if the liability's fair value can be reasonably estimated. FIN 47 requires that the ARO estimate be recorded as a liability and as an increase to the related asset. The capitalized asset is depreciated over the remaining useful life of the asset.

We have identified certain legal and future environmental obligations at owned properties in the power solutions business as conditional AROs. In the fourth quarter of fiscal year 2006, the Company adopted FIN 47 and, using site-specific surveys and other historical information, recorded an increase in net property, plant and equipment of $16 million, an ARO liability of $28 million and a non-cash, after-tax charge of $7 million ($0.03 per share), which is reported in the fiscal year 2006 consolidated statement of income as a cumulative effect of a change in accounting principle, net of income taxes.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill in each of the Company's reporting segments for the years ended September 30, 2006 and 2005 were as follows (in millions):

	September 30, 2004	Business Acquisitions	Currency Translation and Other	September 30, 2005
Building efficiency				
North America Systems	$ 46	$ -	$ (1)	$ 45
North America Service	4	11	(4)	11
North America Unitary Products	-	-	-	-
Global Facilities Management	102	75	5	182
Europe	210	-	(3)	207
Rest of World	72	-	(1)	71
Interior experience				
North America	1,177	8	1	1,186
Europe	1,025	-	(12)	1,013
Asia	185	-	7	192
Power solutions	745	73	8	826
Total	$ 3,566	$ 167	$ -	$ 3,733

	September 30, 2005	Business Acquisitions	Currency Translation and Other	September 30, 2006
Building efficiency				
North America Systems	$ 45	$ 451	$ -	$ 496
North America Service	11	601	3	615
North America Unitary Products	-	473	-	473
Global Facilities Management	182	-	(16)	166
Europe	207	147	16	370
Rest of World	71	411	5	487
Interior experience				
North America	1,186	-	(10)	1,176
Europe	1,013	6	47	1,066
Asia	192	7	1	200
Power solutions	826	8	27	861
Total	$ 3,733	$ 2,104	$ 73	$ 5,910

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

	September 30, 2006			September 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Patented technology	$ 300	$ (126)	$ 174	$ 231	$ (103)	$ 128
Unpatented technology	31	(9)	22	31	(7)	24
Customer relationships	304	(15)	289	96	(8)	88
Miscellaneous	33	(20)	13	10	(8)	2
Total amortized intangible assets	668	(170)	498	368	(126)	242
Unamortized intangible assets						
Trademarks	295	-	295	40	-	40
Pension asset	6	-	6	7	-	7
Total unamortized intangible assets	301	-	301	47	-	47
Total intangible assets	$ 969	$ (170)	$ 799	$ 415	$ (126)	$ 289

Amortization of other intangible assets for the years ended September 30, 2006, 2005 and 2004 was $44 million, $23 million and $19 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately $37 million per year over the next five years.

7. PRODUCT WARRANTIES

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the consolidated statement of financial position.

The changes in the carrying amount of the Company's total product warranty liability for the years ended September 30, 2006 and 2005 were as follows (in millions):

	Year Ended September 30,	
	2006	2005
Beginning balance	$ 61	$ 67
Accruals for warranties issued during the period	127	47
Accruals from business acquisition	83	3
Accruals related to pre-existing warranties (including changes in estimates)	(3)	(7)
Settlements made (in cash or in kind) during the period	(107)	(49)
Currency translation	1	-
Ending balance	$ 162	$ 61

8. LEASES

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were $57 million and $71 million at September 30, 2006 and 2005, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense for the years ended September 30, 2006, 2005 and 2004 was $288 million, $242 million and $235 million, respectively.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2006 were as follows (in millions):

	Capital Leases	Operating Leases
2007	$ 12	$ 173
2008	11	143
2009	46	113
2010	5	80
2011	5	58
After 2011	25	110
Total minimum lease payments	104	$ 677
Interest	(14)	
Present value of net minimum lease payments	$ 90	

9. SHORT-TERM DEBT AND CREDIT AGREEMENTS

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

	September 30, 2006	September 30, 2005
Commercial paper	$ -	$ 477
Bank borrowings	209	207
Short-term debt	$ 209	$ 684
Weighted average interest rate on short-term debt outstanding	5.85%	3.75%

The Company has a $1.6 billion committed five-year credit facility to support its outstanding commercial paper. The facility expires in October 2010. Average outstanding commercial paper for the year ended September 30, 2006 was $1.1 billion. There were no draws against the $1.6 billion facility during the year ended September 30, 2006.

In addition, the Company had uncommitted lines of credit from banks totaling approximately $560 million at September 30, 2006 of which $350 million remained unused. The lines of credit are subject to the usual terms and conditions applied by banks.

10. LONG-TERM DEBT

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

	September 30, 2006	September 30, 2005
Unsecured notes		
4.875% due in 2013 ($300 million par value)	$ 299	$ 299
5.0% due in 2007 ($350 million par value)	352	354
6.3% due in 2008 ($175 million par value)	170	175
7.7% due in 2015 ($125 million par value)	125	125
7.125% due in 2017 ($150 million par value)	149	149
6.95% due in 2046 ($125 million par value)	125	125
5.25% due in 2011 ($800 million par value)	800	-
5.5% due in 2016 ($800 million par value)	799	-
6.0% due in 2036 ($400 million par value)	395	-
6.7% due in 2008 ($200 million par value)	204	-
5.8% due in 2013 ($100 million par value)	100	-
Floating rate notes due in 2008 ($500 million par value)	500	-
Unsecured loan		
Floating rate loan due in 2009	50	50
Capital lease obligations	90	105
Foreign-denominated debt		
euro	129	131
yen	237	91
Other	10	54
Gross long-term debt	4,534	1,658
Less: current portion	368	81
Net long-term debt	$ 4,166	$ 1,577

In January 2006, the Company issued $2.5 billion in floating and fixed rate notes consisting of the following four series: $500 million floating rate notes due in fiscal year 2008 (interest rate of 5.7% at September 30, 2006), $800 million fixed rate notes due in fiscal year 2011, $800 million fixed rate notes due in fiscal year 2016 and $400 million fixed rate notes due in fiscal year 2036. The Company also entered into a 24 billion yen (approximately $210 million) three year loan. The net proceeds of the note offering and the bank loan were used to repay the unsecured commercial paper obligations that were used to initially finance the acquisition of York.

At September 30, 2006, the Company's euro-denominated long-term debt was at fixed rates with a weighted-average interest rate of 8.0% and the Company's yen-denominated debt was at floating rates with a weighted average interest rate of 0.8%.

The installments of long-term debt maturing in subsequent years are: 2007 — $368 million; 2008 — $976 million; 2009 — $331 million; 2010 — $13 million; 2011 — $817 million; 2012 and thereafter — $2.0 billion. The Company's long-term debt includes various financial covenants, none of which are expected to restrict future operations.

Total interest paid on both short and long-term debt for the years ended September 30, 2006, 2005 and 2004 was $234 million, $133 million and $137 million, respectively. The Company uses financial instruments to manage its interest rate exposure (see Note 11). These instruments affect the weighted average interest rate of the Company's debt and interest expense.

11. FINANCIAL INSTRUMENTS

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, compensation expense and interest rates. Under Company policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. See Note 1 for additional information regarding the Company's objectives for holding certain derivative instruments, its strategies for achieving those objectives, and its risk management and accounting policies applicable to these instruments.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in currency exchange rates. The Company primarily uses foreign currency exchange contracts to hedge certain of its foreign currency exposure.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates (cash flow or fair value hedges). In May 2002, the Company entered into a four-and-a-half-year interest rate swap to hedge a portion of the Company's 5% notes maturing in November 2006. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 5% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 14.75 basis points. Terms of the four-and-a-half-year swap were modified since inception of the swap resulting in a decrease of the notional amount to $100 million from the original $250 million. In October 2003, the Company entered into a four-year and three-month interest rate swap to hedge the Company's 6.3% notes maturing in February 2008. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 6.3% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 283.5 basis points.

In September 2005, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York (cash flow hedge). The three forward treasury lock agreements, which had a combined notional amount of $1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, was amortized to interest expense over the life of the respective note issuance. In January 2006, in connection with the Company's debt refinancing, the three forward lock treasury agreements were terminated.

The Company also selectively uses cross-currency interest rate swaps to hedge the foreign currency exposure associated with its net investment in certain foreign operations (net investment hedges). Under the swaps, the Company receives interest based on a variable U.S. dollar rate and pays interest based on variable euro rates on the outstanding notional principal amounts in dollars and euro, respectively. The Company did not renew the Yen cross-currency interest rate swap that matured on June 30, 2006, and incurred an immaterial foreign exchange loss on the swap. The Company continues to carry Yen debt as a hedge of its Yen exposure related to its net investment in Japan.

In addition, the Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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. In March 2004, the Company entered into an equity swap agreement. In connection with the swap agreement, as amended, a third party may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. Although the swap agreement has a stated expiration date, the Company's intention is to continually renew the swap agreement with Citibank, N.A.'s consent. The net effect of the change in the fair value of the swap agreement and the change in equity compensation liabilities was not material to the Company's earnings for the years ended September 30, 2006 or 2005.

The Company uses commodity 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 upon purchase of the underlying commodities that will be used in the business. The maturities of the commodity contracts coincide with the expected purchase of the commodities. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items.

The Company's derivative instruments are recorded at fair value in the consolidated statement of financial position as follows (in millions at U.S. dollar equivalent):

	September 30,			
	2006		2005	
	Notional Amount	Fair Value Asset (Liability)	Notional Amount	Fair Value Asset (Liability)
Other current assets				
Treasury lock agreements	$ -	$ -	$ 1,275	$ 31
Foreign currency exchange contracts	2,801	3	2,988	20
Interest rate swaps	150	2	-	-
Cross-currency interest rate swaps	-	-	737	58
Equity swap	-	-	107	3
Commodity contracts	278	34	62	2
Other noncurrent assets				
Commodity contracts	20	5	-	-
Other current liabilities				
Cross-currency interest rate swaps	1,162	(63)	-	-
Equity swap	123	(1)	-	-
Other noncurrent liabilities				
Interest rate swaps	175	(5)	325	(2)

It is important to note that the Company's derivative instruments are hedges protecting against underlying changes in foreign currency, interest rates, compensation liabilities and commodity price changes. Accordingly, the implied gains/losses associated with the fair values of foreign currency exchange contracts and cross-currency interest rate swaps would be offset by gains/losses on underlying payables, receivables and net investments in foreign subsidiaries. Similarly, implied gains/losses associated with interest rate swaps offset changes in interest rates and the fair value of long-term debt.

The fair values of interest rate and cross-currency interest rate swaps were determined using dealer quotes and market interest rates. The fair values of foreign currency exchange contracts were determined using market exchange rates.

12. STOCK-BASED COMPENSATION

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS 123."

Effective October 1, 2005, the Company adopted SFAS No. 123(R) using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, prior periods will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted SFAS No. 123. Pro forma net income and basic and diluted earnings per share have not been disclosed as the impact of applying the fair value based method to all outstanding and unvested awards is not material to the Company's consolidated results of operations.

The Company has two share-based compensation plans, which are described below. The compensation cost charged against income for those plans was approximately $67 million, $38 million and $35 million for the years ended September 30, 2006, 2005 and 2004, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately $27 million, $15 million and $14 million for the years ended September 30, 2006, 2005 and 2004, respectively.

Prior to the adoption of SFAS No. 123(R), the Company applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognized compensation cost over the vesting period and, if the employee retired before the end of the vesting period, the Company recognized any remaining unrecognized compensation cost at the date of retirement. For stock-based payments issued after the adoption of SFAS No. 123(R), the Company applies a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting. Had the Company applied the non-substantive vesting period approach prior to the adoption of SFAS No. 123(R), an approximate $11 million and $5 million reduction of pre-tax compensation cost would have been recognized for the years ended September 30, 2006 and 2005, respectively. For the year ended September 30, 2004, the impact of applying the non-substantive vesting period approach is not significant.

Stock Option Plan

Stock Options

The Company's 2000 Stock Option Plan, as amended (Plan), which is shareholder-approved, permits the grant of stock options to its employees for up to approximately 13 million shares of new common stock (approximately 5 million shares of common stock remained available to be granted at September 30, 2006). Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards vest between two and three years after the grant date and expire 10 years from the grant date.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended September 30,		
	2006	**2005**	**2004**
Expected life of option (years)	4.75	5.00	5.00
Risk-free interest rate	4.46%	3.48%	3.00%
Expected volatility of the Company's stock	22.00%	20.00%	23.00%
Expected dividend yield on the Company's stock	1.70%	1.76%	1.75%
Expected forfeiture rate	12.75%	8.00%	7.00%

A summary of stock option activity at September 30, 2006, 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, 2005	$ 45.62	10,524,494		
Granted	67.76	2,880,641		
Exercised	35.97	(2,809,405)		
Forfeited or expired	58.93	(254,412)		
Outstanding, September 30, 2006	$ 54.08	10,341,318	7.2	$ 187

The weighted-average grant-date fair value of options granted during the years ended September 30, 2006, 2005 and 2004 was $15.35, $13.92 and $10.99, respectively.

The total intrinsic value of options exercised during the years ended September 30, 2006, 2005 and 2004 was approximately $106 million, $57 million and $62 million, respectively.

In conjunction with the exercise of stock options granted, the Company received cash payments for the years ended September 30, 2006, 2005, and 2004 of approximately $97 million, $66 million and $59 million, respectively.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.” The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). 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 SFAS 123(R). The tax benefit from the exercise of stock options, which is recorded in additional paid-in-capital, was $33 million, $28 million and $19 million, respectively, for the years ended September 30, 2006, 2005 and 2004. The Company does not settle equity instruments granted under share-based payment arrangements for cash.

At September 30, 2006, the Company had approximately $27 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.9 years.

Stock Appreciation Rights (SARs)

The Plan also permits SARs to be separately granted to certain employees. SARs vest under the same terms and conditions as option awards; however, they are settled in cash for the difference between the market price on the date of exercise and the exercise price. As a result, SARs are recorded in the Company’s consolidated statements of financial position as a liability until the date of exercise.

The fair value of each SAR award is estimated using a similar method described for option awards. In accordance with SFAS No. 123(R), the fair value of each SAR award is recalculated at the end of each reporting period and the liability and expense adjusted based on the new fair value. Prior to the effective date of SFAS No. 123(R), the SAR liability and expense was determined based on the intrinsic value of each award at the end of each reporting period. The difference between the fair value and intrinsic value of SAR awards on the date of adoption of SFAS No. 123(R) was not material to the Company’s consolidated results of operations.

The assumptions used to determine the fair value of the SAR awards at September 30, 2006 were as follows:

Expected life of SAR (years)	0.5 - 3.0
Risk-free interest rate	4.62 - 5.02%
Expected volatility of the Company's stock	22.00%
Expected dividend yield on the Company's stock	1.70%
Expected forfeiture rate	0-20%

A summary of SAR activity at September 30, 2006, 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, 2005	$ 39.05	999,165		
Granted	67.69	287,643		
Exercised	37.22	(255,047)		
Forfeited or expired	61.22	(34,255)		
Outstanding, September 30, 2006	$ 54.16	997,506	7.2	$ 18
Exerciseable, September 30, 2006	$ 39.93	378,499	5.2	$ 12

In conjunction with the exercise of SARs granted, the Company made payments of $10 million and $6 million during the years ended September 30, 2006 and 2005, respectively.

Restricted (Nonvested) Stock

In fiscal year 2002, the Company adopted a restricted stock plan that provides for the award of restricted shares of common stock or restricted share units to certain key employees. Awards under the restricted stock plan vest 50% after two years from the grant date and 50% after four years from the grant date.

A summary of the status of the Company's nonvested restricted shares at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average Price	Shares Subject to Restriction
Nonvested, September 30, 2005	$ 51.20	410,000
Granted	74.28	297,500
Vested	48.65	(269,000)
Forfeited or expired	-	-
Nonvested, September 30, 2006	$ 68.42	438,500

At September 30, 2006, the Company had approximately $17 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the restricted stock plan. That cost is expected to be recognized over a weighted-average period of 1.0 years.

13. SHAREHOLDERS' EQUITY

The Company originally issued 341.7969 shares of its 7.75% Series D Convertible Preferred Stock to its ESOP. The preferred stock was issued in fractional amounts representing one ten-thousandth of a share each or 3.4 million preferred stock units in total. Each preferred stock unit has a liquidation value of $51.20. The ESOP financed its purchase of the preferred stock units by issuing debt. An amount representing unearned employee compensation, equivalent in value to the unpaid balance of the ESOP debt, was recorded as a deduction from shareholders' equity.

Effective December 31, 2003, the Company's Board of Directors authorized the redemption of all the outstanding Series D Convertible Preferred Stock, held in the ESOP, and the ESOP trustee converted the preferred stock into common shares in accordance with the terms of the preferred stock certificate. The conversion resulted in the issuance of approximately 7.5 million common shares (on a post-split basis) and was accounted for through a transfer from preferred stock to common stock and capital in excess of par value. The conversion of $96 million of preferred shares held by the ESOP has been reflected within Shareholders' Equity in the consolidated statement of financial position. The conversion of these shares resulted in their inclusion in the basic weighted average common shares outstanding amount used to compute basic earnings per share (EPS). The conversion of preferred shares has always been assumed in the determination of diluted EPS. The Company's ESOP was financed with debt issued by the ESOP, and the final ESOP debt payment was paid by the Company in December 2003.

On November 19, 2003, the Company's Board of Directors declared a two-for-one split of the Company’s common stock payable January 2, 2004 to shareholders of record on December 12, 2003. The stock split resulted in the issuance of approximately 90.5 million additional shares of common stock. In connection with the stock split, the par value of the common stock was changed from $.16 2/3 per share to $.04 1/6 per share.

14. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the year that are calculated using the treasury-stock method for stock options. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any windfall tax benefits that would be credited to additional paid-in capital when the award generates a tax deduction. If there would be a shortfall resulting in a charge to additional paid-in capital, such an amount would be a reduction of the assumed proceeds.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share for the years ended September 30, 2006, 2005 and 2004 (in millions):

	Year Ended September 30,		
	2006	2005	2004
Income Available to Common Shareholders			
Net income and diluted income available to common shareholders	$ 1,028	$ 909	$ 818
Preferred stock dividends, net of tax benefit	-	-	(2)
Basic income available to common shareholders	$ 1,028	$ 909	$ 816
Weighted Average Shares Outstanding			
Basic weighted average shares outstanding	194.5	191.8	187.7
Effect of dilutive securities:			
Stock options	2.1	2.5	3.0
Convertible preferred stock	-	-	1.9
Diluted weighted average shares outstanding	196.6	194.3	192.6
Antidilutive Securities			
Options to purchase common shares	0.1	0.6	0.3

15. RETIREMENT PLANS

Pension Benefits

The Company has non-contributory defined benefit pension plans covering most U.S. and certain non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Effective January 1, 2006, certain of the Company's U.S. pension plans were amended to prohibit new participants from entering the plans. Active participants will continue to accrue benefits under the amended plans. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-US plans observes the local legal and regulatory limits. Also, the Company makes contributions to union-trusteed pension funds for construction and service personnel.

The Company's investment policies employ an approach whereby a mix of equities and fixed income 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 domestic and non-domestic 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. 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 Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations monthly, or as appropriate, in order to stay within a range of allocation for each asset category.

The Company's pension plan asset allocations by asset category are shown below.

	2006	2005
Equity securities:		
U.S. plans	63%	63%
Non-U.S. plans	51%	47%
Debt securities:		
U.S. plans	31%	36%
Non-U.S. plans	43%	47%
Real estate:		
U.S. plans	5%	1%
Non-U.S. plans	5%	5%
Cash/liquidity:		
U.S. plans	1%	-
Non-U.S. plans	1%	1%

The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

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 $1,360 million, $1,263 million and $802 million, respectively, as of September 30, 2006 and $769 million, $695 million and $296 million, respectively, as of September 30, 2005.

The Company expects to contribute approximately $103 million in cash to its defined benefit pension plans in fiscal year 2007. Projected benefit payments from the plans as of September 30, 2006 are estimated as follows (in millions):

2007	$	120
2008		127
2009		135
2010		143
2011		151
2012-2016		946

Savings and Investment Plans

The Company sponsors various defined contribution savings plans primarily in the U.S. that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will contribute to certain savings plans based on the employees' eligible pay and/or will match a percentage of the employee contributions up to certain limits. Excluding the ESOP, matching contributions charged to expense amounted to $60 million, $42 million and $23 million for the fiscal years ended 2006, 2005 and 2004, respectively.

The Company established an ESOP as part of its savings and investment plans. The Company's annual contributions to the ESOP, when combined with the preferred stock dividends, were of an amount which allowed the ESOP to meet its debt service requirements. This contribution amount was $17 million in 2004. The Company's final ESOP debt payment was made in December 2003 (see Note 13). Compensation expense recorded by the Company related to the ESOP was $26 million in 2004. No compensation expense was recorded by the Company related to the ESOP in 2006 or 2005.

Postretirement Health and Other Benefits

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S. Most non-U.S. employees are covered by government sponsored programs, and the cost to the Company is not significant. The U.S. benefits are paid as incurred. No change in the Company's practice of funding these benefits on a pay-as-you-go basis is anticipated.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits. Effective January 31, 1994, the Company modified certain salaried plans to place a limit on the Company's cost of future annual retiree medical benefits at no more than 150% of the 1993 cost.

The September 30, 2006 accumulated postretirement benefit obligation (APBO) for both pre-65 and post-65 years of age employees was determined using assumed medical care cost trend rates of 9.5% decreasing one half percent each year to an ultimate rate of 5% and prescription drug trend rates of 11.5% decreasing one half percent each year to an ultimate rate of 6%. The September 30, 2005 APBO for both pre-65 and post-65 years of age employees was determined using assumed health care cost trend rates for both medical and prescription drug costs of 10% decreasing 1% each year to an ultimate rate of 5%. The health care cost trend assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by $19 million at September 30, 2006 and the sum of the service and interest costs in fiscal year 2006 by $2 million. A one percentage point decrease in the assumed health care cost trend rate would have decreased the accumulated benefit obligation by $11 million at September 30, 2006 and the sum of the service and interest costs by $1 million.

The Company expects to contribute approximately $24 million in cash to its postretirement health and other benefit plans in fiscal year 2007. Projected benefit payments from the plans as of September 30, 2006 are estimated as follows (in millions):

2007	$	24
2008		25
2009		26
2010		28
2011		28
2012-2016		150

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) for employers sponsoring postretirement health 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 $4 million per year over the next ten years.

The table that follows contains the accumulated benefit obligation and reconciliations of the changes in the PBO, the changes in plan assets and the funded status (in millions):

	Pension				Postretirement Health and Other	
	U.S. Plans		Non-U.S. Plans			
September 30,	2006	2005	2006	2005	2006	2005
Accumulated Benefit Obligation	$ 1,810	$ 1,494	$ 1,232	$ 928	$ -	$ -
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	1,749	1,428	1,047	827	185	170
Service cost	87	64	38	26	7	5
Interest cost	112	89	50	40	16	10
Plan participant contributions	-	-	5	5	-	-
Acquisitions (1)	423	-	194	81	177	-
Actuarial loss (gain)	(287)	216	(19)	119	(33)	18
Amendments made during the year	13	2	-	-	-	1
Benefits paid	(79)	(52)	(38)	(32)	(25)	(21)
Special termination benefits	2	-	-	-	-	-
Curtailment loss (gain)	(2)	2	-	(7)	(2)	-
Settlement	-	-	-	-	1	-
Currency translation adjustment	-	-	63	(12)	1	2
Projected benefit obligation at end of year	$ 2,018	$ 1,749	$ 1,340	$ 1,047	$ 327	$ 185
Change in Plan Assets						
Fair value of plan assets at beginning of year	$ 1,453	$ 1,180	$ 630	$ 475	$ -	$ -
Actual return on plan assets	103	138	60	74	-	-
Acquisitions	328	-	112	64	-	-
Employer and employee contributions	48	187	108	56	25	21
Benefits paid	(79)	(52)	(38)	(32)	(25)	(21)
Currency translation adjustment	-	-	42	(7)	-	-
Fair value of plan assets at end of year	$ 1,853	$ 1,453	$ 914	$ 630	$ -	$ -
Funded status	$ (165)	$ (296)	$ (426)	$ (417)	$ (327)	$ (185)
Unrecognized net transition obligation	(2)	(4)	-	-	-	-
Unrecognized net actuarial loss (gain)	282	566	155	208	(14)	21
Unrecognized prior service cost	20	9	(2)	(3)	(6)	(8)
Employer contributions paid between the measurement date and September 30	1	1	3	1	-	-
Net accrued benefit cost recognized at end of year	$ 136	$ 276	$ (270)	$ (211)	$ (347)	$ (172)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 240	$ 323	$ 20	$ 8	$ -	$ -
Accrued benefit liability	(129)	(68)	(410)	(360)	(347)	(172)
Intangible asset	6	2	1	5	-	-
Accumulated other comprehensive income	19	19	119	136	-	-
Net amount recognized	$ 136	$ 276	$ (270)	$ (211)	$ (347)	$ (172)
Weighted Average Assumptions (2),						
Discount rate	6.50%	5.50%	4.60%	4.00%	6.40%	5.50%
Rate of compensation increase	3.60%	3.80%	3.30%	2.75%	NA	NA

(1) The acquisitions for the U.S. and non-U.S. pension plans for the year ended September 30, 2006 include $617 million projected benefit obligations, $440 million of plan assets and $177 million of accumulated postretirement benefit obligations primarily related to the York acquisition.

(2) Plan assets and obligations are determined based on a July 31 measurement date at September 30, 2006 and 2005 for U.S. plans and a September 30 measurement date at September 30, 2006 and 2005 for non-U.S. plans, utilizing assumptions as of those dates.

The table that follows contains the components of net periodic benefit cost (in millions).

	Pension						Postretirement		
	U.S. Plans			Non-U.S. Plans			Health and Other		
Year ended September 30	2006	2005	2004	2006	2005	2004	2006	2005	2004
Components of Net Periodic Benefit Cost									
Service cost	$ 87	$ 64	$ 58	$ 38	$ 26	$ 23	$ 7	$ 5	$ 5
Interest cost	112	89	82	50	40	35	16	10	11
Expected return on plan assets	(144)	(104)	(104)	(41)	(30)	(26)	-	-	-
Amortization of transitional obligation	(2)	(2)	(3)	-	-	-	-	-	-
Amortization of net actuarial loss	36	20	10	9	7	6	2	1	1
Amortization of prior service cost	1	2	1	-	(1)	-	(2)	(2)	(2)
Special termination benefits	2	-	-	-	-	-	-	-	-
Curtailment loss (gain)	-	2	1	-	(7)	-	(2)	-	1
Recognition of unrealized loss associated with transfer of Japanese pension obligation	-	-	-	-	-	14	-	-	-
Net periodic benefit cost	$ 92	$ 71	$ 45	$ 56	$ 35	$ 52	$ 21	$ 14	$ 16
Expense Assumptions									
Discount rate	5.50%	6.25%	6.50%	4.00%	4.50%	4.00%	5.50%	6.25%	6.50%
Expected return on plan assets	8.75%	8.75%	8.75%	5.90%	5.75%	5.25%	NA	NA	NA
Rate of compensation increase	3.80%	4.00%	4.00%	2.75%	3.00%	3.00%	NA	NA	NA

Japanese Pension Settlement Gain

During fiscal year 2004, the Company recorded a pension gain related to certain of the Company's Japanese pension plans established under the Japanese Welfare Pension Insurance Law. In accordance with amendments to this law, the Company completed the transfer of certain pension obligations and related plan assets to the Japanese government which resulted in a non-cash settlement gain of $84 million, net of $1 million associated with the recognition of unrecognized actuarial losses, recorded within SG&A expenses in the consolidated statement of income. The excess of benefit obligations over plan assets (funded status) of the Company's non-U.S. pension plans decreased $85 million as a result of the transfer.

16. RESTRUCTURING COSTS

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal year 2006 and recorded a $197 million restructuring charge. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of the third quarter of fiscal year 2007. The automotive experience business related restructuring is focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly relate to Europe where the Company has launched a systems redesign initiative. During the fourth quarter of fiscal year 2006, automotive experience – North America increased its 2006 Plan restructuring charge by $8 million for additional employee severance and termination benefits. The Company expects to incur other related and ancillary costs associated with some of these restructuring activities in future periods. These costs are not expected to be material and will be expensed as incurred.

The 2006 Plan includes workforce reductions of approximately 4,700 employees (2,200 for automotive experience – North America, 1,400 for automotive experience – Europe, 200 for building efficiency – North America, 600 for building efficiency – Europe, 280 for building efficiency – Rest of World and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits will be paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2006, approximately 350 employees have been separated from the Company. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience – North America, 3 in automotive experience – Europe, 1 in building efficiency – Europe and 1 in building efficiency – Rest of World). The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

The following table summarizes the Company's 2006 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Original reserve	$ 134	$ 63	$ -	$ 197
Additional provision	8	-	-	8
Utilized - Cash	(17)	-	-	(17)
Utilized - Noncash	-	(51)	1	(50)
Balance at September 30, 2006	$ 125	$ 12	$ 1	$ 138

Included within the "other" category are the write down of long-lived assets, exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs. The write down of long-lived assets includes $47 million related to automotive experience and $4 million related to building efficiency.

In the second quarter of fiscal year 2005, the Company committed to a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge. This restructuring charge included workforce reductions of approximately 3,900 employees. During the fourth quarter of fiscal year 2006, automotive experience – Europe reversed $6 million of restructuring reserves from the 2005 Plan that were not expected to be utilized. Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2006, approximately 2,900 employees have separated from the Company pursuant to the 2005 Plan. In addition, the 2005 Plan included 12 plant closures. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis. The closures/restructuring activities are primarily concentrated in Europe and North America.

The following table summarizes the 2005 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2005	$ 88	$ 14	$ (9)	$ 93
Utilized - Cash	(55)	(5)	-	(60)
Utilized - Noncash	-	(1)	5	4
Reserve release - Noncash	-	(6)	-	(6)
Balance at September 30, 2006	$ 33	$ 2	$ (4)	$ 31

Included within the "other" category were exit costs related to terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs. The majority of the restructuring activities under the 2005 Plan are expected to be completed by December 2006.

In the second quarter of fiscal year 2004, the Company committed to a restructuring plan (2004 Plan), of which substantially all of the reserves have been utilized. During the fourth quarter of fiscal year 2006, automotive experience – Europe released $2 million in remaining reserves not expected to be utilized.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering, and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of its operations.

17. INCOME TAXES

An analysis of effective income tax rates for continuing operations is shown below:

	Year Ended September 30,		
	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.7	1.5	1.4
Foreign income tax expense at different rates and foreign losses without tax benefits	(22.5)	(11.6)	(4.5)
U.S. tax on foreign income	(2.6)	(17.6)	(4.8)
Reserve and valuation allowance adjustments	(8.3)	15.1	(2.8)
Other	1.2	(2.0)	(0.8)
Effective income tax rate	5.5%	20.4%	23.5%

The Company's base effective income tax rate for continuing operations for fiscal year 2006 declined to 21.0% from 25.7% in fiscal year 2005 and 26.0% in fiscal year 2004, primarily due to continuing global tax planning initiatives, increased income in certain foreign jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions. The Company's effective tax rates were further reduced as a result of the following discrete items:

	Year Ended September 30,		
	2006	2005	2004
Federal, state and foreign income tax expense at base effective income tax rate	$ 239	$ 258	$ 278
Restructuring charge	(19)	-	-
Valuation allowance adjustments	(163)	28	-
Uncertain tax positions	(10)	-	(27)
Foreign dividend repatriation	31	-	-
Disposition of a joint venture	(4)	-	-
Change in tax status of foreign subsidiaries	(11)	(81)	-
Provision for income taxes	$ 63	$ 205	$ 251

Restructuring Charge

In the third quarter of fiscal year 2006, the Company recorded a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%.

Valuation Allowance Adjustments

Based on the Company's cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal year 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the second quarter of fiscal year 2006 the Company reversed a valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

In the third quarter of fiscal year 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the third quarter as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Uncertain Tax Positions

The Company's effective tax rate was reduced in the third quarter of fiscal year 2006 by a $10 million tax benefit related to a favorable tax audit resolution in a foreign jurisdiction. In fiscal year 2004, the Company's effective tax rate was reduced by a $27 million favorable tax settlement.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 "Accounting for Contingencies." The Company's federal income tax returns and certain foreign income tax returns for fiscal years 1997 through 2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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, 2006, the Company has recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ.

Foreign Dividend Repatriation

In October 2004, the President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign operations. The deduction is subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and $674 million of foreign earnings were repatriated to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company's AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the second quarter of fiscal year 2006, as $11 million had been previously recorded by York prior to it becoming a subsidiary of the Company in accordance with York's approved repatriation plan.

Other Discrete Period Items

The Company's effective tax rate was reduced in the first quarter of fiscal year 2006 by a $4 million tax benefit related to a $9 million gain resulting from the disposition of the Company's interest in a German joint venture.

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by $11 million due to a change in tax status for subsidiaries in Hungary and the Netherlands. In fiscal year 2005, the tax provision decreased as a result of a $12 million and $69 million tax benefit from a change in tax status of subsidiaries in France and Germany, respectively, partially offset by an increase in the tax valuation allowance of $28 million related to restructuring charges for which no tax benefit was received in certain countries (primarily Germany and the U.K.) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in the country at that time. The changes in tax status in each respective period resulted from a voluntary tax election that produced deemed liquidations for U.S. federal income tax purposes. The Company received these tax benefits in the U.S. for the losses from the decrease in value from the original tax bases of these investments. These elections changed the tax status of the respective subsidiaries from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and are thereby reported as discrete period tax benefits in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, World Services and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Components of the provision for income taxes on continuing operations were as follows (in millions):

	Year Ended September 30,		
	2006	2005	2004
Current			
Federal	$ 259	$ 171	$ 99
State	67	19	9
Foreign	141	40	43
	467	230	151
Deferred			
Federal	(5)	34	73
State	(27)	2	9
Foreign	(372)	(61)	18
	(404)	(25)	100
Provision for income taxes	$ 63	$ 205	$ 251

Consolidated domestic income from continuing operations before income taxes and minority interests for the years ended September 30, 2006, 2005 and 2004 was $754 million, $826 million and $759 million, respectively. Consolidated foreign income from continuing operations before income taxes and minority interests for the years ended September 30, 2006, 2005 and 2004 was $384 million, $177 million and $311 million, respectively.

Income taxes paid for the years ended September 30, 2006, 2005 and 2004 were $156 million, $177 million, and $107 million, respectively.

The Company has not provided additional U.S. income taxes on approximately $960 million of undistributed earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on such earnings.

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

	September 30, 2006	September 30, 2005
Other current assets	$ 459	$ 238
Other noncurrent assets	964	259
Other current liabilities	(48)	(46)
Other noncurrent liabilities	(502)	(400)
Net deferred tax asset	$ 873	$ 51

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

	September 30, 2006	September 30, 2005
Deferred tax assets		
Accrued expenses and reserves	$ 593	$ 314
Employee and retiree benefits	149	35
Long-term contracts	10	17
Net operating loss and other carryforwards	819	759
Other	235	39
	1,806	1,164
Valuation allowances	(355)	(573)
	1,451	591
Deferred tax liabilities		
Property, plant and equipment	81	134
Joint ventures	8	11
Intangible assets	300	111
Foreign currency translation adjustments	189	284
	578	540
Net deferred tax asset	$ 873	$ 51

At September 30, 2006, the Company had available foreign net operating loss carryforwards of approximately $2.0 billion, of which $589 million will expire at various dates between 2007 and 2021, and the remainder have an indefinite carryforward period. The valuation allowance, generally, represents loss carryforwards for which utilization is uncertain because it is unlikely that the losses will be utilized given the lack of sustained profitability and/or limited carryforward periods in certain countries.

18. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain operating segments are aggregated or combined based on materiality within building efficiency - rest of world and power solutions in accordance with the standard. The Company's ten reportable segments are presented in the context of its three primary businesses – building efficiency, automotive experience and power solutions.

Building efficiency

North America Systems designs, produces, markets and installs heating, ventilating, and air conditioning equipment (HVAC) and control systems that monitor, automate and integrate critical building operating equipment and conditions including HVAC, fire-safety and security in commercial buildings and in various industrial applications in North America.

- North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

- North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

- North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

- Workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

- Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

- Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

Automotive experience

Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover vehicles in North America, Europe and Asia. Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems.

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.

The accounting policies applicable to the reportable segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Management evaluates the performance of the segments based primarily on operating income, excluding significant restructuring costs and other significant non-recurring gains and losses. Operating revenues and expenses are allocated to business segments in determining segment operating income. Items excluded from the determination of segment operating income include interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses and long-term assets, foreign currency gains and losses, and other miscellaneous income and expense. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-operating assets. Financial information relating to the Company's reportable segments is as follows (in millions):

	Year Ended September 30,		
	2006	2005	2004
Net Sales			
Building efficiency			
North America Systems	$ 1,609	$ 1,158	$ 1,132
North America Service	1,943	1,186	987
North America Unitary Products	853	-	-
Workplace Solutions	2,046	1,863	1,753
Europe	1,900	899	866
Rest of World	1,894	612	586
	10,245	5,718	5,324
Automotive experience			
North America	8,041	8,499	8,237
Europe	8,774	8,935	7,677
Asia	1,459	1,399	1,093
	18,274	18,833	17,007
Power solutions	3,716	2,928	2,272
Net Sales	$ 32,235	$ 27,479	$ 24,603

	Year Ended September 30,		
	2006	2005	2004
Operating Income			
Building efficiency			
North America Systems (1)	$ 132	$ 112	$ 91
North America Service (2)	145	84	52
North America Unitary Products	71	-	-
Workplace Solutions (3)	67	68	59
Europe (4)	(7)	(7)	(6)
Rest of World (5)	128	38	45
	536	295	241
Automotive experience			
North America (6)	145	350	504
Europe (7)	383	252	113
Asia (8)	(28)	30	38
	500	632	655
Power solutions (9)	443	349	237
	1,479	1,276	1,133
Restructuring costs	(197)	(210)	(82)
Japanese pension gain	-	-	84
Operating income	$ 1,282	$ 1,066	$ 1,135

	Year Ended September 30,		
	2006	2005	2004
Assets			
Building efficiency			
North America Systems	$ 1,550	$ 450	$ 323
North America Service	1,442	382	325
North America Unitary Products	915	-	-
Workplace Solutions	707	547	654
Europe	1,940	534	421
Rest of World	2,036	559	508
	8,590	2,472	2,231
Automotive experience			
North America	3,284	4,050	3,646
Europe	5,224	5,260	5,186
Asia	851	866	751
	9,359	10,176	9,583
Power solutions	2,827	3,000	2,562
Unallocated	1,145	496	382
Total	$ 21,921	$ 16,144	$ 14,758

	Year Ended September 30,		
	2006	2005	2004
Depreciation/Amortization			
Building efficiency			
North America Systems	$ 15	$ 3	$ 3
North America Service	18	13	14
North America Unitary Products	9	-	-
Workplace Solutions	12	8	9
Europe	30	7	11
Rest of World	30	16	16
	114	47	53
Automotive experience			
North America	201	207	194
Europe	226	238	235
Asia	29	25	17
	456	470	446
Power solutions	135	122	95
Total	$ 705	$ 639	$ 594

	Year Ended September 30,		
	2006	2005	2004
Capital Expenditures			
Building efficiency			
North America Systems	$ 6	$ 7	$ 4
North America Service	13	5	9
North America Unitary Products	13	-	-
Workplace Solutions	14	14	7
Europe	18	3	4
Rest of World	25	12	9
	89	41	33
Automotive experience			
North America	218	267	306
Europe	182	203	355
Asia	25	56	41
	425	526	702
Power solutions	197	97	82
Total	$ 711	$ 664	$ 817

(1) Building efficiency – North America systems operating income for the years ended September 30, 2005 and 2004 excludes $3 million and $2 million, respectively, of restructuring costs.

(2) Building efficiency – North America service operating income for the years ended September 30, 2006 and 2004 excludes $1 million and $2 million, respectively, of restructuring costs.

(3) Building efficiency – Workplace solutions operating income for the years ended September 30, 2006 and 2005 excludes $7 million and $13 million, respectively, of restructuring costs.

(4) Building efficiency – Europe operating income for the years ended September 30, 2006, 2005 and 2004 excludes $40 million, $8 million and $8 million, respectively, of restructuring costs.

(5) Building efficiency – Rest of world operating income for the years ended September 30, 2006, 2005 and 2004 excludes $17 million, $27 million and $1 million, respectively, of restructuring costs.

(6) Automotive experience – North America operating income for the years ended September 30, 2006, 2005 and 2004 excludes $75 million, $12 million and $5 million, respectively, of restructuring costs.

(7) Automotive experience – Europe operating income for the years ended September 30, 2006, 2005 and 2004 excludes $53 million, $130 million and $51 million, respectively, of restructuring costs.

(8) Automotive experience – Asia operating income for the year ended September 30, 2006 excludes $1 million of restructuring costs. Automotive experience – Asia operating income for the year ended September 30, 2004 excludes a pension gain of $84 million.

(9) Power solutions operating income for the years ended September 30, 2006, 2005 and 2004 excludes $3 million, $17 million and $13 million, respectively, of restructuring costs.

In fiscal year 2006, the Company recorded income related to a favorable legal settlement associated with the recovery of previously incurred environmental costs in the power solutions segment ($33 million). The Company also recorded income related to this legal settlement in building efficiency – North America systems ($7 million) and other segments ($6 million), which was offset by other unfavorable commercial and legal settlements.

The Company has significant sales to the automotive industry. The following is a summary of the percentages of net sales from major customers:

	Year ended September 30,		
	2006	2005	2004
General Motors Corporation	11%	14%	14%
DaimlerChrysler AG	11%	11%	11%
Ford Motor Company	10%	11%	14%

Approximately 40% of the Company's 2006 net sales to these customers were in the United States, 43% were European sales and 17% were attributable to sales in other foreign markets. As of September 30, 2006, the Company had accounts receivable totaling approximately $1.4 billion from these customers.

Geographic Segments

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

	Year ended September 30,		
	2006	2005	2004
Net Sales			
United States	$ 12,822	$ 11,000	$ 10,333
Germany	3,390	3,271	2,680
Other European countries	9,208	8,066	7,119
Other foreign	6,815	5,142	4,471
Total	$ 32,235	$ 27,479	$ 24,603
Long-Lived Assets (Year-end)			
United States	$ 1,563	$ 1,355	$ 1,222
Germany	448	640	640
Other European countries	1,044	723	794
Other foreign	913	863	678
Total	$ 3,968	$ 3,581	$ 3,334

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.

19. COMMITMENTS AND CONTINGENCIES

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court's decision in *City of Edgerton v. General Casualty Co. of Wisconsin*. The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts' judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the Edgerton case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court's decision remanded the case to the Circuit Court for further consideration. In fiscal years 2005 and 2006, the Company filed motions for declaratory judgment, in which it seeks a ruling that some of its insurers breached their respective duties to defend, thus waiving defenses against the Company's environmental claims. The Company is currently in settlement negotiations with certain of the insurance company defendants and, in the third quarter of fiscal year 2006, reached agreement with one of the defendants. The ultimate outcome of claims against the other defendants cannot be determined at this time; however, the Company expects a decision on its motion during fiscal year 2007.

Following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of York, York had made improper payments to the Iraqi regime, York and the Company jointly undertook to investigate the allegations and offered the companies' cooperation to the Department of Justice (DOJ) and Securities and Exchange Commission (SEC). After completing the York acquisition, the Company continued the internal inquiry and expanded its scope to include other aspects of York's Middle East operations, including a review of York's use of agents, consultants and other third parties, York's compliance with the Office of Foreign Assets Control licensing requirements, and York's compliance with other potentially applicable trade laws. The Company has also reviewed certain of York's sales practices in selected Asian markets. The factual inquiry is now substantially complete and indicates that in a number of instances, York engaged in conduct that may lead to enforcement actions against the Company under applicable U.S. laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties. The Company has been voluntarily disclosing this information and offering continued cooperation with the DOJ and SEC, as well as to other relevant authorities in the U.S. Departments of Treasury, Commerce and Defense. The Company has begun preliminary discussions with the relevant authorities to explore how these matters may be resolved. The Company is in the process of evaluating and implementing various remedial measures with respect to the York operations. Based on our understanding of the scope of the potential violations, a review of the statutory penalty amounts articulated in the relevant statutes, our expectation that mitigating factors will be applied to reduce the amount of the penalties and our review of past settlements made by public companies in similar circumstances, the Company has determined a range of potential exposure and accrued for its best estimate in the York opening balance sheet. The Company expects resolution of this matter in fiscal year 2007.

Prior to the Company's acquisition of York, York had been named as one of many defendants in lawsuits alleging personal injury to one or more individuals from exposure to asbestos or asbestos-containing products previously manufactured by York or by companies from which York purchased product lines. As of September 30, 2006, the Company has recorded in the York opening balance sheet a liability of $39 million for the estimated loss of known open asbestos-related claims and a receivable of $8 million for estimated recoveries from our insurance carriers. The Company estimates losses based upon York's historical experience of actual losses incurred. The Company's estimate of asbestos-related liabilities for pending and expected future asbestos claims is subject to considerable uncertainty because such liabilities are influenced by numerous variables that are inherently difficult to predict, including but not limited to: the variable rate at which new claims are filed; the impact of bankruptcies of other companies currently or historically defending asbestos claims; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; and unknown detail of each individual claim such as the plaintiff's employment history, severity and type of injury, age, and other key factors. The Company estimates recoveries based upon the terms of the proposed interim cost-sharing arrangement and availability of other insurance and indemnification coverage. Costs related to asbestos-related matters were not material to the Company's consolidated financial position, results of operations or cash flows for the fiscal year ended September 30, 2006.

The Company is involved in a number of proceedings relating to environmental matters. At September 30, 2006 and 2005, the Company recorded a liability of approximately $34 million and $28 million, respectively, relating to environmental matters. The decrease in environmental liabilities from the prior year disclosure is primarily due to the adoption of FIN 47 in fiscal year 2006. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities, the Company's future expenses to remediate the currently identified sites could be considerably higher than the accrued liability. Although it is difficult to estimate the liability of the Company related to these environmental matters, the Company believes that these matters will not have a materially adverse effect upon its capital expenditures, consolidated net income or competitive position. Costs related to such matters were not material to the Company’s consolidated financial position, results of operations or cash flows for the periods presented.

The Company is also involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a materially adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the Company’s consolidated financial position, results of operations or cash flows for the periods presented.

The Company has entered into supply contracts with certain vendors that include minimum volume requirements which, if not met, could subject the Company to potential liabilities. As of September 30, 2006, there were no known volume shortfalls that would materially impact the Company’s consolidated financial position, results of operations or cash flows.

A significant portion of the Company’s sales are to customers in the automotive industry. Future adverse developments in the automotive industry could impact the Company’s liquidity position and/or require additional restructuring of the Company’s operations. In addition, a downturn in the North America automotive market may also impact certain vendors’ financial solvency, including the ability to meet restrictive debt covenants, resulting in potential liabilities or additional costs to the Company to ensure uninterrupted supply to its customers.

JOHNSON CONTROLS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Year Ended September 30,	2006	2005	2004
Accounts Receivable - Allowance for Doubtful Accounts			
Balance at beginning of period	$ 47	$ 47	$ 48
Provision charged to costs and expenses	30	25	24
Reserve adjustments	(14)	(10)	(11)
Accounts charged off	(17)	(17)	(18)
Acquisition of businesses	35	1	2
Currency translation	(1)	-	3
Other	-	1	(1)
Balance at end of period	$ 80	$ 47	$ 47
Deferred Tax Assets - Valuation Allowance			
Balance at beginning of period	$ 573	$ 572	$ 472
Allowance established for new operating and other loss carryforwards	26	96	113
Acquisition of businesses	60	-	-
Allowance reversed for loss carryforwards utilized and other adjustments	(304)	(95)	(13)
Balance at end of period	$ 355	$ 573	$ 572

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of September 30, 2006 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2006 using the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Company concluded that it maintained effective internal controls over financial reporting as of September 30, 2006 based on criteria in *Internal Control - Integrated Framework* issued by the COSO.

Management's assessment of the effectiveness of our internal controls over financial reporting as of September 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B OTHER INFORMATION

On December 5, 2006, the Company entered into an amended and restated Credit Agreement, dated that day, among the Company, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders (Credit Agreement). The Credit Agreement replaced the Company's existing $1.6 billion five-year revolving credit facility that was scheduled to expire on October 5, 2010. There were no amounts outstanding under the facility on the date of its termination, and the Company did not incur any early termination penalties. The Company intends to use the revolving credit facility to provide a liquidity backstop for the Company's commercial paper. The facility is available for general corporate purposes.

The Credit Agreement provides for a revolving credit facility that matures in December 2011. The initial maximum aggregate amount of availability under the revolving credit facility is $2.0 billion, of which the entire amount is currently undrawn and available. The Credit Agreement expressly contemplates that the Company may seek to increase the maximum aggregate amount of availability under the revolving credit facility by $500 million. An increase is subject to the satisfaction of certain conditions, including the identification of lenders (which may include existing lenders or new lenders) willing to provide the additional commitments.

The description of the Credit Agreement set forth above is qualified by reference to the Credit Agreement filed herewith as Exhibit 4.E and incorporated herein by reference.

PART III

The information required by Part III, Items 10, 11, 12 and 14, is incorporated herein by reference to the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders (fiscal year 2006 Proxy Statement), dated and to be filed with the SEC on December 6, 2006, as follows:

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to sections entitled "Proposal One: Election of Directors," "Board Information," "Board Compensation," "Beneficial Ownership Reporting Compliance," "Q: Where can I find Corporate Governance materials for Johnson Controls?" and "Audit Committee Report" of the fiscal year 2006 Proxy Statement. Required information on executive officers of the Company appears at Part I, Item 4 of this report.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference to sections entitled "Executive Compensation," "Compensation Committee Report," "Performance Graph," "Board Information" and "Employment Agreements" of the fiscal year 2006 Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to sections entitled "Johnson Controls Share Ownership" and "Equity Compensation Plan Information" (located in the body of Proposal Three) of the fiscal year 2006 Proxy Statement.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the section entitled "Relationship with Independent Auditors" of the fiscal year 2006 Proxy Statement.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(3) Exhibits

Reference is made to the separate exhibit index contained on pages 93 through 95 filed herewith.

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less-owned companies have been omitted because the proportionate share of their profit before income taxes and total assets are less than 20% of the respective consolidated amounts, and investments in such companies are less than 20% of consolidated total assets.

Other Matters

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-30309, 33-31271, 33-58092, 33-58094, 333-10707, 333-66073, 333-41564 and 333-117898.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

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

JOHNSON CONTROLS, INC.

By /s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

Date: December 5, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of December 5, 2006, by the following persons on behalf of the registrant and in the capacities indicated:

/s/ John M. Barth
John M. Barth
Chief Executive Officer
and Director (Chairman)

/s/ Stephen A. Roell
Stephen A. Roell
Vice Chairman and
Executive Vice President

/s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

/s/ Jeffrey G. Augustin
Jeffrey G. Augustin
Vice President and Corporate
Controller (Principal Accounting
Officer)

/s/ Dennis W. Archer
Dennis W. Archer
Director

/s/ Robert L. Barnett
Robert L. Barnett
Director

/s/ Natalie A. Black
Natalie A. Black
Director

/s/ Paul A. Brunner
Paul A. Brunner
Director

/s/ Robert A. Cornog
Robert A. Cornog
Director

/s/ Jeffrey A. Joerres
Jeffrey A. Joerres
Director

/s/ William H. Lacy
William H. Lacy
Director

/s/ Southwood J. Morcott
Southwood J. Morcott
Director

/s/ Eugenio Clariond Reyes-Ratana
Eugenio Clariond Reyes-Ratana
Director

/s/ Richard F. Teerlink
Richard F. Teerlink
Director

Johnson Controls, Inc.
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Exhibit	Title
3.(i)	Composite of Restated Articles of Incorporation of Johnson Controls, Inc., as amended through December 12, 2003 (incorporated by reference to Exhibit 3.(ii) to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2003) (Commission File No. 1-5097).
3.(ii)	By-laws of Johnson Controls, Inc., as amended November 15, 2006 (incorporated by reference to Exhibit 3 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2006) (Commission File No. 1-5097).
4.A	Miscellaneous long-term debt agreements and financing leases with banks and other creditors and debenture indentures.*
4.B	Miscellaneous industrial development bond long-term debt issues and related loan agreements and leases.*
4.C	Letter of agreement dated December 6, 1990 between Johnson Controls, Inc., LaSalle National Trust, N.A. and Fidelity Management Trust Company which replaces LaSalle National Trust, N.A. as Trustee of the Johnson Controls, Inc. Employee Stock Ownership Plan Trust with Fidelity Management Trust Company as Successor Trustee, effective January 1, 1991 (incorporated by reference to Exhibit 4.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991) (Commission File No. 1-5097).
4.D	Indenture for debt securities dated January 17, 2006 between Johnson Controls, Inc. and The Bank of New York, as successor trustee to JP Morgan Chase Bank, National Association (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc. Registration Statement on Form S-3ASR [Reg. No. 333-130714]).
4.E	Amended and restated Credit Agreement, dated December 5, 2006, among Johnson Controls, Inc., the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders, filed herewith.
10.A	Johnson Controls, Inc. 1992 Stock Option Plan, as amended on September 16, 2006, filed herewith.**
10.B	Johnson Controls, Inc. Common Stock Purchase Plan for Executives as amended November 17, 2004 and effective December 1, 2004 (incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004) (Commission File No. 1-5097).**
10.D	Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors as amended on November 15, 2006, filed herewith.**
10.H	Johnson Controls, Inc. Executive Survivor Benefits Plan amended through October 1, 2001 (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.K	Form of employment agreement effective May 23, 2005, between Johnson Controls, Inc. and all elected officers (incorporated by reference to Exhibit 99 to Johnson Controls, Inc. Current Report on Form 8-K dated May 23, 2005) (Commission File No. 1-5097).**
10.L	Form of indemnity agreement effective September 21, 2005, between Johnson Controls, Inc. and each of the directors and elected officers (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated September 21, 2005) (Commission File No. 1-5097). **
10.M	Johnson Controls, Inc. Director Share Unit Plan, as amended on November 15, 2006, filed herewith.**

Johnson Controls, Inc.
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Exhibit	Title
10.N	Johnson Controls, Inc. 2000 Stock Option Plan, as last amended on September 16, 2006, filed herewith.**
10.O	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended through October 1, 2001, as in use through March 20, 2006 (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2004) (Commission File No. 1-5097).**
10.P	Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended March 21, 2006 (incorporated by reference to Exhibit 10.2 to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2006) (Commission File No. 1-5097).**
10.Q	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003, as in use through January 2004 (incorporated by reference to Exhibit 10.Q to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2005) (Commission File No. 1-5097).**
10.R	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended March 21, 2006, as approved for use for future grants, filed herewith.**
10.S	Johnson Controls, Inc. Executive Deferred Compensation Plan, as amended on November 14, 2006, filed herewith.**
10.T	Johnson Controls, Inc. 2003 Stock Plan for Outside Directors, as amended and restated effective October 1, 2006, filed herewith.**
10.U	Letter agreement as accepted by the Company on November 6, 2006 between Johnson Controls, Inc. and Giovanni Fiori relating to Mr. Fiori's retirement date, filed herewith, in accordance with the terms of the letter agreement dated November 29, 2004 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.S to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005), relating to the letter agreement dated November 21, 2002 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.R to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003), and to the Johnson Controls, Inc. Executive Survivor Benefits Plan (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.V	Agreement and Plan of Merger between Johnson Controls, Inc., YJC Acquisition Corp., and York International Corp. effective August 24, 2005 (incorporated by reference to Exhibit 2 to Johnson Controls, Inc. Current Report on Form 8-K/A dated August 24, 2005) (Commission File No. 1-5097).
10.Y	Johnson Controls, Inc. Annual and Long-Term Incentive Performance Plan, effective October 1, 2005 (incorporated by reference to Appendix A of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 12, 2005) (Commission File No. 1-5097).**
10.Z	Johnson Controls, Inc. Retirement Restoration Plan, approved on September 16, 2006, filed herewith.**
10.AA	Summary of Non-Employee Director Compensation approved on November 15, 2006, filed herewith.**
10.BB	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, for grants made on January 3, 2006, filed herewith.**

Johnson Controls, Inc.
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Exhibit	Title
10.CC	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended September 16, 2006, as approved for use for future grants, filed herewith.**
21	Subsidiaries of the Registrant, filed herewith.
23	Consent of Independent Registered Public Accounting Firm dated December 1, 2006, filed herewith.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* These instruments are not being filed as exhibits herewith because none of the long-term debt instruments authorizes the issuance of debt in excess of 10% of the total assets of Johnson Controls, Inc. and its subsidiaries on a consolidated basis. Johnson Controls, Inc. agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

** Denotes a management contract or compensatory plan.

2005 Form 10-K

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

Form 10-K

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

For the Fiscal Year Ended September 30, 2005

OR

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

For the transition period from to

Commission File Number 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	**39-0380010**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
5757 N. Green Bay Avenue **P.O. Box 591** **Milwaukee, Wisconsin**	**53201**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(414) 524-1200

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.04-1/6 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No ☐

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

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

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

The aggregate market value of the registrant's stock held by non-affiliates of the registrant on March 31, 2005 was approximately $10.7 billion.

192,972,870 shares of the registrant's Common Stock, par value 0.04^1/_6$ per share, were outstanding on October 31, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the Proxy Statement dated and filed with the Securities and Exchange Commission on December 12, 2005.

JOHNSON CONTROLS, INC.

Index to Annual Report on Form 10-K
Year Ended September 30, 2005

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

Johnson Controls, Inc. ("the Company") has made forward-looking statements in this document pertaining to its financial results for fiscal 2006 and future years that are based on preliminary data and are subject to risks and uncertainties. All statements other than statements of historical fact are statements that are or could be deemed forward-looking statements, including information concerning possible or assumed future risks. For those statements, the Company cautions that numerous important factors, such as the completion of the acquisition of York International Corporation in December 2005, automotive vehicle production levels and schedules, the ability to increase prices due to higher raw material costs, the strength of the U.S. or other economies, currency exchange rates, the Company's effective tax rate, cancellation of commercial contracts, as well as those factors discussed in the Company's Form 8-K filing (dated October 7, 2005), could affect the Company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

IMPORTANT DISCLOSURES

On April 1, 2005, the Company deconsolidated a North American interior experience joint venture as it was determined the Company no longer had effective control over the venture's operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, "Consolidation of All Majority-Owned Subsidiaries," the joint venture should not have been consolidated in prior periods. As such, the Company's financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock" for all periods prior to April 1, 2005. The deconsolidation had no impact on previously reported income from continuing operations, net income or earnings per share. Prior year results of operations, financial position, cash flows and other financial information included in the following Form 10-K have been restated to reflect the current year's presentation.

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third-party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2004 and fiscal 2003 consolidated financial statements to include these required disclosures. As the restatement relates only to the disclosure of guarantor financial information, the previously reported amounts in the Consolidated Statement of Income and the Consolidated Statement of Financial Position remain unchanged.

PART I

ITEM 1 *BUSINESS*

General Development of Business

Johnson Controls, Inc. is a Wisconsin corporation organized in 1885. Its principal office is located at 5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, Wisconsin 53201. From 1885 through 1978, the Company's operations were predominantly in the building efficiency business. Since 1978, the Company's operations have been diversified through acquisitions and internal growth. The Company operates in three primary businesses: building efficiency, interior experience, and power solutions (the businesses were formerly referred to as Controls Group, Seating and Interiors Group, and Battery Group, respectively).

The building efficiency business is a global market leader in providing installed building control systems and technical and facility management services, including comfort, energy and security management for the non-residential buildings market. The business's installed systems integrate the management, operation and control of building control systems such as temperature, ventilation, humidity, fire safety and security. The business's technical and facility management services provide a complete suite of integrated solutions to improve building operations and maintenance.

In 1985, the Company entered the automotive seating market through the acquisition of Hoover Universal, Inc. During the late 1990's, the Company expanded into additional interior systems and geographic markets. The Company's automotive seating and interior systems business operates under the name interior experience, and the Company is among the world's largest automotive suppliers. Interior experience provides seating, instrument panel, overhead, floor console and door systems to more than 35 million vehicles annually.

In 1978, the Company entered the North American battery market through the acquisition of Globe-Union, Inc. and grew in this market through internal growth and strategic acquisitions. The Company's power solutions business services both automotive original equipment manufacturers and the general vehicle battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company produces more than 110 million lead-acid batteries annually, and offers nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles.

Recent Developments

On August 24, 2005, the Company entered into a definitive agreement to acquire York International Corporation (York), a global supplier of heating, ventilation, air-conditioning and refrigeration equipment and services. York, which is headquartered in York, Pennsylvania, reported revenues of $4.5 billion for the year ended December 31, 2004, and has approximately 23,000 employees. As of December 1, 2005, the Company expects to complete the acquisition, valued at approximately $3.2 billion, including the assumption of approximately $800 million of York debt, in December 2005. Under the terms of the all cash transaction, the Company will acquire all outstanding common shares of York for $56.50 per share. The total cash required to complete the transaction is approximately $2.5 billion, which includes payment for common shares, transaction fees and expenses. The acquisition will be initially financed with short term borrowings, which the Company intends to refinance with long term debt.

Financial Information About Business Segments

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes the standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

Using these criteria, the Company has determined that it has six operating segments, two of which are aggregated in the power solutions segment under the accounting standard to arrive at the Company's five reportable segments for financial reporting purposes. The Company's reportable segments are building efficiency, interior experience — North America, interior experience — Europe, interior experience — Asia and power solutions. The power solutions North American and European operations are aggregated for reporting purposes due to their similar economic characteristics and similar customers, and the similar nature of their products, production processes, and distribution channels.

Refer to Note 20, "Segment information," of the Notes to the Consolidated Financial Statements on pages 77-79 for financial information about business segments.

For purposes of the following discussion of the Company's businesses, the three interior experience segments are presented together due to their similar customers and the similar nature of their products, production processes, and distribution channels.

Products/Systems and Services

Building efficiency

Building efficiency is a major worldwide supplier of installed control systems and technical and facility management services which improve the comfort, fire-safety, security, productivity, energy efficiency, and cost-effectiveness of non-residential buildings. The Company provides control systems that monitor, automate and integrate critical building operating equipment and conditions. These systems are customized to address each building's unique design and use. Building efficiency provides a broad range of technical and facility management services that supplement or function as in-house building staff. Technical services include the operation, scheduled maintenance and repair of building equipment such as control systems, chillers and boilers. Facility management services provide on-site staff for complete facility operations and management.

The business sells directly to building owners as well as contractors. It employs sales, engineering and service personnel working out of approximately 300 branch offices located in approximately 45 countries throughout the world. Building efficiency employees also work full-time at numerous customer sites.

Building efficiency also sells its control systems and products to original equipment manufacturers, wholesalers and distributors of air-conditioning and refrigeration systems and commercial heating systems. Building efficiency products are manufactured throughout the world (see Item 2 "Properties"). The segment also has partially-owned affiliates in Asia, Europe, North America and South America.

Worldwide, approximately 45 percent of building efficiency's sales are derived from installed control systems and approximately 55 percent originate from its service offerings. Of the installed control systems, approximately 35 percent of revenues are derived from the new construction market while 65 percent are derived from the existing buildings market. In fiscal 2005, building efficiency sales accounted for 21% of the Company's consolidated sales.

Interior experience

Interior experience designs and manufactures products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. The business produces automotive interior systems for original equipment manufacturers and operates approximately 240 wholly- and majority-owned manufacturing or assembly plants in 30 countries worldwide (see Item 2 "Properties"). Additionally, the business has partially-owned affiliates in Asia, Europe, North America and South America.

Interior experience systems and products include complete seating systems and components; cockpit systems, including instrument clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems. Interior experience sales accounted for approximately 68 percent of total fiscal 2005 net sales.

The business operates assembly plants that supply automotive manufacturers with complete seats on a "just-in-time/in-sequence" basis. Seats are assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line. Certain of the business's other automotive interior systems are also supplied on a "just-in-time/in-sequence" basis. Foam and metal seating components, seat covers, seat mechanisms and other components are shipped to these plants from the business's production facilities or outside suppliers.

The business has substantially grown its interior systems capabilities through internal growth aided by acquisitions. In fiscal 2002, the business expanded its capabilities in vehicle electronics with its acquisition of the automotive electronics business of France-based Sagem SA. In fiscal 2003, the Company acquired Borg Instruments AG, an automotive electronics company with headquarters in Germany.

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. The Company is the largest automotive battery manufacturer in the world, producing more than 110 million lead-acid batteries annually. Investments in new product and process technology have expanded product offerings to nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles.

Sales of automotive batteries generated 11% of the total fiscal 2005 sales. In fiscal 2002, power solutions expanded its battery operations into the European market through the acquisition of the German automotive battery manufacturer Hoppecke Automotive GmbH and Co. KG. In fiscal 2003, the Company continued its expansion into the European market with its acquisition of VARTA Automotive GmbH and the 80 percent majority ownership in VB Autobatterie GmbH (collectively "VARTA"), a major European automotive battery manufacturer headquartered in Germany. In fiscal 2004, the Company acquired the remaining 51 percent interest in its Latin American joint venture with Grupo IMSA, S.A. de C. V. More recently, in fiscal 2005, the Company acquired Delphi Corporation's global battery business and received a global long-term contract to supply General Motors with original equipment and original equipment service batteries. The acquisitions support the Company's growth strategies and provide new opportunities to strengthen the Company's global leadership position in the automotive battery industry. Batteries and plastic battery containers are manufactured at plants in North America, South America, Asia and Europe and via a partially-owned affiliate in India (see Item 2 "Properties").

Major Customers and Competition

As described previously, the Company is a major supplier to the automotive industry. Sales to its major customers, as a percentage of consolidated net sales, were as follows for the most recent three-year period:

Customer	2005	2004	2003
General Motors Corporation	14%	14%	15%
DaimlerChrysler AG	11%	11%	12%
Ford Motor Company	11%	14%	12%

In fiscal 2005, approximately 15% of the Company's consolidated net sales to these manufacturers originated in the United States. Approximately 42% of the Company's sales to these manufacturers originated in the United States, 45% were based in Europe and 13% were attributable to other foreign markets. Because of the importance of new vehicle sales of major automotive manufacturers to its operations, the Company is affected by general business conditions in this industry. Sales to additional automakers in fiscal 2005 that accounted for more than five percent of Company sales included Nissan Motor Co., Ltd. and Volkswagen AG. The Company is also a major supplier to Toyota Motor Corporation directly and through its unconsolidated joint ventures.

Building efficiency

The building efficiency business conducts its operations through thousands of individual contracts that are either negotiated or awarded on a competitive basis. Key factors in the award of installation contracts include system and service quality, price, reputation, technology, application engineering capability and construction management expertise. Competition for contracts includes many regional, national and international controls providers; larger competitors in the control systems market include Honeywell International and Siemens Building Technologies (of Siemens AG). The services market is highly fragmented, with no one company being dominant. Sales of these services are largely dependent upon numerous individual contracts with commercial businesses worldwide; the loss of any individual contract would not have a materially adverse effect on the Company.

Interior experience

The interior experience business faces competition from other automotive parts suppliers and, with respect to certain products, from the automobile manufacturers who produce or have the capability to produce certain products the businesses supply. Competition is based on technology, quality, reliability of delivery and price. Design, engineering and product planning are increasingly important factors. Independent suppliers that represent the principal interior experience competitors include Lear Corporation, Faurecia, Intier Automotive, Delphi Corporation and Visteon Corporation.

Power solutions

Approximately 80 percent of automotive battery sales worldwide in fiscal 2005 were to the automotive replacement market, with the remaining sales to the original equipment market. Power solutions is the principal supplier of batteries to many of the largest merchants in the battery aftermarket, including Advance

Auto Parts, AutoZone, Bosch Group, Costco, Interstate Battery System of America, Pep Boys, Sears, Roebuck & Co and Wal-Mart stores. Automotive batteries are sold throughout the world under private label and under the Company's brand names Optima®, Varta®, LTH® and Heliar® to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The power solutions business primarily competes in the battery market with Exide Technologies, GS Yuasa, East Penn Manufacturing Company and Fiamm.

Backlog

The Company's backlog relating to the building efficiency segment is applicable to its sales of installed systems and technical service activity, accounted for using the percentage-of-completion method. In accordance with customary industry practice, customers are progress billed on an estimated basis as work proceeds. At September 30, 2005, the unearned backlog to be executed within the next fiscal year was $1.93 billion, compared with the prior year's $1.84 billion. The preceding data does not include amounts associated with facility management service contracts because such contracts are typically multi-year service awards. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the coming fiscal period.

At September 30, 2005, the Company's interior experience business had an incremental backlog of new orders for its seating & interior systems, net of discontinued programs, to be executed within the next fiscal year of approximately $1.2 billion, including unconsolidated joint venture revenues. The backlog one year ago was approximately $2.3 billion. The decrease is primarily due to lower volumes in Asia, the sale of a business unit and unfavorable exchange rates compared to the prior year. The automotive backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes and the timing of related production launches.

Raw Materials

Raw materials used by the interior experience and power solutions businesses in connection with its automotive seating & interior systems and battery operations, including steel, urethane chemicals, lead, sulfuric acid and polypropylene, were readily available during the year and such availability is expected to continue. Costs of certain commodities, such as steel, resin and lead that rose significantly in 2005, are expected to remain stable or moderately soften in the upcoming fiscal year. The building efficiency business is not dependent upon any single source of supply for essential materials, parts or components.

Intellectual Property

Generally, the Company seeks statutory protection for strategic or financially important intellectual property developed in connection with its business. Certain intellectual property, where appropriate, is protected by contracts, licenses, confidentiality or other agreements.

The Company owns numerous U.S. and foreign patents (and their respective counterparts), the more important of which cover those technologies and inventions embodied in current products, or which are used in the manufacture of those products. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, no single patent, or group of patents, is critical to the success of the business. The Company, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Company has numerous registered trademarks in the United States and in many foreign countries. The most important of these marks include "JOHNSON CONTROLS" (including a stylized version thereof), "JCI" and "JOHNSON." These marks are widely used in connection with certain of its product lines and services. The trademarks and service marks "PENN," "METASYS," "CARDKEY," "HOMELINK," the HomeLink House Icon, "AUTOVISION," "TRAVELNOTE," "BLUECONNECT," "RAILPORT," "OPTIMA," the Optima Trade Dress, "VARTA," "LTH," "HELIAR," "INSPIRA" and others are used in connection with certain Company product lines and services. The Company also markets automotive batteries under the licensed trademarks "EVEREADY," "ENERGIZER" and "FREEDOM."

Most works of authorship produced for the Company, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Company's claim to copyright protection under U.S. law and appropriate international treaties.

Environmental, Health and Safety Matters

Laws addressing the protection of the environment (Environmental Laws) and workers' safety and health (Worker Safety Laws) govern the Company's ongoing global operations. They generally provide for civil and criminal penalties, as well as injunctive and remedial relief, for noncompliance or require remediation of sites where Company-related materials have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with Environmental Laws and Worker Safety Laws and maintains procedures designed to foster and ensure compliance. Certain of the Company's businesses are or have been engaged in the handling or use of substances that may impact workplace health and safety or the environment. The Company is committed to protecting its workers and the environment against the risks associated with these substances.

The Company's operations and facilities have been, and in the future may become, the subject of formal or informal enforcement actions or proceedings for noncompliance with such laws or for the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities that result in commitments to compliance, abatement, or remediation programs and, in some cases, payment of penalties. Historically, neither such commitments nor such penalties have been material. (See Item 3 "Legal Proceedings" of this report for a discussion of the Company's potential environmental liabilities.)

Environmental Capital Expenditures

The Company's ongoing environmental compliance program often results in capital expenditures. Environmental considerations are a part of all significant capital expenditures; however, expenditures in 2005 related solely to environmental compliance were not material. It is management's opinion that the amount of any future capital expenditures related solely to environmental compliance will not have a material adverse effect on the Company's financial results or competitive position in any one year.

Employees

As of September 30, 2005, the Company employed approximately 114,000 employees, of whom approximately 72,000 were hourly and 42,000 were salaried.

Seasonal Factors

Sales of automotive seating & interior systems and batteries to automobile manufacturers for use as original equipment are dependent upon the demand for new automobiles. Management believes that demand for new automobiles generally reflects sensitivity to overall economic conditions with no material seasonal effect. The automotive replacement battery market is affected by weather patterns because batteries are more likely to fail when extremely low temperatures place substantial additional power requirements upon a vehicle's electrical system. Also, battery life is shortened by extremely high temperatures, which accelerate corrosion rates. Therefore, either mild winter or moderate summer temperatures may adversely affect automotive replacement battery sales.

Building efficiency's activities are executed on a relatively continuous basis, with no significant fluctuation in revenues during the year.

Financial Information About Geographic Areas

Refer to Note 20, "Segment information," of the Notes to the Consolidated Financial Statements on pages 77-79 for financial information about geographic areas.

Research and Development Expenditures

Refer to Note 15, "Research and development," of the Notes to the Consolidated Financial Statements on page 71 for research and development expenditures.

Available Information

The Company's filings with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Exchange Act, are made available free of charge through the Investor Relations section of the Company's Internet website at http://www.johnsoncontrols.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at http://www.sec.gov, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC's Public Reference Room at 1-800-732-0330. The Company also makes available, free of charge, its Ethics Policy, Corporate Governance Guidelines, committee charters and other information related to the Company on the Company's Internet website or in printed form upon request. The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

ITEM 2 *PROPERTIES*

At September 30, 2005, the Company conducted its operations in 35 countries throughout the world, with its world headquarters located in Milwaukee, Wisconsin. The Company's wholly- and majority-owned facilities, which are listed in the table on the following pages by business and location, totaled approximately 78 million square feet of floor space and are owned by the Company except as noted. The facilities primarily consisted of manufacturing, assembly and/or warehouse space, except where noted that the facility has administrative space. The Company considers its facilities to be suitable and adequate. The majority of the facilities are operating at normal levels based on capacity.

In addition, approximately 300 building efficiency branch offices, located in major cities throughout the world, are either owned or leased. These offices vary in size in proportion to the volume of business in the particular locality.

Johnson Controls, Inc.
Properties at September 30, 2005
Interior experience

Alabama	Cottondale(1),(3)	Michigan	Ann Arbor(4)
	Eastaboga		Battle Creek(3)
California	Livermore(2),(3)		Canton(1)
Georgia	Norcross(1)		Dearborn (1),(4)
	Suwanee(1)		Detroit(3)
Illinois	Sycamore(2),(3)		Holland(2),(3)
Indiana	Ossian		Mt. Clemens(1),(3)
Kentucky	Bardstown(3)		Plymouth(2),(3)
	Cadiz(3)		Rockwood(3)
	Georgetown(3)		Taylor(1),(3)
	Glasgow(3)		Warren(1)
	Shelbyville(1)		Zeeland(1),(3)
	Winchester(1)	Mississippi	Madison
Louisiana	Shreveport	Missouri	Earth City(1),(3)
			Jefferson City(3)

New Jersey	Dayton(1),(3)
Ohio	Greenfield
	Northwood
	Oberlin(1),(3)
	West Carrollton(1)
Oklahoma	Oklahoma City(3)
Tennessee	Athens(2)
	Lexington(3)
	Murfreesboro(2)
	Pulaski(2),(3)
Texas	El Paso(1),(3)
Virginia	Chesapeake(1)
Wisconsin	Hudson(1),(3)
Argentina	Buenos Aires(1)
	Rosario
Australia	Adelaide(1),(3)
	Melbourne(2)
Austria	Graz(1),(3)
	Mandling(3)
Belgium	Geel(3)
	Gent(1),(3)
Brazil	Gravatai(3)
	Juiz De Fora(1)
	Pouso Alegre
	Santo Andre
	Sao Bernardo do Campo(1)
	Sao Jose dos Campos
	Sao Jose dos Pinhais(1)
Canada	Milton(1),(3)
	Mississauga(1),(3)
	Orangeville
	Saint Mary's
	Tecumseh
	Tilsonburg(3)
	Whitby
China	Beijing(3)
	Shanghai(1),(4)
Czech Republic	Benatky nad Jizerou(1),(3)
	Ceska Lipa(2),(3)
	Mlada Boleslav(1),(3)
	Roudnice(2),(3)
	Rychnov nad Kneznou(1),(3)
	Straz pod Ralskem(3)
France	Brioude(1),(3)
	Cergy-Pontoise(4)
	Conflans(3)
	Creutzwald(2),(3)
	Harnes(3)
	La Ferte Bernard(1),(3)
	Les Ulis(1),(4)
	Rosny-sur-Seine(1),(3)
	Schweighouse-sur-Moder(3)
	Strasbourg(3)

Germany	Boblingen(1),(3)
	Bochum(1),(3)
	Bremen(1),(3)
	Burscheid(2),(3)
	Espelkamp(3)
	Grefrath(1),(3)
	Hannover(1),(3)
	Karlsruhe(4)
	Lahnwerk(2),(3)
	Luneburg
	Neustadt(3)
	Rastatt(1),(3)
	Remchingen(3)
	Schwalbach(1)
	Sindelfingen(1),(4)
	Uberherrn(1),(3)
	Unterriexingen(2),(3)
	Waghausel(3)
	Weyhausen(1),(4)
	Wuppertal(2),(3)
	Zwickau(3)
Hungary	Pilis
	Solymar(2)
Italy	Melfi(1),(3)
	Potenza(1),(4)
	Rocca D'Evandro(1)
	Salerno(3)
	Turin(1),(3)
Japan	Ayase(3)
	Fukuoka
	Hamakita
	Mouka
	Nagoya(1),(4)
	Yokosuka(2)
Korea	Ansan(1),(4)
	Asan(3)
	Dangjin(3)
	Hwasung
	Jeongeup(1)
	Namsa(1)
	Yongin(2)
Malaysia	Johor Bahru
	Melacca
	Pekan(1)
	Perak
	Shah Alam(3)
Mexico	Juarez
	Monclova(3)
	Naucalpan de Juarez(1)
	Puebla(2),(3)
	Ramos Arizpe
	Tlaxcala(3)
	Tlazala(1)

Netherlands	Sittard(1),(3)
Poland	Bierun(3)
Portugal	Nelas(3)
	Portalegre(3)
Romania	Mioveni(1),(3)
	Ploiesti(3)
Russia	Moscow(4)
	St. Petersburg(1),(3)
Singapore	Singapore(1),(4)
Slovak Republic	Bratislava(1),(3)
	Kostany nad Turcom(3)
Slovenia	Slovenj Gradec(1),(3)
South Africa	East London(1)
	Port Elizabeth(1),(3)
	Pretoria(2),(3)
	Uitenhage(1)
Spain	Alagon(3)
	Barcelona(3)
	Madrid(1),(3)
	Valencia(2),(3)
	Valladolid
	Zaragoza(3)
Sweden	Goteborg(1),(4)
	Stockholm(1),(4)
Thailand	Rayong(3)
Tunisia	Bi'r al Bay(3)
United Kingdom	Burton-Upon-Trent(2),(3)
	Chelmsford(1),(3)
	Leamington Spa(1),(3)
	Liverpool(2),(3)
	Sunderland
	Telford(2),(3)
	Wednesbury(3)

Power solutions

California	Fullerton(1),(3)
Colorado	Aurora(2),(3)
Delaware	Middletown(2),(3)
Florida	Tampa(2),(3)
Illinois	Geneva(3)
Indiana	Ft. Wayne(3)
Iowa	Red Oak(3)
Kentucky	Florence(1),(3)
Missouri	St. Joseph(2),(3)
North Carolina	Winston-Salem(2),(3)
Ohio	Toledo(3)
Oregon	Portland(3)
South Carolina	Oconee(2),(3)
Texas	Ft. Worth(1),(4)
	San Antonio(1)
Wisconsin	Milwaukee(1),(3)
Austria	Innsbruck(1),(4)
	Klagenfurt(1),(4)
Austria (cont.)	Linz(1),(4)
	Salzburg(1),(4)
Belgium	Brussels(1),(3)
Brazil	Sorocaba(3)
China	Shanghai(2)
Czech Republic	Ceska Lipa(3)
France	Courbevoie(1),(4)
	Rouen
	Sarreguemines(3)
Germany	Hannover(3)
	Krautscheid(3)
	Otzenhausen
	Rastatt(1)
	Zwickau (2),(3)
Hungary	Budapest(1),(3)
Italy	Milan(1),(4)
Korea	Gumi
Mexico	Celaya(3)
	Cienega de Flores
	Escobedo
	Monterrey(2),(3)
	Torreon
Netherlands	Rotterdam(1),(4)
Poland	Katowice(1),(4)
	Warsaw(1)
Slovak Republic	Trnava(1)
Spain	Burgos(3)
	Guadalajara(1),(4)
	Guadamar del Segura
	Madrid(1),(4)
Sweden	Danderyd(1),(4)
	Hultsfred(2)
Switzerland	Regensdorf(1),(4)
United Kingdom	Denham(1),(4)

Building efficiency

Alabama	Huntsville(1),(4)
California	El Segundo(1),(4)
	Newport Beach(1),(4)
	San Francisco(1),(4)
Connecticut	Stamford(1),(4)
Florida	Fort Lauderdale(1),(4)
	Jacksonville(1),(4)
Georgia	Atlanta(1),(4)
Illinois	Oak Brook(1),(4)
Indiana	Goshen(1),(3)
Kentucky	Erlanger(1),(4)
Maryland	Bowie(1),(4)
	Gaithersburg(1),(4)
	Loveville(1)
Massachusetts	Framingham(1),(4)
New Jersey	Iselin(1),(4)

New York	Melville(1),(4)
	New York(1),(4)
Ohio	Beachwood(1),(4)
Pennsylvania	Conshohocken(1),(4)
	Philadelphia(1),(4)
	Pittsburgh(1),(4)
Texas	Houston(1),(4)
	Pharr(1),(4)
Virginia	Vienna(1),(4)
Washington D.C.(1),(4)	
Washington	Bellevue(1),(4)
Wisconsin	Milwaukee(2),(4)
	Watertown(1),(3)
Australia	Sydney(1),(4)
Austria	Vienna(1),(4)
Belgium	Brussels(1),(4)
	Diegem(1),(4)
Brazil	Brasilia(1),(4)
Canada	Kamloops(1),(4)
	Markham(1),(4)
	Ottawa(1),(4)
	Victoria(1),(4)
China	Beijing(1),(4)
	Hong Kong(1),(4)
	Shanghai(1),(3)
	Shenzhen(1),(4)
	Tianjin(1),(4)
Czech Republic	Prague(1),(4)
France	Colombes(1),(4)
Germany	Essen(2),(3)
	Hannover(1),(4)
Hungary	Budapest(1),(4)
India	Mumbai(1),(4)
Italy	Lomagna(3)
	Milan(1),(4)
Japan	Chiba(1),(4)
	Hiroshima(1),(4)
	Hokkaido(1),(4)
	Koga(3)
	Kyushu(1),(4)
	Nagoya(1),(4)
	Osaka(1),(4)
Japan (cont.)	Saitama(1),(4)
	Tokyo(1),(4)
	Yokohama(1),(4)
Korea	Seoul(1),(4)
Malaysia	Kuala Lumpur(1),(4)
Mexico	Cuidad Juarez(1),(3)
	Irapuato(1),(4)
	Reynosa(3)
Netherlands	Gorinchem(1),(4)
	Leeuwarden(3)
Norway	Oslo(1),(4)
Philippines	Mandaluyong(1),(4)
Poland	Poznan(1),(4)
	Warsaw(1),(4)
Russia	Moscow(1),(4)
	St. Petersburg(1),(4)
Singapore	Singapore(1),(4)
Slovak Republic	Bratislava(1),(4)
South Africa	Randburg(1),(4)
Spain	Madrid(1),(4)
Sweden	Danderyd(1),(4)
Switzerland	Basel(1),(3)
	Zurich(1),(4)
Thailand	Bangkok(1),(4)
United Kingdom	Birmingham(1),(4)
	Cumbernauld(1),(4)
	Leatherhead(1),(4)
	London(1),(4)
	Reading(1),(4)
	Stockport(1),(4)
	Swindon(1),(4)
	Waterlooville(1),(4)

Corporate

Wisconsin	Milwaukee(4)

(1) Leased facilities

(2) Includes both leased and owned facilities

(3) Includes both administrative and manufacturing facilities

(4) Administrative facilities only

ITEM 3 *LEGAL PROCEEDINGS*

Environmental Litigation and Proceedings and Other Matters

As noted previously, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 50 sites in the United States. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses consistent with US generally accepted accounting principles; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Its reserves for environmental costs totaled $65 million and $61 million at September 30, 2005 and 2004, respectively. The Company reviews the status of the sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court's decision in *City of Edgerton v. General Casualty Co. of Wisconsin.* The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts' judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the *Edgerton* case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court's decision remanded the case to the Circuit Court for further consideration. In fiscal 2005, the Company filed a motion for declaratory judgment, in which it seeks a ruling that one of its insurers breached its duty to defend, thus waiving its defenses against the Company's environmental claims. The ultimate outcome cannot be determined at this time; however, the Company expects a decision on its motion during fiscal 2006.

In 2003, the Company was involved in an asbestos release during the renovation of a building in Lakeland, Florida. Following an investigation, the U.S. EPA turned its findings over to the U.S. Attorney for the Middle District of Florida. In November 2005, the U.S. Attorney advised the Company that it is considering proceedings against the Company, including proceedings that would involve criminal charges pursuant to Section 113(c) of the Clean Air Act, 42 U.S.C. § 7413(c), and Section 103 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 103. The Company believes the release was totally inadvertent and does not believe this should be a criminal matter. The Company also believes that any monetary sanctions resulting from the U.S. Attorney's pursuit of this matter would not be material.

On October 27, 2005, the Independent Inquiry Committee into the United Nations Oil-for-Food Programme published its Report on Programme Manipulation. It alleges that illegal kickbacks to the Iraqi government were paid by 2,253 companies. A subsidiary of York, York Air Conditioner and Refrigeration

FZE, is alleged to have paid $647,110 on six humanitarian goods contracts totaling $7,216,413. York conducted a preliminary investigation into these allegations, with the Company's oversight. York, with the concurrence of the Company, requested a meeting with the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission to discuss the results of the investigation to date, and representatives of the Company and York attended that meeting. The Company intends to cooperate with the DOJ and the SEC with respect to this matter.

ITEM 4 *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of December 1, 2005 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company's fiscal year 2005 Proxy Statement.

John M. Barth, 59, became Chairman on January 1, 2004. He was elected President in 1998 and Chief Executive Officer on October 1, 2002. He was elected a member of the Board of Directors in 1997. Previously, Mr. Barth served as Chief Operating Officer and an Executive Vice President with responsibility for the Automotive Group. Mr. Barth joined the Company in 1969.

Stephen A. Roell, 55, became Vice Chairman on May 25, 2005, was elected a member of the Board of Directors and Executive Vice President in 2004 and serves as a member of the Office of the CEO. He served as Chief Financial Officer between 1991 and 2005. Previously, he served as Senior Vice President. He was a Vice President from 1991 to 1998 and earlier served as Corporate Controller and Treasurer. Mr. Roell joined the Company in 1982.

Giovanni "John" Fiori, 62, was elected an Executive Vice President in 2002 and serves as President of Johnson Controls International and as a member of the Office of the CEO. Previously, he served as President of automotive operations in Europe, Africa, South America and Asia and Vice President of automotive seating operations in Europe. Mr. Fiori joined the Company in 1987.

John P. Kennedy, 62, was elected an Executive Vice President in 2005 and was appointed President of the Controls Group in 2004 and has been a member of the Office of the CEO since 2002. He served as Senior Vice President from 2002 to 2005. He served as Secretary from 1987 to 2004 and as General Counsel from 1984 to 2004. He previously served as a Vice President. Mr. Kennedy joined the Company in 1984.

Keith E. Wandell, 56, was elected an Executive Vice President in 2005 and appointed a member of the Office of the CEO in 2004. He has served as President of the Automotive Group since October 1, 2003. He served as a Corporate Vice President from 1997 to 2005. Previously, he served in a number of management positions, most recently as President of battery operations for the Automotive Group and Vice President and General Manager of the Automotive Group's Starting, Lighting and Ignition Battery Division. Mr. Wandell joined the Company in 1988.

R. Bruce McDonald, 45, was elected Chief Financial Officer on May 25, 2005. He previously served as Assistant Chief Financial Officer and has served as a Corporate Vice President since 2002. He served as Corporate Controller since November 2001 when he joined the Company. Prior to that time, Mr. McDonald was Vice President of Finance for the automotive business of TRW Inc. TRW Inc. supplies automotive systems, modules and components to automotive original equipment manufacturers and related after-markets worldwide.

Jeffrey G. Augustin, 43, was elected a Corporate Vice President and Corporate Controller in March of 2005, the month he joined the Company. Prior to that time, Mr. Augustin was Vice President of Finance and Corporate Controller of Gateway, Inc. Gateway, Inc. sells desktop and notebook computers and servers (PCs), and PC-related products globally. Mr. Augustin previously held financial positions with Allied Signal/Honeywell and IBM.

Beda Bolzenius, 49, was elected a Vice President November 16, 2005 and serves as executive vice president and general manager Europe, Africa and South America for the Automotive Group. Dr. Bolzenius joined the Company in 2004 after an 18-year career at Robert Bosch GmbH. Robert Bosch GmbH is a global manufacturer of automotive and industrial technology, consumer goods and building technology.

Susan F. Davis, 52, was elected Corporate Vice President, Human Resources in 1994. Previously, she served as Vice President of Organizational Development for the Automotive Group and the former Plastics Technology Group. Ms. Davis joined the Company in 1983.

Jeffrey S. Edwards, 42, was elected a Corporate Vice President in 2004 and serves as Group Vice President and General Manager for Japan and Asia Pacific for the Automotive Group's interiors business. Mr. Edwards has served Johnson Controls for 20 years in a variety of automotive sales, manufacturing and engineering positions.

Charles A. Harvey, 53, was elected Vice President of Diversity and Public Affairs November 16, 2005. Mr. Harvey joined the company in 1991 and previously held a number of human resources leadership assignments in the Company's interior experience business.

Sean Major, 41, was elected Assistant Secretary and appointed Assistant General Counsel in 2004. He formerly served as group Vice President and General Counsel International. Mr. Major joined the Company in 1998.

Alex A. Molinaroli, 45, was elected a Corporate Vice President in 2004 and serves as Vice President and General Manager for North America Systems & the Middle East for the Controls Group. Mr. Molinaroli has worked for Johnson Controls for 22 years and has held increasing levels of responsibility for controls systems and services sales and operations.

Jerome D. Okarma, 53, was named Vice President, Secretary and General Counsel in November 2004. He was elected a Corporate Vice President in September 2003 and served as Assistant Secretary from 1990 to 2004. He served as Deputy General Counsel from 2000 to 2004. Prior to that he served as Assistant General Counsel from 1989 to 2000, and previously as Group Vice President and General Counsel of the Controls Group and the Battery Group. Mr. Okarma joined the Company in 1989.

Darlene Rose, 60, was elected Senior Vice President in 2004. She served as Vice President Corporate Development and Strategy from 1999 to 2004. She previously served as Director of Corporate Benefits and Payroll, and earlier held management positions in audit, financial planning and information technology. Ms. Rose was elected a corporate officer in 1999 and joined the Company in 1969.

Gregg M. Sherrill, 52, was elected a Corporate Vice President in 2004 and serves as Group Vice President and General Manager for the Automotive Group's battery business. Since joining Johnson Controls seven years ago, he has also served in key interiors management positions in North America and Europe.

Michael D. Su, 46, was elected a Corporate Vice President in 2004 and serves as Vice President and Managing Director of the Asia Pacific region for the Controls Group. Mr. Su has been with Johnson Controls for 21 years, serving in various controls management positions in Asia and North America.

Subhash "Sam" Valanju, 62, was elected a Corporate Vice President in 1999 and has served as Chief Information Officer since joining the Company in 1996.

Frank A. Voltolina, 45, was elected a Corporate Vice President and Corporate Treasurer in July 2003 when he joined the Company. Prior to that time, Mr. Voltolina was Vice President and Treasurer at ArvinMeritor, Inc. ArvinMeritor, Inc. is a global supplier of a broad range of integrated systems, modules and components to the motor vehicle industry.

Denise M. Zutz, 54, was appointed Vice President of Strategy, Investor Relations and Communication in 2004. She had formerly served as Vice President, Corporate Communication from 1991 to 2004. Ms. Zutz was elected a corporate officer in 1991. She has served as Director of Corporate Communication and in other communication positions since joining the Company in 1973.

There are no family relationships, as defined by the instructions to this item, between the above executive officers.

All officers are elected for terms that expire on the date of the meeting of the Board of Directors following the Annual Meeting of Shareholders or until their successors are elected and qualified.

PART II

ITEM 5 *MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS*

The Company's shares are traded on the New York Stock Exchange under the symbol "JCI."

Title of Class	Number of Record Holders as of October 31, 2005
Common Stock, $.04-1/6 par value	52,507

	Common Stock Price Range		Dividends	
	2005	2004	2005	2004
First Quarter	$53.05-63.98	$47.60-58.12	$0.25	$0.225
Second Quarter	55.25-63.88	56.25-62.32	0.25	0.225
Third Quarter	52.57-58.20	49.57-60.20	0.25	0.225
Fourth Quarter	55.88-62.70	50.97-58.01	0.25	0.225
Year	$52.57-63.98	$47.60-62.32	$1.00	$ 0.90

On November 19, 2003, the Company's Board of Directors declared a two-for-one stock split of the common stock payable January 2, 2004 to shareholders of record on December 12, 2003. This stock split resulted in the issuance of approximately 90.5 million additional shares of common stock and was accounted for by the transfer of approximately $7.5 million from common stock to capital in excess of par value. All share or per share data in this Form 10-K have been restated to reflect the two-for-one stock split.

The Company has entered into an Equity Swap Agreement, dated as of March 18, 2004 (the "Swap Agreement"), with Citibank, N.A. ("Citibank"). The Company selectively uses equity swaps to reduce market risk associated with its Company stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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.

Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $135 million in aggregate market value at any given time. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the Swap Agreement with Citibank's consent. The Swap Agreement reduced compensation expense in the three months ended September 30, 2005 by approximately $10 million.

The following table presents information pursuant to Item 703(a) of Regulation S-K regarding the repurchase of the Company's common stock by the Company and purchases of the Company's common stock by Citibank in connection with the Swap Agreement during the three months ended September 30, 2005. The repurchases of the Company's common stock by the Company relate solely to stock option and restricted stock transactions that are treated as involving repurchases of Company common stock for purposes of this disclosure.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares That May yet be Purchased Under the Program(1)
7/1/05 — 7/31/05				
Purchases by Company	—	—	—	—
Purchases by Citibank	—	—	—	$37,352,000
Total	—	—	—	$37,352,000
8/1/05 — 8/31/05				
Purchases by Company	2,693	$60.12	—	—
Purchases by Citibank	—	—	—	$33,034,000
Total	2,693	$60.12	—	$33,034,000
9/1/05 — 9/30/05				
Purchases by Company	—	—	—	—
Purchases by Citibank	—	—	—	$29,515,000
Total	—	—	—	$29,515,000

(1) The dollar amounts in this column relate solely to the approximate dollar value of shares that may be purchased under the Swap Agreement as of the end of the period in question.

The Company has filed as exhibits to this Annual Report on Form 10-K the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Company also submitted the Annual CEO certification to the New York Stock Exchange.

The Company's transfer agent's contact information is as follows:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services Department
P.O. Box 64856
St. Paul, MN 55164-0856
(877) 602-7397

ITEM 6 *SELECTED FINANCIAL DATA*

The following selected financial data reflects the results of operations, balance sheet data, and common share information for the years ended September 30, 2001 to 2005. The financial data has been restated to reflect adjustments related to discontinued operations (see Note 2 to the Consolidated Financial Statements) and the deconsolidation of a North American interior experience joint venture (see Note 18 to the Consolidated Financial Statements).

	As of and for the Year Ended September 30,				
		Restated			
	2005	2004	2003	2002	2001
	(In millions, except per share data)				
OPERATING RESULTS					
Net sales	$27,479.4	$24,603.0	$21,171.3	$18,781.6	$17,404.2
Operating income (As Reported)	$ 1,066.4	$ 1,135.2	$ 1,028.0	$ 1,006.4	$ 872.8
Operating income (Adjusted)*	$ 1,066.4	$ 1,135.2	$ 1,028.0	$ 1,006.4	$ 941.6
Income from continuing operations	$ 757.2	$ 766.8	$ 644.9	$ 583.6	$ 471.6
Income from continuing operations (Adjusted)*	$ 757.2	$ 766.8	$ 644.9	$ 583.6	$ 533.0
Net income (As Reported)	$ 909.4	$ 817.5	$ 682.9	$ 600.5	$ 478.3
Net income (Adjusted)*	$ 909.4	$ 817.5	$ 682.9	$ 600.5	$ 540.8
Earnings per share from continuing operations (As Reported)					
Basic	$ 3.95	$ 4.08	$ 3.57	$ 3.26	$ 2.67
Diluted	$ 3.90	$ 3.98	$ 3.40	$ 3.09	$ 2.52
Earnings per share from continuing operations (Adjusted)*					
Basic	$ 3.95	$ 4.08	$ 3.57	$ 3.26	$ 3.02
Diluted	$ 3.90	$ 3.98	$ 3.40	$ 3.09	$ 2.85
Earnings per share (As Reported)					
Basic	$ 4.74	$ 4.35	$ 3.78	$ 3.35	$ 2.71
Diluted	$ 4.68	$ 4.24	$ 3.60	$ 3.18	$ 2.55
Earnings per share (Adjusted)*					
Basic	$ 4.74	$ 4.35	$ 3.78	$ 3.35	$ 3.07
Diluted	$ 4.68	$ 4.24	$ 3.60	$ 3.18	$ 2.89
Return on average shareholders' equity(1)	13%	16%	17%	18%	17%
Capital expenditures	$ 664.1	$ 783.5	$ 606.0	$ 473.1	$ 585.3
Depreciation	$ 613.3	$ 550.3	$ 511.4	$ 482.3	$ 418.7
Number of employees	114,000	113,000	108,000	102,000	104,000
FINANCIAL POSITION					
Working capital(2)	$ 297.4	$ (421.6)	$ (186.0)	$ (41.1)	$ (167.3)
Total assets	$16,144.4	$14,758.4	$12,916.7	$10,982.4	$ 9,710.0
Long-term debt	$ 1,577.5	$ 1,630.6	$ 1,776.6	$ 1,826.4	$ 1,394.8
Total debt	$ 2,342.4	$ 2,670.6	$ 2,354.5	$ 1,971.6	$ 1,819.9
Shareholders' equity	$ 6,058.1	$ 5,206.3	$ 4,261.3	$ 3,499.7	$ 2,985.4
Total debt to total capitalization	28%	34%	36%	36%	38%
Book value per share	$ 31.41	$ 27.41	$ 23.23	$ 19.35	$ 16.72

	As of and for the Year Ended September 30,				
		Restated			
	2005	2004	2003	2002	2001
		(In millions, except per share data)			
COMMON SHARE INFORMATION					
Dividends per share	$ 1.00	$ 0.90	$ 0.72	$ 0.66	$ 0.62
Market prices					
High	$ 63.98	$ 62.32	$ 50.44	$ 46.60	$ 40.85
Low	$ 52.57	$ 47.60	$ 34.55	$ 32.03	$ 23.22
Weighted average shares (in millions)					
Basic	191.8	187.7	178.7	176.7	173.6
Diluted	194.3	192.6	189.1	188.2	186.0
Number of shareholders	52,964	55,460	55,823	57,551	59,701

* The adjusted information is presented as if SFAS No. 142, "Goodwill and Other Intangible Assets," had been adopted October 1, 1999. Results have been adjusted to exclude goodwill amortization expense of $68.8 million, and the related income tax effect, in fiscal 2001.

(1) Return on average shareholders' equity (ROE) represents income from continuing operations divided by average equity. Income from continuing operations includes $210 million and $82.4 million of restructuring costs in fiscal 2005 and 2004, respectively. Additionally, fiscal 2004 includes an $84.4 million Japanese pension gain.

(2) Working capital for 2004, 2003, 2002 and 2001 excludes net assets of discontinued operations.

ITEM 7 *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Important Disclosures

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company for the three-year period ended September 30, 2005. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

In February 2005, the Company completed the sale of its engine electronics business for approximately $419 million. The sale of the engine electronics business resulted in a gain of approximately $81 million ($51 million after tax), net of related costs. In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services) to IAP Worldwide Services, Inc. for approximately $260 million. The sale of World Services resulted in a gain of approximately $139 million ($85 million after tax), net of related costs. Operating results, net assets and liabilities and cash flows have been segregated as discontinued operations in the accompanying Consolidated Financial Statements.

On April 1, 2005, the Company deconsolidated a North American interior experience joint venture as it was determined the Company no longer had effective control over the venture's operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, "Consolidation of All Majority-Owned Subsidiaries," the joint venture should not have been consolidated in prior periods. As such, the Company's financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock" for all periods prior to April 1, 2005. The deconsolidation had no impact on previously reported income from continuing operations, net income or earnings per share.

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2004 and fiscal 2003 consolidated financial statements to include these required disclosures. As the restatement relates only to the disclosure of guarantor financial information, the previously reported amounts in the Consolidated Statement of Income and the Consolidated Statement of Financial Position remain unchanged.

Prior year results of operations, financial position and cash flows noted in the following discussion have been restated to reflect the current year's presentation of the engine electronics business and World Services as discontinued operations and the North American interior experience joint venture as an investment in a partially-owned affiliate.

RESULTS OF OPERATIONS

FISCAL 2005 COMPARED TO FISCAL 2004

Sales

The Company's net sales for the fiscal years ended September 30, 2005 and 2004 were as follows:

(In millions)	2005	2004	% Change
Building efficiency	$ 5,717.7	$ 5,323.7	7%
Interior experience — North America	8,498.6	8,237.4	3%
Interior experience — Europe	8,935.5	7,677.6	16%
Interior experience — Asia	1,399.1	1,092.6	28%
Power solutions	2,928.5	2,271.7	29%
Total	$27,479.4	$24,603.0	12%

Consolidated net sales in the current fiscal year were $27.5 billion, increasing 12% above the prior year sales of $24.6 billion. Excluding the favorable effects of currency translation, sales increased 9% above the prior year.

Building efficiency

Building efficiency achieved sales of $5.7 billion in fiscal 2005, 7% above the prior year. Excluding the favorable effects of currency translation, sales grew 5% year-over-year.

Building efficiency sales in North America were 8% greater than one year ago due to growth in systems installation and services and the incremental effect of current year acquisitions. Systems installation sales were up 13% reflecting strong growth in both the existing buildings and new construction market. Service sales increased 4% in comparison to the prior year with both facility management and technical service showing slight increases in revenues.

Sales in Europe increased 7% over the prior year, reflecting the positive effects of currency translation and the growth of facility management services. System installation sales were comparable to the prior year.

Building efficiency sales in other geographic markets, which represent approximately 10% of the segment's sales, increased 7% compared to fiscal 2004 due to strong growth in the new construction market in Japan.

Orders of installed control systems and technical services for the year ended September 30, 2005 exceeded the prior year level, driven primarily by growth in the Americas. Orders for installed control systems were primarily in the domestic and European existing building markets.

Interior experience — North America

In North America, interior experience sales were $8.5 billion, up 3% versus the prior year. This slight increase was due to new business awards and a favorable mix of vehicle platforms compared to the estimated 2% decrease in the domestic vehicle production.

Interior experience — Europe

In Europe, interior experience sales were $8.9 billion, up 16% versus the prior year sales of $7.7 billion. Excluding the positive impact of currency translation, sales grew 11% year-over-year. The growth was primarily attributable to new contract awards in seating and interior systems in the current year, growth in electronics revenue and a slightly positive mix relative to the estimated slight decline in industry production in Europe over the past fiscal year.

Interior experience — Asia

In Asia, interior experience sales were $1.4 billion, up 28% versus the prior year. Excluding the effects of currency translation, sales grew 24% year-over-year. The strong growth is primarily due to the introduction of significant new models in Japan by original equipment manufacturers (OEMs) and strong sales in our seating business in Korea.

Power solutions

Power solutions sales were $2.9 billion, up 29% versus the prior year reflecting strong increases in both North America and Europe. Excluding the effects of currency translation, sales grew 27% year-over-year.

North American sales of automotive batteries increased 35% over last year primarily due to the acquisition of the remaining 51% interest in its joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV) in the fourth quarter of fiscal year 2004 (see Note 1 to the Consolidated Financial Statements), which added $258 million of sales in the current year. Sales were also favorably impacted by the pass-through pricing of higher lead costs and higher shipments to existing customers.

European sales of automotive batteries increased 15% over the prior year primarily due to higher shipments to existing customers, the favorable impact of currency translation, and the pass-through pricing of higher lead costs to customers.

Fiscal 2006 Sales Outlook

For fiscal 2006, management anticipates that net sales will grow to $32 billion, an increase of approximately 16% from fiscal 2005 net sales. The growth is expected to be partially offset by unfavorable effects of currency translation, as the Company assumes the dollar will strengthen relative to the euro assuming a euro exchange rate of $1.20.

Building efficiency sales are expected to increase approximately 75% over fiscal 2005 due mainly to the anticipated revenues resulting from the acquisition of York International Corporation. This growth is expected to be partially offset by unfavorable effects of currency translation.

At September 30, 2005, the unearned backlog to be executed within the next year was $1.93 billion, 5% above the prior year's $1.84 billion. The majority of the increase was attributable to the increase in orders in North America. Building efficiency's backlog relates to its installed control systems and technical service activity and is accounted for using the percentage-of-completion (POC) method.

Management anticipates that interior experience sales will be level with fiscal year 2005 and the effects of currency translation will be unfavorable. At September 30, 2005, interior experience had an incremental backlog of net new incremental business for its interior systems to be executed within the next three fiscal years of $3.3 billion, $1.2 billion of which relates to fiscal year 2006. The backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes and the timing of production launches.

Management expects power solutions sales will increase approximately 15%, due primarily to the acquisition of Delphi's global battery business on July 1, 2005. This growth is expected to be partially offset by unfavorable effects of currency translation.

Operating Income

The Company's operating income for the fiscal years ended September 30, 2005 and 2004 was as follows:

(In millions)	2005	2004	% Change
Building efficiency(1)	$ 294.6	$ 241.5	22%
Interior experience — North America(2)	349.9	504.1	(31)%
Interior experience — Europe(3)	252.4	113.0	123%
Interior experience — Asia(4)	30.0	37.6	(20)%
Power solutions(5)	349.5	237.0	47%
Total	1,276.4	1,133.2	13%
Restructuring costs	(210.0)	(82.4)	
Japanese pension gain	—	84.4	
Consolidated Operating Income	$1,066.4	$1,135.2	

(1) Building efficiency operating income excludes $51.3 million and $13.3 million of restructuring costs for the year ended September 30, 2005 and 2004, respectively.

(2) Interior experience — North America operating income excludes $11.9 million and $5.1 million of restructuring costs for the year ended September 30, 2005 and 2004, respectively.

(3) Interior experience — Europe operating income excludes $129.6 million and $51.1 million of restructuring costs for the year ended September 30, 2005 and 2004, respectively.

(4) Interior experience — Asia operating income excludes $0.4 million of restructuring costs for the year ended September 30, 2005 and a pension gain of $84.4 million for the year ended September 30, 2004.

(5) Power solutions operating income excludes $16.8 million and $12.9 million of restructuring costs for the year ended September 30, 2005 and 2004, respectively.

Consolidated operating income for fiscal 2005 was $1.1 billion, 6% below the prior year operating income. Included in the current year's consolidated operating income was $210 million of restructuring costs, compared to the prior year which included $82 million of restructuring costs (see Note 16 to the Consolidated Financial Statements) and an $84 million Japanese pension gain (see Note 14 to the Consolidated Financial Statements). Excluding the impacts of the aforementioned restructuring costs and pension gain, consolidated operating income for fiscal 2005 grew 13% versus the prior year.

Building efficiency

Fiscal 2005 building efficiency operating income of $295 million (excluding $51 million of restructuring costs), was 22% above the prior year operating income of $242 million (excluding $13 million of restructuring costs). The strong growth was attributable to sales growth and higher gross profit in North America and Europe, partially offset by higher worldwide Selling, general, and administrative (SG&A) expenses.

North American gross profit increased primarily due to a favorable mix of systems and services business compared to the lower margin facility management sales. In addition, system and service gross margins benefited from improved operational efficiencies associated with the Company's branch office redesign initiative. European gross profits were also higher due to cost reductions and higher facility management sales. Higher SG&A expenses in North America were primarily due to acquisitions in the current year, which added approximately $32 million of expense in the current fiscal year.

Interior experience — North America

Interior experience — North America operating income decreased 31% to $350 million (excluding $12 million of restructuring costs), compared to the prior period operating income of $504 million (excluding $5 million of restructuring costs). The decrease of $154 million was due to selling price reductions and material cost increases in excess of cost savings, partially offset by lower SG&A expenses.

Lower sales mix of mature vehicle programs and sales price reductions under long term agreements with the Company's customers exceeded cost reductions and operational efficiencies by $71 million in the period. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.

The segment experienced commodity cost increases, primarily steel, resin and chemicals, of approximately $132 million, net of recoveries, compared to the prior year. The Company continues to address fluctuations in commodity costs in the region through negotiations with both its customers and suppliers. In order to address future fluctuations, the Company continues to modify the duration and terms of its direct material buy contracts. The Company expects commodity cost fluctuations to continue to impact gross profit in fiscal 2006, with increased cost pressures from Tier 2 and Tier 3 suppliers offset by the Company's direct purchase initiatives.

SG&A expenses decreased $49 million in the period primarily due to lower net engineering expenses compared to the prior year which included increased engineering expenses incurred for new vehicle programs.

Interior experience — Europe

Operating income in Europe was $252 million (excluding $130 million of restructuring costs) compared to $113 million (excluding $51 million of restructuring costs) in the prior year, an increase of $139 million due to increased volumes of higher margin interior systems, lower launch costs and operational improvements that more than offset the price and commodity cost increases and certain higher SG&A expenses. Excluding the positive impact of foreign currency, operating income increased $125 million.

Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded incremental sales price reductions by approximately $202 million in the period. The segment benefited from implemented cost reductions resulting from the 2005 restructuring plan and continued to benefit from the 2003 turnaround program which concentrated on the implementation of best business practices and six sigma activities on its existing operations. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.

The incremental effect of commodity costs totaled approximately $53 million in the period. The increases were less than those incurred in North America due to the timing of contract renewals and variations in certain terms of the agreements. SG&A expenses increased approximately $24 million primarily due to higher program management costs primarily related to purchasing and information technology activities, partially offset by lower net engineering expenses.

Interior experience — Asia

Operating income in Asia decreased to $30 million in the current year, 20% below the prior year amount of $38 million. The decrease was primarily due to start-up and engineering costs associated with new program wins in Japan in the current year. The net effect of foreign currency translation was neutral to the segment's operating income.

Power solutions

Power solutions operating income increased to $350 million (excluding $17 million of restructuring costs) in the current fiscal year, 47% above the prior year's $237 million (excluding $13 million of restructuring costs). The increase is primarily due to higher sales volumes in both the Americas and Europe and the acquisition of the remaining interest in the Company's Latin American joint venture in the fourth quarter of fiscal year 2004, which added an additional $24 million of operating income to the current year. The power solutions business also benefited from a favorable product mix in North America and operational improvements in Europe. The increases were partially offset by the incremental effect of commodity costs, which negatively impacted global operating income by approximately $8 million net of the benefit from the implementation of lead hedges and improved pass through of lead costs.

Fiscal 2006 Operating Income Outlook

In fiscal 2006, the Company anticipates that overall operating margin percentage will be level with fiscal 2005 (excluding restructuring costs). Management believes that the interior experience business operating margin percentage will be slightly higher, power solutions will be level and building efficiency will be slightly lower.

Building efficiency operating margin percentage for fiscal 2006 is expected to decline compared to the fiscal 2005 level as the operational efficiencies associated with the Company's branch office redesign initiative are expected to be offset by the seasonality of the York International Corporation business and non-recurring acquisition costs. As of December 1, 2005 the Company anticipates closing the York transaction in early December of 2005, after the peak season for residential air conditioning and heating equipment.

The interior experience business's operating margin percentage for fiscal 2006 is expected to increase slightly compared to fiscal 2005 due to the benefits of operational efficiencies, restructuring, and lower launch costs, which will be partially offset by lower sales prices and increased employee benefit costs. Interior experience has supply agreements with certain of its customers that provide for annual sales price reductions and, in some instances, for the recovery of material cost increases. The business expects to continue its historical trend of being able to significantly offset any sales price changes with cost reductions from design changes and productivity improvements and through similar programs with its own suppliers.

Management anticipates that the power solutions business operating margin percentage will be level with fiscal 2005 due to the short-term dilutive impact of Delphi's North American operations and additional investments in new technologies.

Management believes that the Company will also see an increase in healthcare expense on a consolidated basis of approximately $30 million and higher domestic pension expense of $32 million. Pension expense is expected to increase primarily due to the decrease in the U.S. discount rate assumption from 6.25% to 5.50%.

Deconsolidation of a North American Joint Venture

On April 1, 2005, the Company deconsolidated a North American interior experience joint venture as it was determined the Company no longer had effective control over the venture's operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, "Consolidation of All Majority-Owned Subsidiaries," the joint venture should not have been consolidated in prior periods. As such, the Company's financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock" for all periods prior to April 1, 2005.

Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company's net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. The deconsolidation of this joint venture had no impact on income from continuing operations, net income or earnings per share in the respective periods.

The following table summarizes the joint venture's sales and operating income for fiscal 2005, 2004 and 2003 as previously recorded in the Company's consolidated financial statements:

	Year Ended September 30,		
(In millions)	**2005***	**2004**	**2003**
Net sales	$403.8	$760.4	$420.0
Operating income	$ 36.0	$ 83.9	$ 72.7

* Year ended September 30, 2005, includes six months of activity as the joint venture was deconsolidated as of April 1, 2005.

Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These restructuring charges include workforce reductions of approximately 3,100 employees within interior experience and power solutions and 800 employees in the building efficiency business. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2005, approximately 630 employees within interior experience and the power solutions businesses and 470 employees in the building efficiency business have been separated from the Company. In addition, the 2005 Plan includes eight plant closures within interior experience and power solutions and four plant closures within building efficiency. The write downs of the long-lived assets associated with the plant closures were determined using a discounted cash flow analysis. The interior experience and power solutions actions are primarily concentrated in Europe, while the building efficiency restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed by the end of the second quarter of fiscal year 2006.

The Company recorded the restructuring charge as a result of management's ongoing review of the Company's cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of our most significant customers. Company management is continually analyzing our businesses for opportunities to consolidate current operations and to locate our facilities in low cost countries in close proximity to our customers. This ongoing analysis includes the review of our manufacturing, engineering and purchasing operations as well as our overall Company footprint. As a result of the 2005 Plan, the Company anticipates savings of approximately $135 million in fiscal year 2006.

Other Income/Expense

Other net expense decreased slightly in the current year due to lower Miscellaneous — net expense mostly offset by lower equity income and higher net interest expense. Miscellaneous — net expense decreased approximately $37 million from the prior year period as the prior year period included foreign currency losses of approximately $16 million (compared to a slight gain in the current year), approximately $6 million of expense in fiscal year 2004 associated with the early redemption of outstanding bonds and higher non-recurring litigation expenses in fiscal 2004. Equity income of $72 million was $25 million lower than the prior year, primarily attributable to decreased earnings at certain interior experience joint ventures in China and Europe. Net interest expense increased from the prior year primarily as a result of higher interest rates.

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal 2005 declined to 25.7% from 26.0% for the prior year primarily due to continuing global tax planning initiatives. The Company's base effective tax rate is calculated by adjusting the effective tax rate for significant one time tax items. For the year ended September 30, 2005, the effective rate was impacted by an $11.5 million and $69 million tax benefit in the first and second quarters, respectively, due to a change in tax status of a French and a German subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for US federal income tax purposes. The Company received a tax benefit in the US for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the French and German entities from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". The voluntary tax election related to the German subsidiary resulted in a capital loss for tax purposes of $539 million, $187 million of which was utilized in the second quarter. The tax benefit on the remaining capital loss has not been recorded as the remaining capital loss can only be used to the extent of future capital gains resulting from non-recurring transactions in the US, none of which are contemplated at this time; there are no prudent or feasible tax planning strategies in place at this time to utilize such capital losses; the capital loss carryforward period for US federal income tax purposes is 5 years thereby limiting the time period in which the Company could utilize the US capital losses; and certain assumptions and estimates in determining the amount of capital loss were used that may change the ultimate capital loss to be realized. These tax benefits were partially offset by an increase in the tax valuation allowance of $28 million in the second quarter related to restructuring charges for which no tax benefits were recorded in certain countries given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. In addition, other valuation allowance adjustments during the year related primarily to continuing losses at certain foreign subsidiaries for which no tax benefit was recognized were offset by the utilization of losses in certain foreign subsidiaries for which sustained profitability has not yet been demonstrated, thereby resulting in no significant change in the Company's total valuation allowance during the year. The fiscal year ended September 30, 2004 benefited from a $27 million favorable tax settlement related to prior periods.

The annual effective tax rate for income from discontinued operations approximated 39% and 35% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company's income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $41 million compared with $52 million in the prior year primarily due to lower earnings at certain interior experience subsidiaries in North America. The decrease was partially offset by higher earnings at certain Asian joint ventures.

Net Income

Net income for fiscal 2005 reached $909 million, 11% above the prior year's $818 million as a result of increased gross profit, the gain on the sale of discontinued operations, and a reduced effective income tax rate on continuing operations, partially offset by higher restructuring costs and a pension gain in the prior year. Fiscal 2005 diluted earnings per share were $4.68, 10% above the prior year's $4.24.

FISCAL 2004 COMPARED TO FISCAL 2003

Sales

The Company's net sales for the fiscal years ended September 30, 2004 and 2003 were as follows:

(In millions)	2004	2003	% Change
Building efficiency	$ 5,323.7	$ 4,809.9	11%
Interior experience — North America	8,237.4	7,605.1	8%
Interior experience — Europe	7,677.6	5,861.7	31%
Interior experience — Asia	1,092.6	1,013.6	8%
Power solutions	2,271.7	1,881.0	21%
Total	$24,603.0	$21,171.3	16%

Consolidated net sales in fiscal year 2004 were $24.6 billion, increasing 16% above the prior year sales of $21.2 billion.

Building efficiency

Building efficiency achieved sales of $5.3 billion in fiscal 2004, 11% above the prior year. Excluding the effects of currency translation, sales grew 5% year-over-year.

Building efficiency sales in North America were 8% greater than one year ago due to growth in systems installation and services. Systems installation sales were up reflecting higher volumes in the new construction market. Service sales were higher in comparison to the prior year reflecting additional commercial facility management service activity and an increase in technical service revenues.

Sales in Europe increased 14% over the prior year, reflecting the positive effects of currency translation and the growth of installed systems in the new construction market. Building efficiency sales in other geographic markets, which represent less than 10% of the segment's sales, increased slightly compared to fiscal 2003.

Interior experience — North America

In North America, interior experience sales were $8.2 billion, up 8% versus the prior year. This growth reflects new interior systems business with a variety of automakers and involvement in platforms with production levels that exceeded the industry average.

Interior experience — Europe

In Europe, interior experience sales were $7.7 billion, up 31% versus the prior year. Excluding the effects of currency translation, sales grew 17% year-over-year. The growth is primarily due to the launch of new business and favorable platform mix.

Interior experience — Asia

In Asia, interior experience sales were $1.1 billion, up 8% versus the prior year. Excluding the effects of currency translation, sales grew 4% year-over-year. The growth is primarily due to higher volumes in Korea and China. This was partially offset by lower volumes in Japan and Malaysia due to decreased demand for mature vehicle platforms which are nearing the end of their product life cycle.

Power solutions

Power solutions sales were $2.3 billion, up 21% versus the prior year. Excluding the effects of currency translation, sales grew 17% year-over-year.

North American sales of automotive batteries increased 14% over last year primarily due to pass-through pricing of higher lead costs and slightly higher shipments to existing customers. Power solutions sales were also favorably impacted by $37 million for the inclusion of two months of operations associated with the acquisition of the remaining 51% interest in its joint venture with the Latin American JV (see Note 1 to the Consolidated Financial Statements).

European sales of automotive batteries increased 34% over the prior year primarily due to favorable currency translation, the inclusion of one additional month from the acquisition of VARTA (see Note 1 to the Consolidated Financial Statements), slightly higher automotive battery unit shipments, and the pass-through pricing of higher lead costs to customers.

Operating Income

The Company's operating income for the fiscal years ended September 30, 2004 and 2003 was as follows:

(In millions)	2004	2003	% Change
Building efficiency(1)	$ 241.5	$ 241.4	—
Interior experience — North America(2)	504.1	581.8	(13)%
Interior experience — Europe(3)	113.0	(44.1)	*
Interior experience — Asia(4)	37.6	42.0	(10)%
Power solutions(5)	237.0	206.9	15%
Total	1,133.2	1,028.0	10%
Restructuring costs	(82.4)	—	
Japanese pension gain	84.4	—	
Consolidated Operating Income	$1,135.2	$1,028.0	

* Metric not meaningful.

(1) Building efficiency operating income excludes $13.3 million of restructuring costs for the year ended September 30, 2004.

(2) Interior experience — North America operating income excludes $5.1 million of restructuring costs for the year ended September 30, 2004.

(3) Interior experience — Europe operating income excludes $51.1 million of restructuring costs for the year ended September 30, 2004.

(4) Interior experience — Asia operating income excludes a pension gain of $84.4 million for the year ended September 30, 2004.

(5) Power solutions operating income excludes $12.9 million of restructuring costs for the year ended September 30, 2004.

Consolidated operating income for fiscal 2004 was $1.1 billion, 10% above the prior year's $1.0 billion. Consolidated operating income in fiscal 2004 includes restructuring costs of $82 million (see Note 16 to the Consolidated Financial Statements) and a pension gain of $84 million (see Note 14 to the Consolidated Financial Statements), in comparison to fiscal 2003.

Building efficiency

Fiscal 2004 building efficiency operating income of $242 million, excluding $13 million of restructuring costs, was comparable to the prior year. The results were attributable to higher volumes and favorable effects of currency translation, offset by lower gross margin percentages in North America and higher worldwide SG&A expenses. In North America, the benefit from higher volumes of installed control systems and new facility management business was offset by lower gross margin percentages in the installed systems business due to the competitive new construction environment. In Europe, gross profit, excluding the effects of currency translation, was comparable to the prior year. SG&A expenses were higher worldwide resulting from investments in sales force additions in the technical service business, increased pension and healthcare costs and the impact of currency translation.

Interior experience — North America

Interior experience — North America operating income decreased 13% to $504 million (excluding $5 million of restructuring costs) due to higher commodity costs and higher SG&A expenses partially offset by cost reductions and operational efficiencies.

The segment experienced commodity cost increases, primarily steel, of approximately $15 million compared to the prior year. The Company continues to address the rising commodity costs in the region through negotiations with both its customers and suppliers.

The impact of a lower sales mix of mature vehicle programs and incremental sales price reductions exceeded implemented cost reductions and operational efficiencies by $2 million in the period. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.

SG&A expenses increased $61 million in the year primarily due to increased engineering expenses incurred for new vehicle programs, higher healthcare, pension and insurance costs, as well as the impact of currency translation.

Interior experience — Europe

Operating income in Europe was $113 million (excluding $51 million of restructuring costs) compared to a prior year loss of $44 million, an increase of $157 million due to performance improvements in the majority of the Company's product offerings and lower SG&A expenses, partially offset by higher commodity costs. Excluding the positive effects of foreign currency translation, operating income increased $151 million.

The segment benefited from the full year impact of the region's turnaround program which concentrated on the implementation of best business practices and six sigma activities in its existing operations, new program launches, and changes to the manufacturing footprint. Implemented cost reductions, operational efficiencies, and the higher sales mix of mature vehicle programs exceeded incremental sales price reductions by $142 million in the period. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.

The incremental effect of commodity costs totaled approximately $5 million in the current fiscal year compared to the prior year. As in other regions, the Company continues to address the rising commodity costs through negotiations with both its customers and suppliers.

SG&A expenses decreased $14 million in the year primarily due to decreased engineering expenses incurred for new vehicle programs compared to the prior year.

Interior experience — Asia

Operating income in Asia decreased to $38 million in the current year (excluding $84 million of a pension gain), 10% below the prior year. Excluding the positive effect of foreign currency translation, operating income decreased 22% year-over-year. This decrease is primarily attributable to an increase in the amount of SG&A expenditures and launch costs in Japan and Korea related to new program awards.

Although overall volumes were up, the segment's margins were unfavorably impacted by a significant decrease in sales of higher margin, mature vehicle programs that benefit from operating efficiencies and cost reductions achieved through the product life cycle.

SG&A expenses in the segment were approximately $12 million higher in the year primarily due to increased engineering expenses incurred for new vehicle programs.

Power solutions

Power solutions operating income increased to $237 million (excluding $13 million of restructuring costs) in the current fiscal year, 15% above the prior year's $207 million. In North America, higher volumes, increased operating efficiencies, and the purchase of the Latin American JV which contributed $13 million, more than offset higher commodity costs. Operating income in Europe was higher due to increased volumes and integration savings achieved from previous acquisitions, which outpaced increases in commodity costs. The incremental effect of commodity costs negatively impacted global operating income by approximately $44 million verses the prior year.

Restructuring Costs

In the second quarter of fiscal year 2004, the Company executed a restructuring plan involving cost structure improvement actions and recorded an $82.4 million restructuring charge within Restructuring costs in the Consolidated Statement of Income. These costs primarily relate to workforce reductions of approximately 1,500 employees in interior experience and power solutions and 470 employees in building efficiency. In addition, four interior experience plants will be consolidated. Through September 30, 2005, substantially all impacted employees have been separated from the Company. Employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. A significant portion of the interior experience and power solutions actions were concentrated in Europe. Building efficiency restructuring actions involved activities in both North America and Europe. The remaining restructuring activities are expected to be completed in the first quarter of fiscal year 2006.

Japanese Pension Settlement Gain

In fiscal 2004, the Company recorded a pension gain related to certain of the Company's Japanese pension plans established under the Japanese Welfare Pension Insurance Law (see Note 14 to the Consolidated Financial Statements). In accordance with recent amendments to this law, the Company completed the transfer of certain pension obligations and related plan assets to the Japanese government which resulted in a non-cash settlement gain of $84.4 million, net of $1.2 million associated with the recognition of unrecognized actuarial losses, recorded within SG&A expenses in the Consolidated Statement of Income. The funded status of the Company's non-U.S. pension plans improved by $85.6 million as a result of the transfer of these pension obligations and related plan assets.

Other Income/Expense

Despite higher average debt levels in fiscal year 2004, net interest expense of $98 million was down $7 million from the prior year due to a higher proportion of floating rate debt that benefited from the low interest rate environment. Equity income of $96 million was $20 million higher than the prior year, primarily attributable to increased earnings at certain interior experience joint ventures in China. Miscellaneous — net expense increased approximately $6 million compared to fiscal 2003 mainly due to higher foreign currency losses in the current year and the inclusion of a gain in the prior year related to the conversion and subsequent disposition of the investment in Donnelly Corporation (see Note 19 to the Consolidated Financial Statements).

Provision for Income Taxes

The effective income tax rate for continuing operations for the year ended September 30, 2004 was 23.5% compared with last year's 29.0%. The effective rate for the current fiscal year was lower than the combined U.S. federal and state statutory rate due to reduced foreign and U.S. effective rates resulting from the continued benefits of global tax planning initiatives. The rate was further impacted by a $17 million favorable tax settlement received in the first quarter and a $10 million favorable settlement of worldwide tax audits in the fourth quarter.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $52 million compared with $23 million in the prior year primarily due to higher earnings at certain interior experience subsidiaries in North America and the absence of significant engineering and launch costs incurred in the prior year.

Net Income

Net income for fiscal 2004 reached $818 million, 20% above the prior year's $683 million as a result of increased operating and equity income and a reduced effective income tax rate, partially offset by higher minority interests in net earnings of subsidiaries. Fiscal 2004 diluted earnings per share were $4.24, 18% above the prior year's $3.60.

CAPITAL EXPENDITURES AND OTHER INVESTMENTS

Capital expenditures in fiscal 2005 were $664 million, down from $784 million in the prior year and an increase from $606 million in 2003. Consistent with both prior years, the majority of the 2005 expenditures were associated with the interior experience business. In fiscal 2005, interior experience capital expenditures related to investments in launches of new business and cost reduction projects. Management expects capital expenditures to approximate $775 — $825 million in fiscal 2006.

Goodwill at September 30, 2005 was $3.7 billion, $0.2 billion higher than the prior year. The increase was primarily associated with the acquisition of Delphi's global battery business and USI Companies Inc., a corporate real estate services firm included in the Company's building efficiency segment (see Notes 1 and 5 to the Consolidated Financial Statements).

Investments in partially-owned affiliates at September 30, 2005 were $445 million, $3 million less than the prior year. The decrease was attributable to the sale of a building efficiency investment, offset by increases in interior experience investments from equity income and a new power solutions investment related to the acquisition of Delphi's global battery business.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL AND CASH FLOW

The Company had positive working capital of $297 million at September 30, 2005, compared with a negative $422 million one year ago, excluding the assets and liabilities of discontinued operations. The increase is primarily the result of decreased short-term borrowings ($275 million) and a decrease in factored receivables ($121 million), partially offset by higher accounts payable. Working capital, excluding the assets and liabilities of discontinued operations, cash and debt, of $891 million was $372 million higher than the prior year amount of $519 million primarily due to higher accounts receivable partially offset by increased accounts payable.

The Company's days sales in accounts receivable for the year ended September 30, 2005 was 59, an increase compared to the year ended September 30, 2004 days sales in accounts receivable of 54. The increase from the period ended September 30, 2004, primarily relates to the decrease in factored receivables and the effects of foreign currency translation.

The Company's inventory turnover ratio for the year ended September 30, 2005, was 18, consistent with the ratio for the year ended September 30, 2004.

Cash provided by operating activities in fiscal 2005 was $927 million compared with $1.3 billion in fiscal 2004. The decrease primarily reflects a $180 million voluntary cash contribution to fund the accumulated benefit obligations of certain U.S. defined benefit pension plans and unfavorable working capital changes. The voluntary contribution, which reduces future cash funding requirements, resulted in a prepaid benefit cost included within Other current assets and Other noncurrent assets, as appropriate, in the Consolidated Statement of Financial Position. The contribution increased plan assets at the July 31, 2005 measurement date and will result in a reduction of approximately $16 million in fiscal 2006 pension expense.

A significant portion of the Company's sales are to customers in the automotive industry (see Note 20 to the Consolidated Financial Statements for major customers disclosure). Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations.

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has certain subsidiaries, mainly located in Germany, Italy, Mexico, and Canada that have generated operating losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries. The Company's long-lived asset impairment analyses indicate that assets of these countries are not impaired based on undiscounted cash flows. At September 30, 2005, the Company does not have any material assets whose recovery is at risk.

CAPITALIZATION

Total capitalization of $8.4 billion at September 30, 2005 included short-term debt of $0.7 billion, long-term debt (including the current portion) of $1.7 billion and shareholders' equity of $6.0 billion. The Company's total capitalization was $7.9 billion at September 30, 2004. The Company's total debt as a percentage of total capitalization at the end of fiscal 2005 declined to 27.9% from 33.9% one year ago, mainly due to the reduction of outstanding debt. By the end of fiscal 2006, the Company expects total debt as a percentage of total capitalization to increase to approximately 40% as a result of the York International Corporation acquisition.

In December 2003, the Company filed a $1.5 billion universal shelf registration statement, under which the Company can issue a variety of debt and equity instruments, with the Securities and Exchange Commission effective March 26, 2004. At September 30, 2005, the Company had $1.5 billion available under the shelf registration statement.

In October 2005, the Company entered into a five-year $1.6 billion revolving credit facility which expires in October 2010. This facility replaces the five-year $625 million revolving credit facility, which would have expired in October 2008, and the 364-day $625 million facility, which expired in October 2005. There were no draws on any of the committed credit lines through September 30, 2005.

In October 2005, the Company entered into a $2.8 billion revolving credit facility. The facility expires on the earlier of 364 days after the effective date of this credit agreement, as defined, or December 28, 2006. The Company intends to use the revolving credit facility to provide a liquidity backstop for commercial paper that the Company intends to issue to fund the anticipated acquisition of York International Corporation (see Note 23 to the Consolidated Financial Statements).

The Company believes its capital resources and liquidity position at September 30, 2005 are adequate to meet projected needs. Requirements for working capital, capital expenditures, dividends, pension fund contributions, debt maturities and acquisitions in fiscal 2006, other than the anticipated York International acquisition, will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The anticipated York International acquisition will be initially financed with short term borrowings, which the Company intends to refinance with long term debt (see Note 23 to the Consolidated Financial Statements).

The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company's debt agreements require accelerated repayment in the event of a decrease in credit ratings. Currently, the Company has ample liquidity and full access to the capital markets. Given the Company's credit ratings from Fitch (A), Moody's (Baa1), and Standard & Poors (A−) as of December 1, 2005, the Company believes several downgrades, or a single downgrade over multiple levels, would be necessary before its access to the commercial paper markets would be limited. At September 30, 2005, the Company has a combined availability of $1.25 billion under its revolving credit facilities to meet commercial paper maturities and operating needs.

A summary of the Company's significant contractual obligations as of September 30, 2005 is as follows:

(In millions)	Total	2006	2007-2008	2009-2010	2011 and Beyond
Contractual Obligations					
Long-term debt (including capital lease obligations)*	$1,658	$ 81	$ 710	$ 93	$ 774
Interest on long-term debt (including capital lease obligations)*	808	99	135	99	475
Operating leases	686	245	229	125	87
Unconditional purchase obligations	2,837	1,404	1,286	147	—
Pension and postretirement contributions	299	65	45	49	140
Total contractual cash obligations	$6,288	$1,894	$2,405	$513	$1,476

* See "Capitalization" for additional information related to the Company's long-term debt.

Unconditional purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, and delivery. Pension and postretirement contributions include amounts expected to be paid by the Company to the plans. Other noncurrent liabilities primarily consist of pension and postretirement obligations included in the table and other amounts whose settlement dates cannot be reasonably determined.

On August 24, 2005, the Company entered into a definitive agreement to acquire York International Corporation, a global supplier of heating, ventilation, air-conditioning and refrigeration equipment and services. Under the terms of the all cash transaction, the Company will acquire all outstanding common shares of York for $56.50 per share. The total cash required to complete the transaction is approximately $2.5 billion, which includes payment for common shares, transaction fees and expenses. As of December 1, 2005, the Company anticipates closing the York International Corporation transaction in early December 2005 (see Note 23 to the Consolidated Financial Statements).

GUARANTEES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company is party to certain synthetic leases which qualify as operating leases for accounting purposes. The lease contracts are associated with the financing of the Company's aircraft. The guarantees extend through the maturity of each respective underlying lease in September 2006. In the event the Company exercised its option not to purchase the aircraft for the remaining obligations at the scheduled maturity of the leases, the Company has guaranteed the majority of the residual values, not to exceed $44 million at September 30, 2005.

CRITICAL ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Company's consolidated financial statements and the uncertainties that could impact the Company's results of operations, financial position and cash flows.

Revenue Recognition

The Company recognizes revenue from long-term systems installation contracts of the building efficiency business over the contractual period under the 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 the completion of the contract. Revenues from contracts with multiple element arrangements, such as those including both installation and services, are recognized as each element is earned based on objective evidence of the relative fair value of each element. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded as an asset captioned "Costs and earnings in excess of billings on uncompleted contracts." Likewise, contracts where billings to date have exceeded recognized revenues are recorded as a liability captioned "Billings in excess of costs and earnings on uncompleted contracts." 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 prospectively 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 reviews have not resulted in adjustments that were significant to the Company's results of operations. The Company continually evaluates all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting. In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Goodwill and Other Intangible Assets

In conformity with U.S. GAAP, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at September 30, 2005, indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and, as such, no impairment existed at that time. Other intangible assets with definite lives continue to be amortized over their estimated useful lives. Indefinite and definite lived intangible assets (see Note 5 to the Consolidated Financial Statements) are also subject to impairment testing. A considerable amount of management judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of each reporting unit. While the Company believes its judgments and assumptions were reasonable, different assumptions could change the estimated fair values and, therefore, impairment charges could be required.

Employee Benefit Plans

The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement health care. Plan assets and obligations are recorded annually based on the Company's measurement date utilizing various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates as of that date. Measurements of net periodic benefit cost are based on the assumptions used for the previous year-end measurements of assets and obligations. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required by U.S. GAAP, the effects of the modifications are recorded currently or amortized over future periods.

The discount rate used by the Company is based on the interest rate of noncallable high-quality corporate bonds, with appropriate consideration of the Company's pension plans' participants' demographics and benefit payment terms. At July 31, 2005, the Company decreased its discount rate on U.S. plans to 5.50 percent from 6.25 percent at July 31, 2004 (see Note 14 to the Consolidated Financial Statements). The decline of 75 basis points was consistent with the changes in published bond indices. The change increased the Company's U.S. projected benefit obligation at September 30, 2005 by approximately $315 million and is expected to increase pension expense in fiscal year 2006 by approximately $32 million.

In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plans' invested assets. Reflecting the relatively long-term nature of the plans' obligations, approximately 60% of the plans' assets were invested in equities, with the balance primarily invested in fixed income instruments.

The Company uses a market-related value of assets that recognizes the difference between the expected return and the actual return on plan assets over a three-year period. As of September 30, 2005, the Company had approximately $25 million of unrecognized asset gains associated with its U.S. pension plans, which will be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.

Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company's financial position, results of operations or cash flows.

Primarily as a result of a $180 million voluntary cash contribution in the current year, the Company has recorded a prepaid benefit cost of $324 million for its U.S. pension plans as of September 30, 2005 in accordance with SFAS No. 87 "Employers' Accounting for Pensions" (SFAS 87). SFAS 87 requires that an asset be recognized if the net periodic pension cost is less than the amounts the employer has contributed to the plan and a liability be recognized if the net periodic pension cost exceeds amounts the employer has contributed to the plan. The funded status of a retirement plan is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service. At September 30, 2005, the Company's U.S. pension plans were under funded by $295 million since the projected benefit obligation exceeded the fair value of its plan assets. Material differences may result between the funded status of a retirement plan and the recorded asset or liability due to certain items that have an immediate impact on the projected benefit obligation, but are recognized over a longer period of time in the net periodic pension cost. For example, at September 30, 2005, the Company had an unrecognized net actuarial loss on its U.S. pension plans of $566 million. This actuarial loss is included in the projected benefit obligation at September 30, 2005, but in accordance with SFAS 87, in general, the amount of the loss is amortized to net periodic pension expense over the average remaining service period of the employees in the plan where the loss was generated.

Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. Most of the Company's product warranties are customer specific. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate of future warranty-related costs based on actual historical return rates. At September 30, 2005, the Company had recorded $61 million of warranty reserves based on an analysis of return rates and other factors (see Note 7 to the Consolidated Financial Statements). While the

Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could differ significantly from those estimates.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance that primarily represents foreign operating and other loss carryforwards for which utilization is uncertain. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company's net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year. In determining the need for a valuation allowance, the historical and projected financial performance of the operation recording the net deferred tax asset is considered along with any other pertinent information. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowance may be necessary. At September 30, 2005, the Company had a valuation allowance of $573 million primarily related to net operating and other loss carryforwards, mainly in the US, Germany, Italy, Mexico and Canada for which sustainable taxable income has not been demonstrated or future capital gains are not realizable (see Note 17 to the Consolidated Financial Statements). The Company does not provide additional United States income taxes on undistributed earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits.

The Company is subject to income taxes in the US and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Accruals for tax contingences are provided for in accordance with the requirements of SFAS No. 5 "Accounting for Contingencies". The Company's federal income tax returns and certain foreign income tax returns for fiscal years 1997-2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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, 2005, the Company has 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. 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.

RISK MANAGEMENT

The Company selectively uses financial instruments to reduce market risk associated with changes in foreign currency, interest rates and commodity prices. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which strictly prohibit the use of financial instruments for trading purposes. At the inception of the hedge, the Company assesses the effectiveness of the hedge instrument and designates the hedge instrument as either (1) a hedge of a recognized asset or liability or of an unrecognized 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 a recognized asset or liability (a cash flow hedge) or

(3) a hedge of a net investment in a foreign operation (a net investment hedge). The Company performs hedge effectiveness testing on an ongoing basis depending on the type of hedging instrument used.

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 percent.

For net investment hedges, the Company assesses its net investment positions in the foreign operations and compares it with the outstanding net investment hedges on a monthly basis. The hedge is deemed effective if the aggregate outstanding principal of the hedge instruments designated as the net investment hedge in a foreign operation do not exceed the Company's net investment positions in the respective foreign operation.

A discussion of the Company's accounting policies for derivative financial instruments is included in the Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, and further disclosure relating to financial instruments is included in Note 11 to the Consolidated Financial Statements.

Foreign Exchange

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. In order to maintain strict control and achieve the benefits of the Company's global diversification, foreign exchange exposures for each currency are netted internally so that only its net foreign exchange exposures are, as appropriate, hedged with financial instruments.

The Company hedges 70 to 90 percent of its known foreign exchange transactional exposures. The Company primarily enters into foreign currency exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. The Company also selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138, and No. 149.

The Company generally finances its foreign operations with local, non-U.S. dollar debt. The foreign-currency denominated debt serves as a natural hedge of the foreign operations' net asset positions. The Company has also entered into several foreign currency-denominated debt obligations and cross-currency interest rate swaps to hedge portions of its net investments in Europe and Japan. The currency effects of the debt obligations and swaps are reflected in the accumulated other comprehensive income account within shareholders' equity where they offset gains and losses recorded on the net investments in Europe and Japan.

Sensitivity Analysis

The following table indicates the total U.S. dollar (USD) equivalents of net foreign exchange contracts (hedging transactional exposure) and non-U.S. dollar denominated cash, debt and cross-currency interest rate swaps (hedging translation exposure) outstanding by currency and the corresponding impact on the value of these instruments assuming a 10% appreciation/depreciation of the U.S. dollar relative to all other currencies on September 30, 2005.

As previously noted, the Company's policy prohibits the trading of financial instruments for profit. It is important to note that gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying receivables, payables and net investments in foreign subsidiaries described above.

	September 30, 2005				
	Non-USD Financial Instruments Designated as Hedges of:			Foreign Exchange Gain/(Loss) from:	
Currency	**Transactional Foreign Exposure Long/ (Short)**	**Translation Foreign Exposure Long/ (Short)**	**Net Amounts of Instruments Long/ (Short)**	**10% Appreciation of USD**	**10% Depreciation of USD**
			(In millions)		
(U.S. dollar equivalents)					
Euro	$(291)	$(643)	$(934)	$ 93	$(93)
Japanese yen	(1)	(205)	(206)	21	(21)
South Korean won	—	(36)	(36)	4	(4)
British pound	304	57	361	(36)	36
Mexican peso	320	35	355	(35)	35
Canadian dollar	15	(8)	7	(1)	1
Slovenska koruna	134	7	141	(14)	14
Romanian leu	—	(19)	(19)	2	(2)
Czech koruna	364	(128)	236	(24)	24
Brazilian real	—	(31)	(31)	3	(3)
Polish zloty	(41)	(3)	(44)	4	(4)
South African rand	8	50	58	(6)	6
Other	10	35	45	(4)	4
Total	$ 822	$(889)	$ (67)	$ 7	$ (7)

Interest Rates

The Company's earnings exposure related to adverse movements in interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to short-term market rates. The Company, as needed, uses interest rate swaps to modify its exposure to interest rate movements. In accordance with SFAS No. 133, the swaps qualify and are designated as cash flow hedges or fair value hedges. A 10% increase or decrease in the average cost of the Company's variable rate debt, including outstanding swaps, would result in a change in pre-tax interest expense of approximately $2.3 million.

In September 2005 following a definitive agreement unanimously approved by the Boards of Directors of both companies, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate bond issuance to finance the acquisition of York International Corporation (see Note 23 to the Consolidated Financial Statements). The three forward treasury lock agreements, which have a combined notional amount of $1.3 billion, fix a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The treasury lock agreements are designated as cash flow hedges. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of bond issuance, will be amortized to interest expense over the life of the respective bond issuance.

ENVIRONMENTAL, HEALTH AND SAFETY AND OTHER MATTERS

The Company's global operations are governed by laws addressing protection of the environment (Environmental Laws) and worker safety and health (Worker Safety Laws). Under various circumstances, these laws impose civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where Company-related substances have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with applicable Environmental Laws and Worker Safety Laws, and to protect the environment and workers. The Company believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with such laws or the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities resulting in commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in 2005 related solely to environmental compliance were not material. At September 30, 2005, the Company had an accrued liability of $65 million relating to environmental matters compared with $61 million one year ago. A charge to income is recorded when it is probable that a liability has been incurred and the cost can be reasonably estimated. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where the Company may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability. However, while neither the timing nor the amount of ultimate costs associated with known environmental remediation matters can be determined at this time, the Company does not expect that these matters will have a material adverse effect on its financial position, results of operations or cash flows.

Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a materially adverse effect on the Company's financial position, results of operations or cash flows (see Note 22 to the Consolidated Financial Statements). Costs related to such matters were not material to the periods presented.

QUARTERLY FINANCIAL DATA

(In millions, except per share data; unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2005					
Net sales	$6,617.8	$6,899.4	$7,062.1	$6,900.1	$27,479.4
Gross profit	805.4	827.4	900.3	948.8	3,481.9
Net income	168.4	202.5	254.7	283.8	909.4
Earnings per share					
Basic*	0.88	1.06	1.33	1.47	4.74
Diluted*	0.87	1.04	1.31	1.45	4.68
2004 (Restated)					
Net sales	$5,972.7	$6,121.9	$6,276.0	$6,232.4	$24,603.0
Gross profit	810.3	788.8	842.4	836.3	3,277.8
Net income	164.5	157.7	222.3	273.0	817.5
Earnings per share					
Basic*	0.90	0.83	1.17	1.43	4.35
Diluted*	0.86	0.82	1.15	1.41	4.24

* Due to the use of the weighted-average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

ITEM 7A *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

See "Risk Management" included in Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8 *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

Index to Consolidated Financial Statements & Financial Statement Schedule

PRICEWATERHOUSECOOPERS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Johnson Controls, Inc.

We have completed an integrated audit of Johnson Controls, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2005 and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Johnson Controls, Inc. and its subsidiaries at September 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 18 and 21 to the consolidated financial statements, the Company has restated its 2004 and 2003 consolidated financial statements.

Internal control over financial reporting

Also, we have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Johnson Controls, Inc. did not maintain effective internal control over financial reporting as of September 30, 2005, because the Company did not maintain effective controls over the identification and disclosure of required guarantor subsidiary financial statement information, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. As of September 30, 2005, the Company did not maintain effective controls over the identification and disclosure of required guarantor subsidiary financial statement information in the Company's consolidated financial statements as required by Rule 3-10 of Regulation S-X. Specifically, the Company did not have effective controls, including the communication between the Company's Treasury Department and Accounting Department, to identify the required financial statement disclosures to be included in the Company's consolidated financial statements resulting from subsidiary guarantees applicable to certain third-party debt of the Company. This control deficiency results in the restatement of the Company's fiscal 2004 and fiscal 2003 consolidated financial statements and its fiscal 2005 and fiscal 2004 interim consolidated financial statements. In addition, this control deficiency could result in inaccurate or incomplete guarantor subsidiary financial statement disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this deficiency constitutes a material weakness. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal 2005 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded the recently acquired operations of Delphi Corporation's global battery business from its assessment of internal control over financial reporting as of September 30, 2005 because it was acquired by the Company in a purchase business combination in July 2005. We have also excluded the recently acquired operations of Delphi Corporation's global battery business from our audit of internal control over financial reporting; total assets and total revenues of these operations represent approximately 4% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2005.

In our opinion, management's assessment that Johnson Controls, Inc. did not maintain effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Johnson Controls, Inc. has not maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
December 2, 2005

Johnson Controls, Inc.

Consolidated Statement of Income

(In millions, except per share data)	Year Ended September 30, 2005	Restated 2004	Restated 2003
Net sales			
Products and systems*	$24,337.3	$21,653.4	$18,610.1
Services*	3,142.1	2,949.6	2,561.2
	27,479.4	24,603.0	21,171.3
Cost of sales			
Products and systems	21,463.7	18,911.2	16,065.2
Services	2,533.8	2,414.0	2,077.8
	23,997.5	21,325.2	18,143.0
Gross profit	3,481.9	3,277.8	3,028.3
Selling, general and administrative expenses	2,205.5	2,144.6	2,000.3
Restructuring costs	210.0	82.4	—
Japanese pension gain	—	(84.4)	—
Operating income	1,066.4	1,135.2	1,028.0
Interest income	13.0	13.1	8.4
Interest expense	(120.5)	(111.0)	(113.2)
Equity income	71.8	96.4	76.9
Miscellaneous — net	(27.3)	(63.9)	(58.3)
Other income (expense)	(63.0)	(65.4)	(86.2)
Income before income taxes and minority interests	1,003.4	1,069.8	941.8
Provision for income taxes	205.1	251.4	273.5
Minority interests in net earnings of subsidiaries	41.1	51.6	23.4
Income from continuing operations	757.2	766.8	644.9
Income from discontinued operations, net of income taxes	16.1	50.7	38.0
Gain on sale of discontinued operations, net of income taxes	136.1	—	—
Net income	$ 909.4	$ 817.5	$ 682.9
Earnings available for common shareholders	$ 909.4	$ 815.7	$ 675.7
Earnings per share from continuing operations			
Basic	$ 3.95	$ 4.08	$ 3.57
Diluted	$ 3.90	$ 3.98	$ 3.40
Earnings per share			
Basic	$ 4.74	$ 4.35	$ 3.78
Diluted	$ 4.68	$ 4.24	$ 3.60

* Products and systems consist of interior experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

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

Johnson Controls, Inc.

Consolidated Statement of Financial Position

(In millions, except par value and share data)	September 30, 2005	September 30, Restated 2004
ASSETS		
Cash and cash equivalents	$ 171.3	$ 99.2
Accounts receivable, less allowance for doubtful accounts of $47.0 and $46.9, respectively	4,672.2	3,815.9
Costs and earnings in excess of billings on uncompleted contracts	314.5	271.8
Inventories	983.1	858.3
Assets of discontinued operations	—	579.8
Other current assets	997.7	725.5
Current assets	7,138.8	6,350.5
Property, plant and equipment — net	3,581.6	3,333.9
Goodwill — net	3,732.6	3,566.2
Other intangible assets — net	289.0	290.9
Investments in partially-owned affiliates	444.9	447.6
Other noncurrent assets	957.5	769.3
Total assets	$16,144.4	$14,758.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	$ 684.0	$ 813.3
Current portion of long-term debt	80.9	226.7
Accounts payable	3,937.5	3,425.3
Accrued compensation and benefits	704.4	592.4
Accrued income taxes	44.3	48.6
Billings in excess of costs and earnings on uncompleted contracts	225.7	197.2
Liabilities of discontinued operations	—	228.5
Other current liabilities	1,164.6	888.8
Current liabilities	6,841.4	6,420.8
Long-term debt	1,577.5	1,630.6
Postretirement health and other benefits	158.7	164.1
Minority interests in equity of subsidiaries	195.6	121.5
Other noncurrent liabilities	1,313.1	1,215.1
Long-term liabilities	3,244.9	3,131.3
Commitments and contingencies (Note 22)		
Common stock, $.04 1/6 par value shares authorized: 600,000,000 shares issued: 2005 — 193,253,563; 2004 — 191,176,609	8.1	8.0
Capital in excess of par value	1,091.6	953.0
Retained earnings	4,905.4	4,187.9
Treasury stock, at cost (2005 — 382,628 shares; 2004 — 855,668 shares)	(6.8)	(14.5)
Accumulated other comprehensive income	59.8	71.9
Shareholders' equity	6,058.1	5,206.3
Total liabilities and shareholders' equity	$16,144.4	$14,758.4

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

Johnson Controls, Inc.

Consolidated Statement of Cash Flows

(In millions)	September 30, 2005	Restated 2004	Restated 2003
Operating Activities			
Net income	$ 909.4	$ 817.5	$ 682.9
Gain and income from discontinued operations	(152.2)	(50.7)	(38.0)
Income from continuing operations	757.2	766.8	644.9
Adjustments to reconcile net income from continuing operations to cash provided by operating activities			
Depreciation	613.3	550.3	511.4
Amortization of intangibles	23.1	18.8	16.8
Equity in earnings of partially-owned affiliates, net of dividends received	(46.5)	(18.6)	(25.8)
Deferred income taxes	(25.2)	100.5	120.4
Minority interests in net earnings of subsidiaries	41.1	51.6	23.4
Gain on sale of long-term investment	—	—	(16.6)
Non-cash restructuring costs	47.5	7.1	—
Pension contributions in excess of expense	(138.3)	—	(231.7)
Japanese pension settlement gain	—	(84.4)	—
Other	25.9	(32.7)	(5.9)
Changes in working capital, excluding acquisitions and divestitures of businesses			
Receivables	(787.8)	(308.3)	25.7
Inventories	(59.4)	(3.0)	1.4
Other current assets	(113.8)	36.6	(60.7)
Restructuring reserves	101.9	41.8	—
Accounts payable and accrued liabilities	379.3	165.7	(52.1)
Accrued income taxes	81.4	14.0	(127.4)
Billings in excess of costs and earnings on uncompleted contracts	27.7	(3.0)	(12.4)
Cash provided by operating activities of continuing operations	927.4	1,303.2	811.4
Investing Activities			
Capital expenditures	(664.1)	(783.5)	(606.0)
Sale of property, plant and equipment	39.2	50.9	52.2
Acquisition of businesses, net of cash acquired	(327.8)	(419.6)	(384.7)
Proceeds from sale of long-term investment	—	—	38.2
Business divestitures	678.5	—	—
Recoverable customer engineering expenditures	(9.8)	(55.0)	(46.0)
Changes in long-term investments	11.6	(25.6)	(8.8)
Cash used by investing activities	(272.4)	(1,232.8)	(955.1)
Financing Activities			
Increase (decrease) in short-term debt — net	(105.7)	659.9	52.9
Increase in long-term debt	82.7	213.8	510.7
Repayment of long-term debt	(373.7)	(869.9)	(376.7)
Payment of cash dividends	(191.9)	(170.7)	(136.3)
Other	45.4	34.3	27.0
Cash (used) provided by financing activities	(543.2)	(132.6)	77.6
Cash (used) provided by discontinued operations	(69.2)	71.9	(6.1)
Effect of exchange rate changes on cash and cash equivalents	29.5	5.6	9.3
Increase (decrease) in cash and cash equivalents	$ 72.1	$ 15.3	$ (62.9)

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

Johnson Controls, Inc.

Consolidated Statement of Shareholders' Equity

	Total	Preferred Stock	Employee Stock Ownership Plan — Unearned Compensation	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)
	(In millions, except per share data)							
At September 30, 2002	$3,499.7	$103.8	$(44.6)	$14.9	$ 690.0	$2,994.0	$(12.0)	$(246.4)
Comprehensive income:								
Net income	682.9	—	—	—	—	682.9	—	—
Foreign currency translation adjustments	203.5	—	—	—	—	—	—	203.5
Realized gains on marketable securities	(11.1)	—	—	—	—	—	—	(11.1)
Realized and unrealized gains/losses on derivatives	10.5	—	—	—	—	—	—	10.5
Minimum pension liability adjustment	(63.4)	—	—	—	—	—	—	(63.4)
Other comprehensive income	139.5							
Comprehensive income	822.4							
Reduction of guaranteed ESOP debt	21.0	—	21.0	—	—	—	—	—
Cash dividends								
Series D preferred ($3.97 per one ten-thousandth of a share), net of $0.5 million tax benefit	(7.2)	—	—	—	—	(7.2)	—	—
Common ($0.72 per share)	(128.6)	—	—	—	—	(128.6)	—	—
Other, including options exercised	54.0	(6.7)	—	0.2	58.0	—	2.5	—
At September 30, 2003	4,261.3	97.1	(23.6)	15.1	748.0	3,541.1	(9.5)	(106.9)
Comprehensive income:								
Net income	817.5	—	—	—	—	817.5	—	—
Foreign currency translation adjustments	171.2	—	—	—	—	—	—	171.2
Realized and unrealized gains/losses on derivatives	11.3	—	—	—	—	—	—	11.3
Minimum pension liability adjustment	(3.7)	—	—	—	—	—	—	(3.7)
Other comprehensive income	178.8							
Comprehensive income	996.3							
Reduction of guaranteed ESOP debt	23.6	—	23.6	—	—	—	—	—
Cash dividends								
Series D preferred ($0.99 per one ten-thousandth of a share), net of tax benefit	(1.8)	—	—	—	—	(1.8)	—	—
Common ($0.90 per share)	(168.9)	—	—	—	—	(168.9)	—	—
Par value reduction	—	—	—	(7.5)	7.5	—	—	—
Conversion of preferred stock to common stock	—	(96.0)	—	0.3	95.7	—	—	—
Other, including options exercised	95.8	(1.1)	—	0.1	101.8	—	(5.0)	—
At September 30, 2004	5,206.3	—	—	8.0	953.0	4,187.9	(14.5)	71.9
Comprehensive income:								
Net income	909.4	—	—	—	—	909.4	—	—
Foreign currency translation adjustments	(29.5)	—	—	—	—	—	—	(29.5)
Realized and unrealized gains/losses on derivatives	34.3	—	—	—	—	—	—	34.3
Minimum pension liability adjustment	(16.9)	—	—	—	—	—	—	(16.9)
Other comprehensive loss	(12.1)							
Comprehensive income	897.3							
Cash dividends								
Common ($1.00 per share)	(191.9)	—	—	—	—	(191.9)	—	—
Other, including options exercised	146.4	—	—	0.1	138.6	—	7.7	—
At September 30, 2005	$6,058.1	$ —	$ —	$ 8.1	$1,091.6	$4,905.4	$ (6.8)	$ 59.8

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and foreign subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest exceeds 20 percent. Under certain criteria as provided for in FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities", the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. Gains and losses from the translation of substantially all foreign currency financial statements are recorded in the accumulated other comprehensive income account within shareholders' equity.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue from long-term systems installation contracts of the building efficiency business over the contractual period under the percentage-of-completion method of accounting (see "Long-Term Contracts"). In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

LONG-TERM CONTRACTS

Under the percentage-of-completion method of accounting used for long-term contracts, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Sales and gross profit are adjusted prospectively 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 amount of accounts receivable due after one year is not significant.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for most inventories at domestic locations. Cost of other inventories is determined on the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

PRE-PRODUCTION COSTS RELATED TO LONG-TERM SUPPLY ARRANGEMENTS

The Company's policy for engineering, research and development, and other design and development costs related to products that will be sold under long-term supply arrangements requires such costs to be expensed as incurred. Customer reimbursements are recorded as an increase in cash and a reduction of Selling, general and administrative expense when reimbursement from the customer is received. Costs for molds, dies, and other tools used to make products that will be sold under long-term supply arrangements are capitalized within Property, plant and equipment if the Company has title to the assets or has the non-cancelable right to use the assets during the term of the supply arrangement. Capitalized items, if specifically designed for a supply arrangement, are amortized over the term of the arrangement; otherwise, amounts are amortized over the estimated useful lives of the assets. The carrying values of assets capitalized in accordance with the foregoing policy are periodically reviewed for evidence of impairment. At September 30, 2005 and

2004, approximately $268 million and $178 million, respectively, of costs for molds, dies and other tools were capitalized within Property, plant and equipment which represented assets to which the Company had title. In addition, at September 30, 2005 and 2004, the Company recorded within Other current assets approximately $280 million and $194 million, respectively, of costs for molds, dies and other tools for which customer reimbursement is assured.

PROPERTY, PLANT AND EQUIPMENT

The Company uses the straight-line method of depreciation for financial reporting purposes and accelerated methods for income tax purposes. The general range of useful lives for financial reporting is 10 to 50 years for buildings and improvements and 3 to 20 years for machinery and equipment.

GOODWILL AND OTHER INTANGIBLE ASSETS

Under Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite lived intangible assets are not amortized; however, both must be tested for impairment at least annually. Amortization continues to be recorded for other intangible assets with definite lives. The Company is subject to financial statement risk in the event that goodwill and intangible assets become impaired.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company has written policies and procedures that place all financial instruments under the direction of corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for trading purposes is strictly prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates 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 (OCI), depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The Company hedges 70 to 90 percent of its known foreign exchange transactional exposures. The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. Gains and losses resulting from these contracts 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. Gains and losses on these contracts are recorded in Miscellaneous — net in the Consolidated Statement of Income and are recognized in the same period as gains and losses on the hedged items.

Cash Flow Hedges The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily using foreign currency exchange contracts. These instruments are designated as cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the Consolidated Statement of Financial Position at fair value. The effective portion of the contracts' gains or losses due to changes in fair value are initially recorded as a component of accumulated OCI and are subsequently reclassified into earnings when the hedged transactions, typically sales and costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates. The Company also selectively uses interest rate swaps to modify its exposure to interest rate movements. These swaps also qualify as cash flow hedges, with changes in fair value recorded as a component of accumulated OCI. Interest expense is recorded in earnings at the fixed rate set forth in the swap agreement. At September 30, 2005, the Company entered into three forward treasury lock agreements designated as cash flow hedges to reduce the market risk associated with changes in interest rates related to the Company's anticipated fixed-rate bond issuance to finance an acquisition (see Note 11 and 23) . There were no interest rate swaps outstanding designated as cash flow hedges at September 30, 2004.

For the years ended September 30, 2005 and 2004, the net amounts recognized in earnings due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not material. The amount reported as realized and unrealized gains/losses on derivatives in the accumulated OCI account within shareholders' equity represents the net gain/loss on derivatives designated as cash flow hedges.

Fair Value Hedges The Company had two interest rate swaps outstanding at September 30, 2005 designated as a hedge of the fair value of a portion of fixed-rate bonds (see Note 11). Both the swap and the hedged portion of the debt are recorded in the Consolidated Statement of Financial Position. The change in fair value of the swaps exactly offsets the change in fair value of the hedged debt, with no net impact on earnings.

Net Investment Hedges The Company has cross-currency interest rate swaps and foreign currency-denominated debt obligations that are designated as hedges of the foreign currency exposure associated with its net investments in foreign operations. The currency effects of the debt obligations are reflected in the accumulated OCI account where they offset translation gains and losses recorded on the Company's net investments in Europe and Japan. The cross-currency interest rate swaps are recorded in the Consolidated Statement of Financial Position at fair value, with changes in value attributable to changes in foreign exchange rates recorded in the foreign currency translation adjustments component of accumulated OCI. Net interest payments or receipts from the interest rate swaps are recorded as adjustments to interest expense in earnings on a current basis. A net gain of approximately $5 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2005. A net loss of approximately $86 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2004.

STOCK-BASED COMPENSATION

The Company adopted the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FAS 123," effective October 1, 2002. In accordance with SFAS No. 148, the Company has adopted the fair value recognition provisions on a prospective basis. Compensation expense is recognized over the three-year vesting period of stock options granted.

EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income, after deducting dividend requirements on the Series D Convertible Preferred Stock, by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing net income, after deducting the after-tax compensation expense that would arise from the assumed conversion of the Series D Convertible Preferred Stock, by diluted weighted average shares outstanding. Diluted weighted average shares assume the conversion of the Series D Convertible Preferred Stock, if dilutive, plus the dilutive effect of common stock equivalents which would arise from the exercise of stock options. Effective December 31, 2003, the Company converted all the outstanding Series D Convertible Preferred Stock (see Note 12).

CASH FLOW

For purposes of the Consolidated Statement of Cash Flows, the Company considers all investments with a maturity of three months or less at the time of purchase to be cash equivalents.

FOREIGN CURRENCY TRANSLATION

Substantially all of the Company's international operations use the respective local currency as the functional currency. Assets and liabilities of international entities have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period.

COMPREHENSIVE INCOME

Comprehensive income is defined as the sum of net income and all other non-owner changes in equity. The components of the non-owner changes in equity, or accumulated other comprehensive income, were as follows (net of tax):

(In millions)	September 30, 2005	September 30, 2004
Foreign currency translation adjustments	$ 129.1	$158.6
Realized and unrealized gains/losses on derivatives	43.2	8.9
Minimum pension liability adjustments	(112.5)	(95.6)
Accumulated other comprehensive income	$ 59.8	$ 71.9

RECENT ACCOUNTING PRONOUNCEMENTS

During December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, "Share-Based Payment" (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants and certain transactions under other Company stock plans. The Company grants options to purchase common stock to some of its employees under various plans at prices equal to the market value of the stock on the dates the options were granted. In April 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R to the first interim period of the first fiscal year beginning after June 15, 2005 and accordingly the modified prospective method will be adopted by the Company in the first quarter of fiscal 2006. The impact of the adoption of SFAS 123R will depend on levels of share-based payments granted in the future.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current year's presentation.

1. ACQUISITIONS

In fiscal 2005, the Company made six acquisitions for a combined purchase price of approximately $333 million, including the assumption of debt. The most significant of these acquisitions is as follows:

- In June 2005, the Company completed its acquisition of USI Companies, Inc. Management believes this acquisition will provide clients with an expanded, integrated mix of global corporate real estate services, enabling the Company to further align new and existing customers' real estate assets with their business objectives.

- In July 2005, the Company completed the acquisition of Delphi Corporation's global battery business. Management believes the acquisition enables the Company to participate in the rapidly growing Asian automotive battery market, particularly in China.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the dates of acquisition.

	(In millions)
Current assets, net of cash acquired	$161.3
Property, plant and equipment	168.2
Goodwill	166.2
Other intangible assets	16.3
Other noncurrent assets	62.3
Total assets	574.3
Current liabilities	176.9
Long-term liabilities	69.6
Total liabilities	246.5
Net assets acquired	$327.8

The operating results of these acquisitions have been included in the Company's Consolidated Financial Statements from the dates of acquisition. Pro forma information reflecting these acquisitions has not been disclosed as the impact on consolidated net income was not material.

Goodwill of approximately $86 million, all of which is tax deductible, has been assigned to the building efficiency segment. Goodwill of approximately $8 million, none of which is tax deductible, has been assigned to the interior experience — North America segment. Goodwill of approximately $72 million, $68 million of which is tax deductible, has been assigned to the power solutions segment. In addition, approximately $16 million of customer relationships subject to amortization were recorded with a useful life of 15 years. The purchase price allocations may be subsequently adjusted to reflect final appraisals and other valuation studies.

The Company has recorded restructuring reserves of approximately $82 million related to the Delphi battery acquisition. This restructuring reserve includes workforce reductions of approximately 1,500 employees and calls for four plants to be closed or merged into existing facilities of the Company. As of September 30, 2005, the Company was in the process of finalizing the restructuring plan related to the acquisition. The Company anticipates that the restructuring actions will be completed by the end of the first quarter in fiscal 2007. As of September 30, 2005, there was no usage of the restructuring reserves.

In fiscal 2004, the Company acquired 100% ownership of its power solutions joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV). The purchase price for the remaining 51% interest in the joint venture was approximately $525 million, including the assumption of debt. The acquisition was funded initially with short-term debt. Management believes the acquisition is in line with the Company's growth strategies and provides new opportunities to strengthen the Company's global leadership position in the automotive battery industry.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Latin American JV acquisition, which was effective on August 1, 2004.

	(In millions)
Current assets, net of cash acquired	$163.9
Property, plant and equipment	218.8
Goodwill	458.0
Other intangible assets	37.0
Other noncurrent assets	4.0
Total assets	881.7
Current liabilities	167.7
Long-term liabilities	214.0
Total liabilities	381.7
Less historical investment balance in partially-owned affiliate	117.0
Net assets acquired	$383.0

The operating results of the Latin American JV have been included in the Company's consolidated financial statements from the date of acquisition. For periods prior to the acquisition, the Company's investment was accounted for by the equity method. Pro forma information reflecting this acquisition has not been disclosed as the impact on consolidated net income was not material.

Goodwill of $458 million, none of which is tax deductible, has been assigned to the power solutions segment related to the Latin American JV acquisition. Approximately $12 million of customer relationships subject to amortization were recorded with a weighted average useful life of approximately 39 years. In addition, $25 million was assigned to trademarks with an indefinite useful life.

In fiscal 2003, the Company made acquisitions for a combined purchase price of approximately $525 million, including the assumption of debt. Short-term borrowings were initially used to finance the acquisitions and were partially refinanced through the issuance of senior notes in September 2003. The more significant of these acquisitions were as follows:

- On October 31, 2002, the Company acquired VARTA AG's Automotive Battery Division, a major European automotive battery manufacturer headquartered in Germany. The Varta Automotive Battery Division (Varta) consists of VARTA Automotive GmbH and the 80 percent majority ownership in VB Autobatterie GmbH.
- Effective July 23, 2003, the Company completed the acquisition of Borg Instruments AG (Borg), an automotive electronics company with headquarters in Germany.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the dates of acquisition.

	(In millions)
Current assets, net of cash acquired	$343.1
Property, plant and equipment	261.1
Goodwill	200.3
Other intangible assets	51.6
Other noncurrent assets	14.1
Total assets	870.2
Current liabilities	278.2
Long-term liabilities	207.3
Total liabilities	485.5
Net assets acquired	$384.7

The operating results of these acquisitions have been included in the Company's consolidated financial statements from the dates of acquisition. Pro forma information reflecting these acquisitions has not been disclosed as the impact on consolidated net income was not material.

Goodwill of approximately $200 million, of which $22 million is expected to be deductible for tax purposes, has been assigned to the interior experience — Europe segment ($107 million) and the power solutions segment ($93 million). Approximately $43 million of intangible assets subject to amortization and with a weighted average useful life of approximately 24 years were recorded. This included approximately $1 million and $17 million, respectively, of patented and unpatented technology with a weighted average useful life of approximately 14 years, and $25 million of customer relationships with a weighted average useful life of approximately 31 years. In addition, $9 million was assigned to trademarks with an indefinite useful life.

Restructuring reserves related to the Varta acquisition of approximately $18 million were recorded at September 30, 2003. The majority of the reserves were established for employee severance costs related to workforce reductions of approximately 235 employees. The Varta restructuring activities were substantially complete at the end of fiscal year 2004. The Company made a final payment of $36.6 million related to the Varta acquisition in fiscal 2004.

2. DISCONTINUED OPERATIONS

In February 2005, the Company completed the sale of its engine electronics business, included in the interior experience — Europe segment, to Valeo for approximately €316 million, or about $419 million. This non-core business was acquired in fiscal 2002 from Sagem SA. As part of the post-closing activities, the Company settled a claim with Valeo for approximately $8 million ($5 million after tax), resulting in an adjustment to the purchase price. The sale of the engine electronics business resulted in a gain of approximately $81 million ($51 million after tax), net of related costs.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services), included in the building efficiency segment, to IAP Worldwide Services, Inc. for approximately $260 million. This non-strategic business was acquired in fiscal 1989 from Pan Am Corporation. The sale of World Services resulted in a gain of approximately $139 million ($85 million after tax), net of related costs.

The following summarizes the revenues, expenses and related gain on sale of the discontinued operations:

	Engine Electronics(1)			Johnson Controls World Services, Inc.(2)		
	Year Ended September 30,			Year Ended September 30,		
(In millions)	2005	2004	2003	2005	2004	2003
Net sales	$199.7	$435.9	$288.6	$340.4	$754.1	$766.1
Cost of sales	172.3	362.2	239.4	318.6	695.0	715.9
Gross profit	27.4	73.7	49.2	21.8	59.1	50.2
Selling, general and administrative expenses	16.8	33.9	29.5	8.1	16.9	9.0
Operating income	10.6	39.8	19.7	13.7	42.2	41.2
Miscellaneous — net	—	—	—	1.4	0.2	1.1
Income before income taxes and minority interests	10.6	39.8	19.7	15.1	42.4	42.3
Provision for income taxes	3.7	14.1	7.0	5.8	16.5	16.5
Minority interests	—	—	—	0.1	0.9	0.5
Net income	$ 6.9	$ 25.7	$ 12.7	$ 9.2	$ 25.0	$ 25.3
Earnings per share from discontinued operations						
Basic	$ 0.03	$ 0.14	$ 0.07	$ 0.05	$ 0.13	$ 0.14
Diluted	$ 0.03	$ 0.13	$ 0.07	$ 0.05	$ 0.13	$ 0.13
Earnings per share from gain on sale of discontinued operations						
Basic	$ 0.27	—	—	$ 0.44	—	—
Diluted	$ 0.26	—	—	$ 0.44	—	—

(1) Engine Electronics includes revenues and expenses through February 28, 2005, the effective date of the disposition.

(2) World Services includes revenues and expenses through March 30, 2005, the effective date of disposition.

Assets of the engine electronics business as of the disposal date totaled $427 million, which consisted of goodwill ($154 million), accounts receivable ($100 million), property, plant and equipment — net ($69 million), other intangible assets — net ($59 million) and other miscellaneous assets ($45 million). Liabilities of the engine electronics business as of the disposal date totaled $89 million, which consisted of accounts payable ($82 million) and other miscellaneous liabilities ($7 million).

Assets of Johnson Controls World Services, Inc. as of the disposal date totaled $178 million, which consisted of accounts receivable ($127 million), goodwill ($30 million), property, plant and equipment — net ($10 million) and other miscellaneous assets ($11 million). Liabilities of Johnson Controls World Services, Inc. as of the disposal date totaled $57 million, which consisted of accounts payable ($40 million) and other miscellaneous liabilities ($17 million).

3. INVENTORIES

(In millions)	September 30, 2005	September 30, 2004
Raw materials and supplies	$ 497.2	$462.7
Work-in-process	157.8	139.1
Finished goods	377.8	291.3
FIFO inventories	1,032.8	893.1
LIFO reserve	(49.7)	(34.8)
Inventories	$ 983.1	$858.3

Inventories valued by the LIFO method of accounting were approximately 31 percent of total inventories at September 30, 2005 and 2004.

4. PROPERTY, PLANT AND EQUIPMENT

(In millions)	September 30, 2005	September 30, 2004
Buildings and improvements	$ 1,783.8	$ 1,558.5
Machinery and equipment	5,086.4	4,781.2
Construction in progress	479.4	382.0
Land	249.4	249.0
Total property, plant and equipment	7,599.0	6,970.7
Less accumulated depreciation	(4,017.4)	(3,636.8)
Property, plant and equipment — net	$ 3,581.6	$ 3,333.9

Interest costs capitalized during 2005, 2004 and 2003 were $11.2 million, $16.0 million and $8.4 million, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended September 30, 2005 and 2004 were as follows:

(In millions)	Buildings	Interiors — North America	Interiors — Europe	Interiors — Asia	Power	Total
Balance as of September 30, 2003	$404.7	$1,176.1	$ 942.3	$212.9	$249.1	$2,985.1
Goodwill from business acquisitions	—	—	—	—	458.0	458.0
Currency translation	31.3	0.6	71.8	2.4	10.4	116.5
Other	(1.7)	—	10.6	(30.0)	27.7	6.6
Balance as of September 30, 2004	434.3	1,176.7	1,024.7	185.3	745.2	3,566.2
Goodwill from business acquisitions	85.9	8.0	—	—	72.3	166.2
Currency translation	(3.0)	1.4	(10.1)	5.6	(0.8)	(6.9)
Other	(1.8)	(0.2)	(1.2)	1.5	8.8	7.1
Balance as of September 30, 2005	$515.4	$1,185.9	$1,013.4	$192.4	$825.5	$3,732.6

See Note 1 for discussion of goodwill from businesses acquired during fiscal 2005 and 2004.

The Company's other intangible assets, primarily from acquisitions, are valued based on independent appraisals and consisted of the following:

(In millions)	September 30, 2005 Gross Carrying Amount	September 30, 2005 Accumulated Amortization	September 30, 2005 Net	September 30, 2004 Gross Carrying Amount	September 30, 2004 Accumulated Amortization	September 30, 2004 Net
Amortized intangible assets						
Patented technology	$230.9	$(102.8)	$128.1	$232.1	$ (85.8)	$146.3
Unpatented technology	31.5	(6.8)	24.7	31.7	(4.9)	26.8
Customer relationships	95.5	(7.6)	87.9	76.3	(4.8)	71.5
Miscellaneous	9.9	(8.3)	1.6	10.5	(7.3)	3.2
Total amortized intangible assets	367.8	(125.5)	242.3	350.6	(102.8)	247.8
Unamortized intangible assets						
Trademarks	39.6	—	39.6	37.1	—	37.1
Pension asset	7.1	—	7.1	6.0	—	6.0
Total unamortized intangible assets	46.7	—	46.7	43.1	—	43.1
Total intangible assets	$414.5	$(125.5)	$289.0	$393.7	$(102.8)	$290.9

Amortization of other intangible assets was approximately $23 million and $19 million for the years ended September 30, 2005 and 2004, respectively. Excluding the impact of any future acquisitions including York International Corporation, the Company anticipates that annual amortization of other intangible assets will approximate $21 million for each of the next five years.

6. GUARANTEES

The Company has guaranteed the residual value related to the Company aircraft accounted for as synthetic leases. The guarantees extend through the maturity of each respective underlying lease in September 2006. In the event the Company exercised its option not to purchase the aircraft for the remaining obligations at the scheduled maturity of the leases, the Company has guaranteed the majority of the residual values, not to exceed $44 million and $53 million in aggregate at September 30, 2005 and 2004, respectively. The Company has recorded a liability of approximately $2 million and $4 million within Other noncurrent liabilities and a corresponding offset within Other noncurrent assets in the Consolidated Statement of Financial Position relating to the Company's obligation under the guarantees at September 30, 2005 and 2004, respectively. These amounts are being amortized over the life of the guarantees.

7. PRODUCT WARRANTIES

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. Most of the Company's product warranties are customer specific. The Company has been increasingly offering discounts in lieu of warranties resulting in a decline in the overall warranty liability. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in Other current liabilities in the Consolidated Statement of Financial Position.

The changes in the carrying amount of the Company's total product warranty liability for the years ended September 30, 2005 and 2004 were as follows:

(In millions)	Year Ended September 30, 2005	Year Ended September 30, 2004
Beginning balance	$ 67.5	$ 78.3
Accruals for warranties issued during the period	46.8	48.8
Accruals from business acquisition	3.1	4.2
Accruals related to pre-existing warranties (including changes in estimates)	(6.5)	(22.9)
Settlements made (in cash or in kind) during the period	(49.4)	(43.1)
Currency translation	(0.2)	2.2
Ending balance	$ 61.3	$ 67.5

8. LEASES

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were $78 million and $90 million at September 30, 2005 and 2004, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense was $242 million in 2005, $235 million in 2004 and $208 million in 2003.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2005 were as follows:

(In millions)	Capital Leases	Operating Leases
2006	$ 18.6	$245.2
2007	14.0	134.6
2008	13.7	94.5
2009	49.6	72.4
2010	7.9	52.3
After 2010	25.1	86.6
Total minimum lease payments	128.9	$685.6
Interest	24.3	
Present value of net minimum lease payments	$104.6	

9. SHORT-TERM DEBT AND CREDIT AGREEMENTS

(In millions)	September 30, 2005	2004
Commercial paper	$476.8	$267.0
Bank borrowings	207.2	546.3
Short-term debt	$684.0	$813.3
Weighted average interest rate on short-term debt outstanding	3.75%	2.36%

The Company had committed lines of credit available for support of outstanding commercial paper that averaged $1.25 billion during the year and were $1.25 billion at September 30, 2005. In addition, the Company had uncommitted lines of credit from banks totaling $1.62 billion at September 30, 2005, of which $1.50 billion remained unused. The lines of credit are subject to the usual terms and conditions applied by banks.

In October 2005, the Company entered into a five-year $1.6 billion revolving credit facility which expires in October 2010. This facility replaces the five-year $625 million revolving credit facility, which would have expired in October 2008, and the 364-day $625 million facility, which expired in October 2005. There were no draws on any of the committed credit lines through September 30, 2005.

In October 2005, the Company entered into a $2.8 billion revolving credit facility. The facility expires on the earlier of 364 days after the effective date of this credit agreement, as defined, or December 28, 2006. The Company intends to use the revolving credit facility to provide a liquidity backstop for commercial paper that the Company intends to issue to fund the anticipated acquisition of York International Corporation (see Note 23).

10. LONG-TERM DEBT

(In millions)	September 30, 2005	September 30, 2004
Unsecured notes		
Floating rate note due in 2005	$ —	$ 200.0
4.875% due in 2013 ($300 million par value)	298.8	298.5
5% due in 2007 ($350 million par value)	353.7	361.4
6.3% due in 2008 ($175 million par value)	174.9	175.6
7.7% due in 2015 ($125 million par value)	124.9	124.8
7.125% due in 2017 ($150 million par value)	149.4	149.1
6.95% due in 2046	125.0	125.0
Unsecured loan		
Floating rate loan due in 2009	50.0	50.0
Industrial revenue bonds due through 2005, net of unamortized discount of $0.1 million in 2004	—	9.7
Capital lease obligations	104.6	89.0
Foreign-denominated debt		
euro	131.5	142.2
yen	91.4	92.1
Other	54.2	39.9
Gross long-term debt	1,658.4	1,857.3
Less current portion	80.9	226.7
Net long-term debt	$1,577.5	$1,630.6

Due dates are by fiscal year.

At September 30, 2005, the Company's euro-denominated long-term debt was comprised of $132 million of fixed rate debt. The weighted average interest rate of the fixed debt was 8.8%.

The Company had yen-denominated long-term debt totaling $91 million at September 30, 2005. The fixed interest rate portion of yen debt was equivalent to $59 million with a weighted average interest rate of 1.7% and the variable rate portion was equivalent to $32 million with a weighted average interest rate of 0.36%.

In September 2005, the Company repaid in full the $200 million long-term, floating rate note that matured. The repayment was funded with short-term borrowings.

The installments of long-term debt maturing in subsequent years are: 2006 — $81 million, 2007 — $447 million, 2008 — $263 million, 2009 — $88 million, 2010 — $5 million, 2011 and beyond — $774 million. The Company's long-term debt includes various financial covenants, none of which are expected to restrict future operations.

Total interest paid on both short and long-term debt was $133 million in 2005, $137 million in 2004 and $118 million in 2003. The Company uses financial instruments to manage its interest rate exposure (see Note 11). These instruments affect the weighted average interest rate of the Company's debt and interest expense.

11. FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The fair value of long-term debt, which was $1.7 billion and $1.9 billion at September 30, 2005 and 2004, respectively, was determined using market interest rates and discounted future cash flows.

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency and interest rates. The use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for trading purposes is strictly prohibited. See the Summary of Significant Accounting Policies for additional information regarding the Company's objectives for holding certain derivative instruments, its strategies for achieving those objectives, and its risk management and accounting policies applicable to these instruments.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in currency exchange rates. The Company primarily uses foreign currency exchange contracts to hedge certain of its foreign currency exposure.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates (cash flow or fair value hedges). In May 2002, the Company entered into a four-and-a-half-year interest rate swap to hedge a portion of the Company's 5% notes maturing in November 2006. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 5% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 14.75 basis points. Terms of the four-and-a-half-year swap were modified since inception of the swap resulting in a decrease of notional amount of $100 million from the original $250 million. In October 2003, the Company entered into a four-year and three-month interest rate swap to hedge the Company's 6.3% notes maturing in February 2008. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 6.3% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 283.5 basis points.

In September 2005, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate bond issuance to finance the acquisition of York International Corporation (cash flow hedge; see Note 23). The three forward treasury lock agreements, which have a combined notional amount of $1.3 billion, fix a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of bond issuance, will be amortized to interest expense over the life of the respective bond issuance.

The Company also selectively uses cross-currency interest rate swaps to hedge the foreign currency exposure associated with its net investment in certain foreign operations (net investment hedges). Under the swaps, the Company receives interest based on a variable U.S. dollar rate and pays interest based on variable yen and euro rates on the outstanding notional principal amounts in dollars, yen and euro, respectively.

In addition, the Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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. In March 2004, the Company entered into an equity swap agreement. In connection with the swap agreement, a third party may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $135 million in aggregate market value at any given time. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the Swap Agreement with Citibank, N.A.'s consent. The Swap Agreement's impact on the Company's earnings for the year ended September 30, 2005 was not material.

The Company's derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position as follows:

	September 30,			
	2005		2004	
	Notional Amount	Fair Value Asset (Liability)	Notional Amount	Fair Value Asset (Liability)
(U.S. dollar equivalents, in millions)				
Other current assets				
Treasury lock agreements	$1,275	$31	$ —	$ —
Foreign currency exchange contracts	2,988	20	1,219	1
Cross-currency interest rate swaps	737	58	—	—
Equity swap	107	3	97	3
Other noncurrent assets				
Interest rate swaps	—	—	325	9
Other noncurrent liabilities				
Interest rate swaps	325	(2)	—	—
Cross-currency interest rate swaps	—	—	816	(24)

It is important to note that the Company's derivative instruments are hedges protecting against underlying changes in foreign currency and interest rates. Accordingly, the implied gains/losses associated with the fair values of foreign currency exchange contracts and cross-currency interest rate swaps would be offset by gains/losses on underlying payables, receivables and net investments in foreign subsidiaries. Similarly, implied gains/losses associated with interest rate swaps offset changes in interest rates and the fair value of long-term debt.

The fair values of interest rate and cross-currency interest rate swaps were determined using dealer quotes and market interest rates. The fair values of foreign currency exchange contracts were determined using market exchange rates.

12. SHAREHOLDERS' EQUITY

The Company originally issued 341.7969 shares of its 7.75 percent Series D Convertible Preferred Stock to its ESOP. The preferred stock was issued in fractional amounts representing one ten-thousandth of a share each or 3.4 million preferred stock units in total. Each preferred stock unit has a liquidation value of $51.20. The ESOP financed its purchase of the preferred stock units by issuing debt. An amount representing unearned employee compensation, equivalent in value to the unpaid balance of the ESOP debt, has been recorded as a deduction from shareholders' equity. The net increase in shareholders' equity at September 30, 2003 resulting from the above transactions was $74 million.

Preferred stock units were allocated to participating employees over the term of the ESOP debt based on the annual ESOP debt service payments and were held in trust for the employees until their retirement, death or vested termination. Each allocated unit could be converted into four shares of common stock (on a post-split basis, see below) or redeemed for $51.20 in cash, at the election of the employee or beneficiary, upon retirement, death or vested termination.

Dividends on the preferred stock were deductible for income tax purposes and entered into the determination of earnings available for common shareholders, net of their tax benefit.

On November 19, 2003, the Company's Board of Directors declared a two-for-one split of the Company's common stock payable January 2, 2004 to shareholders of record on December 12, 2003. The stock split resulted in the issuance of approximately 90.5 million additional shares of common stock. In connection with the stock split, the par value of the common stock was changed from $.16 2/3 per share to $.04 1/6 per share.

Effective December 31, 2003, the Company's Board of Directors authorized the redemption of all the outstanding Series D Convertible Preferred Stock, held in the ESOP, and the ESOP trustee converted the preferred stock into common shares in accordance with the terms of the preferred stock certificate. The conversion resulted in the issuance of approximately 7.5 million common shares (on a post-split basis) and was accounted for through a transfer from preferred stock to common stock and capital in excess of par value. The conversion of $96 million of preferred shares held by the ESOP has been reflected within Shareholders' Equity in the Consolidated Statement of Financial Position. The conversion of these shares resulted in their inclusion in the basic weighted average common shares outstanding amount used to compute basic earnings per share (EPS). The conversion of preferred shares has always been assumed in the determination of diluted EPS. The Company's ESOP was financed with debt issued by the ESOP, and the final ESOP debt payment of $23.6 million was paid by the Company in December 2003.

Options to purchase common stock of the Company, at prices equal to or higher than market values on dates of grant, are granted to key employees under stock option plans. Stock appreciation rights (SARs) may be granted in conjunction with the stock option grants under one plan. Options or SARs are exercisable between two and ten years after date of grant for current employees. Shares available for future grant under stock option plans were 4.5 million at September 30, 2005.

Following is a summary of activity in the stock option plans for the three-year period ended September 30, 2005:

	Weighted Average Option Price	Shares Subject to Option	SARs
Outstanding,			
September 30, 2002	$29.68	10,549,874	1,450,290
Granted	40.32	2,735,582	268,100
Exercised	25.38	(2,600,164)	(352,392)
Cancelled	31.84	(365,884)	(292,488)
Outstanding,			
September 30, 2003	$33.51	10,319,408	1,073,510
Granted	52.55	2,523,335	268,992
Exercised	28.31	(2,175,428)	(286,115)
Cancelled	41.02	(287,406)	(81,710)
Outstanding,			
September 30, 2004	$39.02	10,379,909	974,677
Granted	61.69	2,521,129	280,078
Exercised	32.35	(2,135,294)	(214,070)
Cancelled	47.12	(241,250)	(41,520)
Outstanding,			
September 30, 2005	$45.62	10,524,494	999,165

Options outstanding at September 30, 2005:

Range of Exercise Prices	Outstanding at September 30, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share
$15.00 - $26.99	223,955	1.5	$20.27
$27.00 - $38.99	1,775,720	4.7	$28.62
$39.00 - $50.99	3,723,812	6.6	$40.23
$51.00 - $62.99	4,801,007	8.4	$57.26

Options Exercisable:

Range of Exercise Prices	Exercisable Shares	Weighted Average Exercise Price per Share
At September 30, 2005		
$15.00 - $26.99	223,955	$20.27
$27.00 - $38.99	1,775,720	$28.62
$39.00 - $50.99	2,641,762	$40.19
$51.00 - $62.99	220,300	$55.58
	4,861,737	$35.74
At September 30, 2004	4,612,821	$31.02
At September 30, 2003	3,805,118	$26.12

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." In accordance with SFAS No. 148, the Company has adopted the fair value recognition provisions on a prospective basis and, accordingly, the expense recognized in fiscal 2005 represents a pro rata portion of the 2005, 2004, and 2003 grants which are earned over a three-year vesting period.

The fair values of each option and the assumptions used to estimate these values using the Black-Scholes option pricing model were as follows:

Grants Issued in Year Ended September 30,	2005	2004	2003
Expected life of option (years)	5	5	6
Risk-free interest rate	3.48%	3.00%	3.13%
Expected volatility of the Company's stock	20.00%	23.00%	26.95%
Expected dividend yield on the Company's stock	1.76%	1.75%	1.82%
Fair value of each option	$ 12	$ 11	$ 11

The following table illustrates the pro forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each fiscal year:

Year Ended September 30,	2005	2004	2003
	(In millions, except per share data)		
Net income, as reported	$909.4	$817.5	$682.9
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	15.6	10.6	4.8
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(16.3)	(17.9)	(13.9)
Pro forma net income	$908.7	$810.2	$673.8
Earnings per share:			
Basic — as reported	$ 4.74	$ 4.35	$ 3.78
Basic — pro forma	$ 4.74	$ 4.31	$ 3.73
Diluted — as reported	$ 4.68	$ 4.24	$ 3.60
Diluted — pro forma	$ 4.68	$ 4.21	$ 3.55

The Company has historically applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognizes compensation cost over the vesting period and, if the employee retires before the end of the vesting period, the Company recognizes any remaining unrecognized compensation cost at the date of retirement. Upon adoption of SFAS 123R, the Company will be required to apply 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. Had the Company applied the non-substantive vesting period approach under SFAS 123, additional pre-tax compensation cost of approximately $2 million and $17 million would have been recognized for the years ended September 30, 2005 and 2004, respectively.

In 2002, the Company adopted a restricted stock plan that provides for the award of restricted shares of common stock or restricted share units to certain key employees. Awards under the plan are subject to certain vesting requirements. There were 131,000 restricted shares or restricted share units awarded in 2004 with an average fair market value of $57.80 per share. In 2002, there were 316,000 restricted shares or restricted share units awarded with an average fair market value of $40.50 per share. There were no shares issued in 2005 or 2003. Compensation expense related to restricted stock awards is based upon market prices at dates of award and is charged to earnings over the vesting period. Compensation expense related to the restricted stock plan was $7 million, $6 million and $3 million in 2005, 2004, and 2003, respectively.

Approximately $220 million of consolidated retained earnings at September 30, 2005 represents undistributed earnings of the Company's partially-owned affiliates accounted for by the equity method.

13. EARNINGS PER SHARE

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share for the years ended September 30, 2005, 2004 and 2003:

(In millions)	Year Ended September 30, 2005	2004	2003
Income Available to Common Shareholders			
Net income, as reported	$909.4	$817.5	$682.9
Preferred stock dividends, net of tax benefit	—	(1.8)	(7.2)
Basic income available to common shareholders	$909.4	$815.7	$675.7
Net income	$909.4	$817.5	$682.9
Effect of dilutive securities:			
Compensation expense, net of tax, arising from assumed conversion of preferred stock	—	(0.1)	(2.1)
Diluted income available to common shareholders	$909.4	$817.4	$680.8
Weighted Average Shares Outstanding			
Basic weighted average shares outstanding	191.8	187.7	178.7
Effect of dilutive securities:			
Stock options	2.5	3.0	2.8
Convertible preferred stock	—	1.9	7.6
Diluted weighted average shares outstanding	194.3	192.6	189.1
Antidilutive Securities			
Options to purchase common shares	0.6	0.3	0.4

14. RETIREMENT PLANS

Pension Measurement Date

The Company and its subsidiaries sponsor many U.S. and non-U.S. defined benefit pension plans and primarily U.S. postretirement health and other benefit plans. In 2003, the Company changed the measurement date for the U.S. defined benefit pension and postretirement health and other benefit plans from June 30 to July 31 to more closely align the measurement date of these plans with the measurement date of the Company's non-U.S. defined benefit plans and with the Company's fiscal year-end financial reporting date. The cumulative and fiscal year 2003 impact of this change was not material to the Company's financial position, results of operations or cash flows.

Pension Benefits

The Company has noncontributory defined benefit pension plans covering most U.S. and certain non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-US plans observes the local legal and regulatory limits. Also, the Company makes contributions to union-trusteed pension funds for construction and service personnel.

The Company's investment policies employ an approach whereby a mix of equities and fixed income 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 domestic and non-domestic 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. 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 Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations monthly, or as appropriate, in order to stay within a range of allocation for each asset category.

The Company's pension plan asset allocations by asset category are shown below.

	2005	2004
Equity securities:		
U.S. plans	63.3%	62.5%
Non-U.S. plans	46.7%	49.0%
Debt securities:		
U.S. plans	36.0%	37.4%
Non-U.S. plans	47.2%	45.0%
Real estate:		
U.S. plans	0.7%	—
Non-U.S. plans	5.1%	5.0%
Cash/liquidity:		
U.S. plans	—	0.1%
Non-U.S. plans	1.0%	1.0%

The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

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 $769 million, $695 million and $296 million, respectively, as of September 30, 2005 and $710 million, $625 million and $279 million, respectively, as of September 30, 2004.

The Company expects to contribute approximately $53 million in cash to its defined benefit pension plans in fiscal 2006. Projected benefit payments from the plans as of September 30, 2005 are estimated as follows:

	(In millions)
2006	$ 78.3
2007	84.1
2008	89.6
2009	97.2
2010	103.8
2011-2015	651.2

Savings and Investment Plans

The Company sponsors various defined contribution savings plans primarily in the U.S. that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will match a percentage of the employee contributions up to certain limits. Excluding the ESOP, matching contributions charged to expense amounted to $42 million, $23 million and $18 million for the fiscal years ended 2005, 2004 and 2003, respectively.

The Company established an ESOP as part of its savings and investment plans. The Company's annual contributions to the ESOP, when combined with the preferred stock dividends, were of an amount which allowed the ESOP to meet its debt service requirements. This contribution amount was $17 million in 2004 and $12 million in 2003. The Company's final ESOP debt payment was made in December 2003 (see

Note 12). Compensation expense recorded by the Company related to the ESOP was $26 million in 2004 and $17 million in 2003. No compensation expense was recorded by the Company in 2005.

Postretirement Health and Other Benefits

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S. Most non-U.S. employees are covered by government sponsored programs, and the cost to the Company is not significant. The U.S. benefits are paid as incurred. No change in the Company's practice of funding these benefits on a pay-as-you-go basis is anticipated.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits. Effective January 31, 1994, the Company modified certain salaried plans to place a limit on the Company's cost of future annual retiree medical benefits at no more than 150 percent of the 1993 cost.

The September 30, 2005 accumulated postretirement benefit obligation was determined using assumed health care cost trend rates of ten percent for both pre-65 and post-65 years of age employees, decreasing one percent each year to an ultimate rate of five percent. The September 30, 2004 accumulated postretirement benefit obligation was determined using assumed health care cost trend rates of eight percent for both pre-65 and post-65 years of age employees, decreasing one percent each year to an ultimate rate of six percent. The health care cost trend rate assumption could have a significant effect on the amounts reported. To illustrate, a one percentage point change in the assumed health care cost trend rate would have changed the accumulated benefit obligation by $1 million at September 30, 2005 and the sum of the service and interest costs in 2005 by $0.2 million.

The Company expects to contribute approximately $12 million in cash to its postretirement health and other benefit plans in fiscal 2006. Projected benefit payments from the plans as of September 30, 2005 are estimated as follows:

	(In millions)
2006	$12.1
2007	12.8
2008	13.2
2009	13.8
2010	14.6
2011-2015	81.5

Japanese Pension Settlement Gain

During fiscal 2004, the Company recorded a pension gain related to certain of the Company's Japanese pension plans established under Japanese Welfare Pension Insurance Law. In accordance with recent amendments to this law, the Company completed the transfer of certain pension obligations and related plan assets to the Japanese government which resulted in a non-cash settlement gain of $84.4 million, net of $1.2 million associated with the recognition of unrecognized actuarial losses, recorded within SG&A expenses in the Consolidated Statement of Income. The excess of benefit obligations over plan assets (funded status) of the Company's non-U.S. pension plans decreased $85.6 million as a result of the transfer.

The table that follows contains the accumulated benefit obligation and reconciliations of the changes in the PBO, the changes in plan assets and the funded status.

	Pension				Postretirement Health and Other	
	U.S. Plans		Non-U.S. Plans			
September 30,	2005	2004	2005	2004	2005	2004
	(In millions)					
Accumulated Benefit Obligation	$1,493.7	$1,206.9	$ 928.0	$ 743.8	$ —	$ —
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	1,428.4	1,263.4	827.1	891.6	170.2	177.9
Service cost	64.2	57.6	28.2	28.4	5.5	5.1
Interest cost	89.2	82.1	39.5	35.3	10.3	11.0
Amendments made during the year	1.7	1.1	0.4	(8.1)	0.5	0.5
Acquisitions	—	—	80.9	41.9	—	—
Settlement(1)	—	—	—	(198.3)	—	0.9
Actuarial loss (gain)	215.2	71.3	119.1	16.9	18.1	(7.4)
Benefits paid	(52.4)	(46.9)	(32.2)	(38.5)	(21.4)	(18.5)
Currency translation adjustment	—	—	(9.8)	57.9	1.7	0.7
Curtailment loss (gain)	2.3	(0.2)	(6.7)	—	—	—
Projected benefit obligation at end of year	$1,748.6	$1,428.4	$1,046.5	$ 827.1	$ 184.9	$ 170.2
Change in plan assets						
Fair value of plan assets at beginning of year	$1,180.2	$1,108.1	$ 474.6	$ 471.9	$ —	$ —
Actual return on plan assets	138.5	110.1	74.6	25.5	—	—
Acquisitions	—	—	63.6	30.7	—	—
Settlement(1)	—	—	—	(98.7)	—	—
Employer and employee contributions	187.0	8.9	56.5	44.1	21.4	18.5
Benefits paid	(52.4)	(46.9)	(32.2)	(38.5)	(21.4)	(18.5)
Currency translation adjustment	—	—	(7.3)	39.6	—	—
Fair value of plan assets at end of year	$1,453.3	$1,180.2	$ 629.8	$ 474.6	$ —	$ —
Funded status	$ (295.3)	$ (248.2)	$ (416.7)	$(352.5)	$(184.9)	$(170.2)
Unrecognized net transition (obligation) asset	(4.0)	(6.0)	0.2	0.3	—	—
Unrecognized net actuarial loss	566.4	405.0	207.6	121.8	20.9	6.8
Unrecognized prior service cost	8.7	8.5	(2.6)	(6.4)	(8.1)	(14.3)
Employer contributions paid between August 1 and September 30	0.6	0.4	0.9	—	—	—
Net accrued benefit cost recognized at end of year	$ 276.4	$ 159.7	$ (210.6)	$(236.8)	$(172.1)	$(177.7)
Amounts recognized in the Statement of Financial Position consist of:						
Prepaid benefit cost	$ 323.6	$ 184.5	$ 8.4	$ 4.3	$ —	$ —
Accrued benefit liability	(68.4)	(71.6)	(360.1)	(313.6)	(172.1)	(177.7)
Intangible asset	2.3	5.9	4.8	0.1	—	—
Accumulated other comprehensive income	18.9	40.9	136.3	72.4	—	—
Net amount recognized	$ 276.4	$ 159.7	$ (210.6)	$(236.8)	$(172.1)	$(177.7)
Weighted Average Assumptions(2)						
Discount rate	5.50%	6.25%	4.00%	4.50%	5.50%	6.25%
Expected return on plan assets	8.75%	8.75%	5.90%	5.75%	NA	NA
Rate of compensation increase	3.80%	4.00%	2.75%	3.00%	NA	NA

(1) The settlement for the non-U.S. plans for the year ended September 30, 2004 includes $198.3 million projected benefit obligation and $98.7 million of plan assets related to the Japanese pension settlements of which the resultant gain of $85.6 million relates to the interior experience — Asia segment and $14.0 million relates to the building efficiency segment. These gains were offset by the recognition of

unrealized losses associated with the settlements of $1.2 million and $12.7 million at interior experience — Asia and building efficiency, respectively. The unrealized losses were recorded as a component of net periodic benefit cost in fiscal 2004.

(2) Plan assets and obligations are determined based on a July 31 measurement date at September 30, 2005 and 2004 for U.S. plans and a September 30 measurement date at September 30, 2005 and 2004 for non-U.S. plans, utilizing assumptions as of those dates.

The table that follows contains the components of net periodic benefit cost.

	Pension						Postretirement Health and Other		
	U.S. Plans			Non-U.S. Plans					
Year Ended September 30,	2005	2004	2003	2005	2004	2003	2005	2004	2003
				(In millions)					
Components of Net Periodic Benefit Cost									
Service cost	$ 64.2	$ 57.6	$ 52.3	$ 28.2	$ 28.4	$ 22.4	$ 5.5	$ 5.1	$ 4.9
Interest cost	89.2	82.1	76.2	39.5	35.3	30.7	10.3	11.0	11.2
Employee contributions	—	—	—	(2.7)	(4.6)	(3.1)	—	—	—
Expected return on plan assets	(104.0)	(104.4)	(94.5)	(30.3)	(26.1)	(20.0)	—	—	—
Amortization of transitional (obligation) asset	(2.0)	(2.7)	(2.5)	0.1	0.1	0.1	—	—	—
Amortization of net actuarial loss	19.5	10.3	0.8	6.8	5.6	4.9	0.8	1.1	0.1
Amortization of prior service cost	1.5	1.3	1.8	(0.4)	(0.2)	0.1	(2.3)	(2.4)	(2.4)
Curtailment loss (gain)	2.3	0.5	(0.3)	(6.7)	—	(0.1)		1.0	—
Recognition of unrealized loss associated with transfer of Japanese pension obligation	—	—	—	—	13.9	—	—	—	—
Net periodic benefit cost	$ 70.7	$ 44.7	$ 33.8	$ 34.5	$ 52.4	$ 35.0	$14.3	$15.8	$13.8
Expense Assumptions									
Discount rate	6.25%	6.50%	7.00%	4.50%	4.00%	4.00%	6.25%	6.50%	7.00%
Expected return on plan assets	8.75%	8.75%	9.50%	5.75%	5.25%	4.75%	NA	NA	NA
Rate of compensation increase	4.00%	4.00%	5.00%	3.00%	3.00%	3.25%	NA	NA	NA

15. RESEARCH AND DEVELOPMENT

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within Selling, general and administrative expenses. Such expenditures amounted to $817 million in 2005, $844 million in 2004 and $884 million in 2003.

A portion of the costs associated with these activities is reimbursed by customers, and totaled $402 million in 2005, $352 million in 2004 and $420 million in 2003.

16. RESTRUCTURING COSTS

In the second quarter of fiscal 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These restructuring charges include workforce reductions of approximately 3,100 employees within interior experience and power solutions and 800 employees in the building efficiency business. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2005, approximately 630 employees within interior experience and the power solutions businesses and 470 employees in the building efficiency business have been separated from the Company. In addition, the 2005 Plan includes eight plant closures within interior experience and power solutions and four plant closures within building efficiency. The write downs of the long-lived assets associated with the plant closures were determined using a discounted cash flow analysis. The interior experience and power solutions actions are primarily concentrated in Europe, while the building efficiency restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed by the end of the second quarter of fiscal year 2006.

The Company recorded the restructuring charge as a result of management's ongoing review of the Company's cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of our most significant customers. Company management is continually analyzing our businesses for opportunities to consolidate current operations and to locate our facilities in low cost countries in close proximity to our customers. This ongoing analysis includes the review of our manufacturing, engineering and purchasing operations as well as our overall Company footprint. As a result of the 2005 Plan, the Company anticipates savings of approximately $135 million in fiscal year 2006.

The following table summarizes the Company's 2005 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

	Original Reserve	Utilized		Balance at Sept. 30, 2005
		Cash	Noncash	
		(In millions)		
Employee severance and termination benefits	$139.3	$(51.6)	$ —	$87.7
Write down of long-lived assets(1)	45.8	—	(45.8)	—
Other	24.9	(9.0)	(1.7)	14.2
Currency translation	—	—	(9.1)	(9.1)
	$210.0	$(60.6)	$(56.6)	$92.8

(1) Write down of long-lived assets includes $36.6 million related to interior experience — Europe, $7.1 million related to power solutions, and $2.1 million related to the building efficiency business.

Included within Other are exit costs related to terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs of the restructuring plan.

In the second quarter of fiscal 2004, the Company executed a restructuring plan (2004 Plan) involving cost structure improvement actions and recorded an $82.4 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These charges primarily related to workforce reductions of approximately 1,500 employees within interior experience and power solutions and 470 employees in building efficiency. In addition, the 2004 Plan called for four plants within interior experience to be consolidated. Through September 30, 2005, substantially all employees have been separated from the Company. A significant portion of the interior experience and power solutions actions were concentrated in Europe. The building efficiency restructuring actions involved activities in both North America and Europe. The remaining restructuring activities are expected to be completed in the first quarter of fiscal year 2006.

The following table summarizes the Company's 2004 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

(In millions)	Balance at September 30, 2004	Utilized Cash	Utilized Noncash	Balance at September 30, 2005
Employee severance and termination benefits	$41.8	$(30.4)	$ —	$11.4
Currency translation	(0.4)	—	(0.1)	(0.5)
	$41.4	$(30.4)	$(0.1)	$10.9

17. INCOME TAXES

An analysis of effective income tax rates for continuing operations is shown below:

(In millions)	Year Ended September 30, 2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.5	1.4	3.0
Foreign tax expense at different rates and foreign losses without tax benefits	(11.6)	(4.5)	(0.5)
U.S. tax on foreign income	(17.6)	(4.8)	(4.9)
Reserve and valuation allowance adjustment	15.1	(2.8)	(1.8)
Other	(2.0)	(0.8)	(1.8)
Effective income tax rate	20.4%	23.5%	29.0%

The Company's base effective income tax rate for continuing operations for fiscal 2005 declined to 25.7% from 26.0% for the prior year primarily due to continuing global tax planning initiatives. The Company's effective tax rate for 2005 was further reduced as a result of an $11.5 million and a $69 million tax benefit in the first and second quarters, respectively, due to a change in tax status of a French and a German subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for US federal income tax purposes. The US shareholder received a tax benefit for the loss resulting from the decrease in value from the original tax basis of these investments. This election changed the tax status of the French and German entities from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for US federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". These tax benefits were partially offset by an increase in the tax valuation allowance of $28 million in the second quarter related to restructuring charges for which no tax benefits were recorded in certain countries given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. The voluntary tax election related to the German subsidiary resulted in a capital loss for tax purposes of $539 million, $187 million of which was utilized in the second quarter. The tax benefit on the remaining capital loss has not been recorded in accordance with the provisions of SFAS No. 109 and will expire in 2010. In addition, other valuation allowance adjustments during the year related primarily to continuing losses at certain foreign subsidiaries for which no tax benefit was recognized were offset by the utilization of losses in certain foreign subsidiaries for which sustained profitability has not yet been demonstrated, thereby resulting in no significant change in the Company's total valuation allowance during the year. The fiscal year ended September 30, 2004 benefited from a $27 million favorable tax settlement related to prior periods.

The annual effective tax rate for income from discontinued operations approximated 39% and 35% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company's income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

Components of the provision for income taxes on continuing operations were as follows:

(In millions)	Year Ended September 30, 2005	2004	2003
Current			
Federal	$170.7	$ 98.9	$126.3
State	19.3	9.1	25.0
Foreign	40.3	42.9	1.8
	230.3	150.9	153.1
Deferred			
Federal	33.8	72.9	93.1
State	2.1	9.4	12.0
Foreign	(61.1)	18.2	15.3
	(25.2)	100.5	120.4
Provision for income taxes	$205.1	$251.4	$273.5

The Company is subject to income taxes in the US and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 "Accounting for Contingencies". The Company's federal income tax returns and certain foreign income tax returns for fiscal years 1997-2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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, 2005, the Company has 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. 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.

Consolidated domestic income from continuing operations before income taxes and minority interests was $826 million in 2005, $759 million in 2004 and $881 million in 2003. The corresponding amounts for foreign operations were $177 million in 2005, $311 million in 2004 and $61 million in 2003.

Income taxes paid during 2005, 2004 and 2003 were $170 million, $107 million and $276 million, respectively.

The Company has not provided additional US income taxes on approximately $1,091 million of undistributed earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company's intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on such earnings.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (Act). The Act creates a temporary incentive for US corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign operations. The deduction is subject to a number of limitations. As such, the Company is not yet in a position to decide on whether, and to what extent, the Company might repatriate foreign earnings that have not yet been remitted to the US. The Act allows the Company to repatriate an amount up to $560 million, which represents the cumulative undistributed earnings of foreign subsidiaries subject to the Act. The respective tax liability if the $560 million was repatriated would be approximately $30 million. The Company expects to be in a position to finalize its assessment in the second quarter of fiscal 2006.

Deferred taxes were classified in the Consolidated Statement of Financial Position as follows:

	September 30,	
(In millions)	**2005**	**2004**
Other current assets	$ 238.2	$ 140.2
Other noncurrent assets	258.6	309.6
Other current liabilities	(45.7)	(48.9)
Other noncurrent liabilities	(400.1)	(420.6)
Net deferred tax asset (liability)	$ 51.0	$ (19.7)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities included:

	September 30,	
(In millions)	**2005**	**2004**
Deferred Tax Assets		
Accrued expenses and reserves	$ 313.5	$ 315.1
Employee and retiree benefits	35.1	35.7
Long-term contracts	16.9	—
Net operating loss and other carryforwards	759.2	592.7
Other	39.2	96.2
	1,163.9	1,039.7
Valuation allowance	(572.9)	(571.7)
	591.0	468.0
Deferred Tax Liabilities		
Property, plant and equipment	134.2	126.4
Long-term contracts	—	8.6
Joint ventures	10.5	14.1
Intangible assets	111.0	134.0
Foreign currency translation adjustments	284.3	204.6
	540.0	487.7
Net deferred tax asset (liability)	$ 51.0	$ (19.7)

At September 30, 2005, the Company had available foreign net operating loss carryforwards of approximately $1,605 million, of which $467 million will expire at various dates between 2006 and 2020, and the remainder have an indefinite carryforward period. The valuation allowance, generally, represents loss carryforwards for which utilization is uncertain because it is unlikely that the losses will be utilized given the lack of sustained profitability and/or limited carryforward periods in certain countries.

18. DECONSOLIDATION OF A JOINT VENTURE (Restated)

On April 1, 2005, the Company deconsolidated a North American interior experience joint venture as it was determined the Company no longer had effective control over the venture's operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, "Consolidation of All Majority-Owned Subsidiaries," the joint venture should not have been consolidated in prior periods. As such, the Company's financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock" for all periods prior to April 1, 2005. Due to this deconsolidation, the Company has also revised the previously reported amounts in the Summary of significant accounting policies, Note 3 — Inventories, Note 4 — Property, plant and equipment, Note 5 — Goodwill and other intangible assets, Note 8 — Leases, Note 12 — Shareholders' equity, Note 14 — Retirement plans, Note 15 — Research and development, Note 17 — Income taxes and Note 20 — Segment information.

The deconsolidation of this joint venture had no impact on income from continuing operations, net income or earnings per share in the respective periods and its impact on the consolidated statement of cash flows was not significant.

Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company's net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. The following table summarizes the impact of this restatement on key financial statement line items:

	Year Ended September 30, 2004		Year Ended September 30, 2003	
(In millions)	As Reported*	Restated	As Reported*	Restated
Consolidated Statement of Income				
Net sales	$25,363.4	$24,603.0	$21,591.3	$21,171.3
Operating income	1,219.1	1,135.2	1,100.7	1,028.0
Equity income	71.1	96.4	54.9	76.9
Minority interests in net earnings of subsidiaries	78.0	51.6	46.3	23.4
Consolidated Statement of Financial Position				
Investments in partially-owned affiliates	314.8	447.6		
Minority interests in equity of subsidiaries	267.2	121.5		

* Amounts reflect adjustments related to discontinued operations (see Note 2).

19. SALE OF LONG-TERM INVESTMENT

In fiscal 2003, the Company recorded a pre-tax gain of approximately $17 million related to the conversion and subsequent sale of its investment in shares of Donnelly Corporation, which merged with Magna International effective October 1, 2002. Prior to the sale, the investment was reported as an available-for-sale security in the Consolidated Statement of Financial Position at fair value. Changes in the fair market value were recorded in the other comprehensive income component of shareholders' equity. As a result of the merger, the Company's shares in Donnelly Corporation were converted into shares of Magna International and the unrealized gain on the investment was recognized in the Consolidated Statement of Income. The Company sold the shares in Magna International in the first quarter of fiscal 2003 and received proceeds of approximately $38 million.

20. SEGMENT INFORMATION

Business Segments

The Company operates in three primary businesses, building efficiency, interior experience, and power solutions. Building efficiency provides facility systems and services including comfort, energy and security management for the non-residential buildings market. Interior experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport utility vehicles. Power solutions designs and manufactures automotive batteries for the replacement and original equipment markets.

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," (SFAS 131) establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS 131, the Company has determined that it operates in six operating segments, two within power solutions are aggregated under this accounting standard to arrive at the Company's five reportable segments for financial reporting purposes.

The accounting policies applicable to the reportable segments are the same as those described in the Summary of Significant Accounting Policies. Management evaluates the performance of the segments based primarily on operating income, excluding significant restructuring costs and other significant non-recurring gains and losses. Operating revenues and expenses are allocated to business segments in determining segment operating income. Items excluded from the determination of segment operating income include interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses and long-term assets, foreign currency gains and losses, and other miscellaneous income and expense. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-operating assets.

Financial information relating to the Company's reportable segments was as follows:

	Year Ended September 30,		
(In millions)	**2005**	**2004**	**2003**
Net Sales			
Building efficiency	$ 5,717.7	$ 5,323.7	$ 4,809.9
Interior experience — North America	8,498.6	8,237.4	7,605.1
Interior experience — Europe	8,935.5	7,677.6	5,861.7
Interior experience — Asia	1,399.1	1,092.6	1,013.6
Power solutions	2,928.5	2,271.7	1,881.0
Total	$27,479.4	$24,603.0	$21,171.3
Operating Income			
Building efficiency(1)	$ 294.6	$ 241.5	$ 241.4
Interior experience — North America(2)	349.9	504.1	581.8
Interior experience — Europe(3)	252.4	113.0	(44.1)
Interior experience — Asia(4)	30.0	37.6	42.0
Power solutions(5)	349.5	237.0	206.9
Total	$ 1,276.4	$ 1,133.2	$ 1,028.0

(In millions)	Year Ended September 30, 2005	2004	2003
Assets (Year-end)			
Building efficiency	$ 2,472.6	$ 2,231.1	$ 2,074.2
Interior experience — North America	4,050.6	3,645.9	3,511.0
Interior experience — Europe	5,259.6	5,186.1	4,092.0
Interior experience — Asia	865.9	751.1	718.0
Power solutions	2,999.9	2,562.2	1,580.1
Unallocated	495.8	382.0	941.4
Total	$16,144.4	$14,758.4	$12,916.7
Depreciation/Amortization			
Building efficiency	$ 45.0	$ 50.3	$ 54.4
Interior experience — North America	206.8	193.9	194.4
Interior experience — Europe	237.0	212.6	176.5
Interior experience — Asia	25.4	17.2	20.1
Power solutions	122.2	95.1	82.8
Total	$ 636.4	$ 569.1	$ 528.2
Capital Expenditures			
Building efficiency	$ 40.7	$ 33.0	$ 33.1
Interior experience — North America	267.4	305.5	184.8
Interior experience — Europe	202.7	321.8	268.0
Interior experience — Asia	56.3	41.1	25.8
Power solutions	97.0	82.1	94.3
Total	$ 664.1	$ 783.5	$ 606.0

(1) Building efficiency operating income for the years ended September 30, 2005 and 2004 excludes $51.3 million and $13.3 million, respectively, of restructuring costs which is included within Selling, general and administrative expenses in the Consolidated Statement of Income.

(2) Interior experience — North America operating income for the years ended September 30, 2005 and 2004 excludes $11.9 million and $5.1 million, respectively, of restructuring costs which is included within Selling, general and administrative expenses in the Consolidated Statement of Income.

(3) Interior experience — Europe operating income for the years ended September 30, 2005 and 2004 excludes $129.6 million and $51.1 million, respectively, of restructuring costs which is included within Selling, general and administrative expenses in the Consolidated Statement of Income.

(4) Interior experience — Asia operating income for the year ended September 30, 2005 excludes $0.4 million of restructuring costs which is included within Selling, general and administrative expenses in the Consolidated Statement of Income. Interior experience — Asia operating income for the year ended September 30, 2004 excludes a pension gain of $84.4 million which is included within Selling, general and administrative expenses in the Consolidated Statement of Income.

(5) Power solutions operating income for the years ended September 30, 2005 and 2004 excludes $16.8 million and $12.9 million, respectively, of restructuring costs which is included within Selling, general and administrative expenses in the Consolidated Statement of Income.

The Company has significant sales to the automotive industry. The following is a summary of the percentages of revenues from major customers:

Year Ended September 30,	2005	2004	2003
General Motors Corporation	14%	14%	15%
DaimlerChrysler AG	11%	11%	12%
Ford Motor Company	11%	14%	12%

Approximately 42 percent of the Company's 2005 net sales to these customers were in the United States, 45 percent were European sales and 13 percent were attributable to sales in other foreign markets. As of September 30, 2005, the Company had accounts receivable totaling approximately $1.4 billion from these customers.

Geographic Segments

Financial information relating to the Company's operations by geographic area is as follows:

	Year Ended September 30,		
(In millions)	2005	2004	2003
Net Sales			
United States	$11,000.2	$10,333.1	$ 9,601.6
Germany	3,271.3	2,680.1	2,452.9
Other European countries	8,066.3	7,119.0	4,958.3
Other foreign	5,141.6	4,470.8	4,158.5
Total	$27,479.4	$24,603.0	$21,171.3
Long-Lived Assets (Year-end)			
United States	$ 1,355.3	$ 1,222.5	$ 1,122.9
Germany	639.8	640.2	542.6
Other European countries	723.5	793.6	712.6
Other foreign	863.0	677.6	429.0
Total	$ 3,581.6	$ 3,333.9	$ 2,807.1

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.

21. GUARANTOR FINANCIAL STATEMENTS (Restated)

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third-party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2004 and fiscal 2003 consolidated financial statements to include these required disclosures.

Basis of Presentation

Certain of the Company's wholly-owned subsidiaries (the "Guarantors") have unconditionally guaranteed (the "guarantees"), on a joint and several basis, any and all liabilities of Johnson Controls, Inc. (the "Parent") for money borrowed, when due, whether at stated maturity, by acceleration, or otherwise. The guarantees cover the majority of the Parent's short-term and long-term debt, as follows:

(In millions)	September 30, 2005	September 30, 2004
Short-term debt	$ 684.0	$ 813.3
Less bank borrowings not subject to guarantees	(207.2)	(96.3)
Total short-term debt of Parent subject to guarantees	$ 476.8	$ 717.0
Long-term debt	$1,658.4	$1,857.3
Less debt not subject to guarantees:		
Industrial revenue bonds	—	(9.7)
Capital lease obligations	(104.6)	(89.0)
Euro denominated debt	(131.5)	(142.2)
Yen denominated debt	(0.9)	—
Other long-term debt	(54.2)	(39.9)
Total debt subject to guarantees	1,367.2	1,576.5
Less current portion of Parent subject to guarantees	(58.2)	(200.0)
Total long-term debt of Parent subject to guarantees	$1,309.0	$1,376.5

The guarantees did not have a stated maturity; however, the guarantees were rescinded in November 2005 and replaced with alternative intercompany arrangements.

The Guarantors included Hoover Universal, Inc., Johnson Controls Battery Group, Inc., JC Interiors, LLC and Johnson Controls Beteiligungs GmbH. Pursuant to Rule 3-10 of Regulation S-X, in lieu of providing separate audited financial statements for each of the Guarantors, or the Guarantors as a group, the Company has disclosed the condensed supplemental consolidating financial information below.

	Year Ended September 30, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$2,706.3	$6,532.5	$23,405.4	$(5,164.8)	$27,479.4
Cost of sales	1,964.5	5,649.5	21,548.3	(5,164.8)	23,997.5
Gross profit	741.8	883.0	1,857.1	—	3,481.9
Selling, general and administrative expenses	638.1	371.2	1,196.2	—	2,205.5
Restructuring costs	15.1	11.4	183.5	—	210.0
Operating income	88.6	500.4	477.4	—	1,066.4
Interest income	0.1	—	12.9	—	13.0
Interest expense	(72.8)	(12.5)	(35.2)	—	(120.5)
Equity income	0.3	27.3	44.2	—	71.8
Miscellaneous — net(1)	152.6	(457.9)	278.0	—	(27.3)
Other income (expense)	80.2	(443.1)	299.9	—	(63.0)
Income before income taxes, minority interests and equity in net earnings of subsidiaries	168.8	57.3	777.3	—	1,003.4
Provision for income taxes	29.8	14.2	161.1	—	205.1
Minority interests in net earnings of subsidiaries	—	—	41.1	—	41.1
Equity in net earnings of subsidiaries	770.4	100.3	—	(870.7)	—
Income from continuing operations	909.4	143.4	575.1	(870.7)	757.2
Income from discontinued operations, net of income taxes	—	—	16.1	—	16.1
Gain on sale of discontinued operations, net of income taxes	—	—	136.1	—	136.1
Net income	$ 909.4	$ 143.4	$ 727.3	$ (870.7)	$ 909.4

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

(In millions)	Year Ended September 30, 2004 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$2,548.7	$6,218.8	$20,244.7	$(4,409.2)	$24,603.0
Cost of sales	1,893.3	5,201.6	18,639.5	(4,409.2)	21,325.2
Gross profit	655.4	1,017.2	1,605.2	—	3,277.8
Selling, general and administrative expenses	587.0	463.4	1,094.2	—	2,144.6
Restructuring costs	6.4	2.1	73.9	—	82.4
Japanese pension gain	—	—	(84.4)	—	(84.4)
Operating income	62.0	551.7	521.5	—	1,135.2
Interest income	1.3	0.4	11.4	—	13.1
Interest expense	(86.9)	—	(24.1)	—	(111.0)
Equity income (loss)	0.2	(3.7)	99.9	—	96.4
Miscellaneous — net(1)	69.4	(442.1)	308.8	—	(63.9)
Other income (expense)	(16.0)	(445.4)	396.0	—	(65.4)
Income before income taxes, minority interests and equity in net earnings of subsidiaries	46.0	106.3	917.5	—	1,069.8
(Benefit) provision for income taxes	(67.4)	35.8	283.0	—	251.4
Minority interests in net earnings of subsidiaries	—	—	51.6	—	51.6
Equity in net earnings of subsidiaries	704.1	193.3	—	(897.4)	—
Income from continuing operations	817.5	263.8	582.9	(897.4)	766.8
Income from discontinued operations, net of income taxes	—	—	50.7	—	50.7
Net income	$ 817.5	$ 263.8	$ 633.6	$ (897.4)	$ 817.5

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

(In millions)	Year Ended September 30, 2003 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$2,423.9	$6,161.9	$16,129.2	$(3,543.7)	$21,171.3
Cost of sales	1,815.1	5,021.3	14,850.3	(3,543.7)	18,143.0
Gross profit	608.8	1,140.6	1,278.9	—	3,028.3
Selling, general and administrative expenses	560.5	423.6	1,016.2	—	2,000.3
Operating income	48.3	717.0	262.7	—	1,028.0
Interest income	—	0.3	8.1	—	8.4
Interest expense	(90.1)	(1.1)	(22.0)	—	(113.2)
Equity (loss) income	(1.0)	(7.9)	85.8	—	76.9
Miscellaneous — net(1)	92.2	(465.4)	314.9	—	(58.3)
Other income (expense)	1.1	(474.1)	386.8	—	(86.2)
Income before income taxes, minority interests and equity in net earnings of subsidiaries	49.4	242.9	649.5	—	941.8
(Benefit) provision for income taxes	(49.9)	86.7	236.7	—	273.5
Minority interests in net earnings of subsidiaries	—	—	23.4	—	23.4
Equity in net earnings of subsidiaries	583.6	24.2	—	(607.8)	—
Income from continuing operations	682.9	180.4	389.4	(607.8)	644.9
Income from discontinued operations, net of income taxes	—	—	38.0	—	38.0
Net income	$ 682.9	$ 180.4	$ 427.4	$ (607.8)	$ 682.9

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

(In millions)	September 30, 2005 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents(1)	$ (495.1)	$ (973.4)	$ 1,639.8	$ —	$ 171.3
Accounts receivable — net	366.5	1,093.6	3,212.1	—	4,672.2
Costs and earnings in excess of				—	
billings on uncompleted contracts	148.9	—	165.6	—	314.5
Inventories	11.4	261.6	710.1	—	983.1
Other current assets	236.3	326.0	435.4	—	997.7
Current assets	268.0	707.8	6,163.0	—	7,138.8
Property, plant and equipment — net	232.7	1,018.6	2,330.3	—	3,581.6
Goodwill — net	73.3	1,160.2	2,499.1	—	3,732.6
Other intangible assets — net	13.0	51.2	224.8	—	289.0
Investments in partially-owned affiliates	9.7	62.9	372.3	—	444.9
Investments in subsidiaries(2)	8,152.6	4,726.7	9,678.6	(22,557.9)	—
Other noncurrent assets	412.2	139.1	406.2	—	957.5
Total assets	$9,161.5	$7,866.5	$21,674.3	$(22,557.9)	$16,144.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Short-term debt	$ 476.8	$ —	$ 207.2	$ —	$ 684.0
Current portion of long-term debt	58.2	1.3	21.4	—	80.9
Accounts payable	268.6	968.4	2,700.5	—	3,937.5
Accrued compensation and benefits	136.8	145.4	422.2	—	704.4
Accrued income taxes	(15.1)	(107.2)	166.6	—	44.3
Billings in excess of costs and earnings on uncompleted contracts	119.5	—	106.2	—	225.7
Other current liabilities	176.8	288.8	699.0	—	1,164.6
Current liabilties	1,221.6	1,296.7	4,323.1	—	6,841.4
Long-term debt	1,309.0	41.1	227.4	—	1,577.5
Postretirement health and other benefits	81.5	71.2	6.0	—	158.7
Minority interests in equity of subsidiaries	—	—	195.6	—	195.6
Other noncurrent liabilities	491.3	(53.3)	875.1	—	1,313.1
Shareholders' equity	6,058.1	6,510.8	16,047.1	(22,557.9)	6,058.1
Total liabilities and shareholders' equity	$9,161.5	$7,866.5	$21,674.3	$(22,557.9)	$16,144.4

(1) Negative cash balances at the Parent and Guarantors reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

(In millions)	September 30, 2004 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents(1)	$ 375.9	$ (101.0)	$ (175.7)	$ —	$ 99.2
Accounts receivable — net	345.6	738.1	2,732.2	—	3,815.9
Costs and earnings in excess of billings on uncompleted contracts	120.2	—	151.6	—	271.8
Inventories	9.0	249.4	599.9	—	858.3
Assets of discontinued operations	—	—	579.8	—	579.8
Other current assets	104.4	151.8	469.3	—	725.5
	955.1	1,038.3	4,357.1	—	6,350.5
Property, plant and equipment — net	183.8	927.2	2,222.9	—	3,333.9
Goodwill — net	158.2	1,079.6	2,328.4	—	3,566.2
Other intangible assets — net	16.6	50.6	223.7	—	290.9
Investments in affiliates	8.9	70.0	368.7	—	447.6
Investments in subsidiaries(2)	6,954.8	4,505.0	7,778.5	(19,238.3)	—
Other noncurrent assets	198.3	84.1	486.9	—	769.3
Total assets	$8,475.7	$7,754.8	$17,766.2	$(19,238.3)	$14,758.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Short-term debt	$ 717.0	$ —	$ 96.3	$ —	$ 813.3
Current portion of long-term debt	200.0	10.8	15.9	—	226.7
Accounts payable	237.5	681.6	2,506.2	—	3,425.3
Accrued compensation and benefits	94.8	86.8	410.8	—	592.4
Accrued income taxes	(139.5)	(66.3)	254.4	—	48.6
Billings in excess of costs and earnings on uncompleted contracts	106.9	—	90.3	—	197.2
Liabilities of discontinued operations	—	—	228.5	—	228.5
Other current liabilities	102.5	177.7	608.6	—	888.8
	1,319.2	890.6	4,211.0	—	6,420.8
Long-term debt	1,376.5	26.8	227.3	—	1,630.6
Postretirement health and other benefits	81.0	78.4	4.7	—	164.1
Minority interests in equity of subsidiaries	—	—	121.5	—	121.5
Other noncurrent liabilities	492.7	(116.0)	838.4	—	1,215.1
Shareholders' equity	5,206.3	6,875.0	12,363.3	(19,238.3)	5,206.3
Total liabilities and shareholders' equity	$8,475.7	$7,754.8	$17,766.2	$(19,238.3)	$14,758.4

(1) Negative cash balances at the Guarantors and Non-Guarantors reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

(In millions)	Year Ended September 30, 2005 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash provided (used) by operating activities of continuing operations	$ (62.3)	$ 437.8	$ 551.9	$—	$ 927.4
Investing Activities:					
Capital expenditures	(76.6)	(249.3)	(338.2)	—	(664.1)
Sale of property, plant and equipment	3.0	6.0	30.2	—	39.2
Acquisition of businesses, net of cash acquired	—	(61.8)	(266.0)	—	(327.8)
Business divestitures	—	—	678.5	—	678.5
Recoverable customer engineering expenditures	—	—	(9.8)	—	(9.8)
Changes in long-term investments	3.4	(0.7)	8.9	—	11.6
Cash (used) provided by investing activities	(70.2)	(305.8)	103.6	—	(272.4)
Financing Activities:					
(Decrease) increase in short-term debt — net	(240.4)	—	134.7	—	(105.7)
Increase in long-term debt	—	—	82.7	—	82.7
Repayment of long-term debt	(271.9)	(10.5)	(91.3)	—	(373.7)
Change in intercompany accounts	(99.6)	(993.9)	1,093.5	—	—
Payment of cash dividends	(191.9)	—	—	—	(191.9)
Other	65.3	—	(19.9)	—	45.4
Cash (used) provided by financing activities	(738.5)	(1,004.4)	1,199.7	—	(543.2)
Cash used by discontinued operations	—	—	(69.2)	—	(69.2)
Effect of exchange rate changes on cash and cash equivalents	—	—	29.5	—	29.5
(Decrease) increase in cash and cash equivalents	$ (871.0)	$ (872.4)	$1,815.5	$—	$ 72.1

(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
	Year Ended September 30, 2004				
Cash provided (used) by operating activities of continuing operations	$(167.7)	$ 144.7	$1,326.2	$—	$ 1,303.2
Investing Activities:					
Capital expenditures	(43.9)	(243.5)	(496.1)	—	(783.5)
Sale of property, plant and equipment	1.6	2.8	46.5	—	50.9
Acquisition of businesses, net of cash acquired	—	—	(419.6)	—	(419.6)
Recoverable customer engineering expenditures	—	—	(55.0)	—	(55.0)
Changes in long-term investments	(2.9)	(15.4)	(7.3)	—	(25.6)
Cash used by investing activities	(45.2)	(256.1)	(931.5)	—	(1,232.8)
Financing Activities:					
Increase in short-term debt — net	653.3	—	6.6	—	659.9
Increase in long-term debt	83.7	—	130.1	—	213.8
Repayment of long-term debt	(632.3)	(12.5)	(225.1)	—	(869.9)
Change in intercompany accounts	575.9	24.2	(600.1)	—	—
Payment of cash dividends	(170.7)	—	—	—	(170.7)
Other	48.6	0.1	(14.4)	—	34.3
Cash (used) provided by financing activities	558.5	11.8	(702.9)	—	(132.6)
Cash provided by discontinued operations	—	—	71.9	—	71.9
Effect of exchange rate changes on cash and cash equivalents	—	—	5.6	—	5.6
Increase (decrease) in cash and cash equivalents	$ 345.6	$ (99.6)	$ (230.7)	$—	$ 15.3

(In millions)	Year Ended September 30, 2003 Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash provided (used) by operating activities of continuing operations	$(194.8)	$ 463.4	$ 542.8	$—	$ 811.4
Investing Activities:					
Capital expenditures	(28.8)	(210.1)	(367.1)	—	(606.0)
Sale of property, plant and equipment	0.4	—	51.8	—	52.2
Acquisition of businesses, net of cash acquired	—	—	(384.7)	—	(384.7)
Recoverable customer engineering expenditures	—	—	(46.0)	—	(46.0)
Proceeds from sale of long-term investment	38.2	—	—	—	38.2
Changes in long-term investments	(3.4)	(9.2)	3.8	—	(8.8)
Cash provided (used) by investing activities	6.4	(219.3)	(742.2)	—	(955.1)
Financing Activities:					
Increase (decrease) in short-term debt — net	63.0	—	(10.1)	—	52.9
Increase in long-term debt	500.0	7.2	3.5	—	510.7
Repayment of long-term debt	(239.9)	(2.9)	(133.9)	—	(376.7)
Change in intercompany accounts	(141.8)	(226.1)	367.9	—	—
Payment of cash dividends	(136.3)	—	—	—	(136.3)
Other	50.2	—	(23.2)	—	27.0
Cash (used) provided by financing activities	95.2	(221.8)	204.2	—	77.6
Cash used by discontinued operations	—	—	(6.1)	—	(6.1)
Effect of exchange rate changes on cash and cash equivalents	—	—	9.3	—	9.3
(Decrease) increase in cash and cash equivalents	$ (93.2)	$ 22.3	$ 8.0	$—	$ (62.9)

22. COMMITMENTS AND CONTINGENCIES

The Company is involved in a number of proceedings relating to environmental matters. At September 30, 2005, the Company had an accrued liability of approximately $65 million relating to environmental matters compared with $61 million one year ago. The Company's environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities, the Company's future expenses to remediate the currently identified sites could be considerably higher than the accrued liability. Although it is difficult to estimate the liability of the Company related to these environmental matters, the Company believes that these matters will not have a materially adverse effect upon its capital expenditures, earnings or competitive position. Costs related to such matters were not material to the periods presented.

Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a materially adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court's decision in *City of Edgerton v. General Casualty Co. of Wisconsin.* The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts' judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the *Edgerton* case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court's decision remanded the case to the Circuit Court for further consideration. In fiscal 2005, the Company filed a motion for declaratory judgment, in which it seeks a ruling that one of its insurers breached its duty to defend, thus waiving its defenses against the Company's environmental claims. The ultimate outcome cannot be determined at this time; however, the Company expects a decision on its motion during fiscal 2006.

23. SUBSEQUENT EVENT (Unaudited)

On August 24, 2005, the Company entered into a definitive agreement to acquire York International Corporation (York), a global supplier of heating, ventilation, air-conditioning and refrigeration equipment and services. York, which is headquartered in York, Pennsylvania, reported revenues of $4.5 billion for the year ended December 31, 2004, and has approximately 23,000 employees. As of December 1, 2005, the Company expects to complete the acquisition, valued at approximately $3.2 billion, including the assumption of approximately $800 million of York debt, in December 2005. Under the terms of the all cash transaction, the Company will acquire all outstanding common shares of York for $56.50 per share. The total cash required to complete the transaction is approximately $2.5 billion, which includes payment for common shares, transaction fees and expenses. The acquisition will be initially financed with short term borrowings, which the Company intends to refinance with long term debt.

JOHNSON CONTROLS, INC. AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Year Ended September 30, (In millions)	2005	2004	2003
Accounts Receivable — Allowance for Doubtful Accounts			
Balance at beginning of period	$ 46.9	$ 48.2	$ 43.8
Provision charged to costs and expenses	24.9	23.4	17.1
Reserve adjustments	(10.1)	(11.2)	(9.2)
Accounts charged off	(16.7)	(17.7)	(13.7)
Acquisition of businesses	1.4	2.4	4.4
Currency translation	(0.5)	2.5	4.4
Other	1.1	(0.7)	1.4
Balance at end of period	$ 47.0	$ 46.9	$ 48.2
Deferred Tax Assets — Valuation Allowance			
Balance at beginning of period	$571.7	$472.1	$352.2
Allowance established for new operating and other loss carryforwards	95.8	112.8	128.8
Allowance reversed for loss carryforwards utilized and other adjustments	(94.6)	(13.2)	(8.9)
Balance at end of period	$572.9	$571.7	$472.1

ITEM 9 *DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A *CONTROLS AND PROCEDURES*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Because of the material weakness described below, the Company has concluded that its disclosure controls and procedures were ineffective at September 30, 2005.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2005 using the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Company determined that as of September 30, 2005, it did not maintain effective controls over the identification and disclosure of required guarantor subsidiary financial statement information in the Company's consolidated financial statements as required by Rule 3-10 of Regulation S-X. Specifically, the Company did not have effective controls, including the communication between the Company's Treasury Department and Accounting Department, to identify the required financial statement disclosures to be included in the Company's consolidated financial statements resulting from subsidiary guarantees applicable to certain third-party debt of the Company. This control deficiency results in the restatement of the Company's fiscal 2004 and fiscal 2003 consolidated financial statements and our fiscal 2005 and fiscal 2004 interim consolidated financial statements. In addition, this control deficiency could result in inaccurate or incomplete guarantor subsidiary financial statement disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this deficiency constitutes a material weakness.

Because of the material weakness described above, management concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2005 based on criteria in *Internal Control — Integrated Framework* issued by the COSO.

Management has excluded the recently acquired operations of Delphi Corporation's global battery business from its assessment of internal control over financial reporting as of September 30, 2005 because it was acquired by the Company in a purchase business combination in July 2005; total assets and total revenues of these operations represent approximately 4% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2005.

Management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Remediation Plan

The Company intends to implement enhanced controls and procedures surrounding the identification and reporting of required guarantor subsidiary financial statement disclosures. Furthermore, the Company intends to rescind all intercompany upstream guarantees and replace them with alternative intercompany arrangements. To the extent new intercompany guarantees are required in the future, the Company's Treasury Department will ensure that all intercompany guarantees are maintained in its central repository of external guarantees and reviewed on a quarterly basis using a newly developed checklist. In addition, the Company's Accounting Department will review the central repository of guarantees in conjunction with its preparation and filing of the Company's quarterly reports on Form 10-Q and annual reports on Form 10-K. While we believe that the remedial actions will result in correcting the material weakness in our internal control over financial reporting, the exact timing of when the conditions will be corrected is dependent upon future events.

Changes in Internal Control Over Financial Reporting

In connection with the restatement discussed in Note 18 to the Company's consolidated financial statements included herein, management concluded that, for periods prior to April 1, 2005, there had been a material weakness in internal control over financial reporting over the accounting for certain non-majority owned affiliates as required by SFAS 94, "Consolidation of All Majority-Owned Subsidiaries" and APB 18, "The Equity Method of Accounting for Investments in Common Stock." During the fourth quarter of fiscal 2005, the Company took a series of steps designed to improve the control processes regarding the application of SFAS 94 and APB 18 to the accounting for its affiliated entities and the related consolidation versus equity accounting requirements. Specifically, the Company expanded its review and approval procedures at the Business Unit and Corporate level related to joint venture agreements using a newly developed checklist, required CFO and Controller review and approval of any situation where the Company is not consolidating a joint venture in which it has an equity interest greater than 50% or where the Company is consolidating a joint venture in which it has an equity interest of 50% or less, established formal quarterly review requirements related to the identification of any ownership, business or operational responsibility changes at its joint ventures and related accounting assessments, and enhanced global training regarding joint venture accounting and the related authoritative guidance. Accordingly, Company management has concluded that newly designed controls had operated effectively for a sufficient period of time to conclude that the control deficiency had been remediated as of September 30, 2005.

Other than the changes discussed above, there have been no significant changes in the Company's internal control over financial reporting during the quarter ended September 30, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, subsequent to September 30, 2005, the Company took the remedial actions described in "Remediation Plan" above.

ITEM 9B *OTHER INFORMATION*

None.

PART III

The information required by Part III, Items 10, 11, 12 and 14, is incorporated herein by reference to the Company's Proxy Statement for its 2006 Annual Meeting of Shareholders (fiscal year 2005 Proxy Statement), dated and filed with the SEC on December 12, 2005, as follows:

ITEM 10 *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

Incorporated by reference to sections entitled "Proposal One: Election of Directors," "Board Information," "Board Compensation," "Section 16(a) Beneficial Ownership Reporting Compliance," "Q: How can I obtain Corporate Governance materials for Johnson Controls if I do not have access to the Internet?" and "Audit Committee Report" of the fiscal year 2005 Proxy Statement. Required information on executive officers of the Company appears on pages 14-16 of Part I of this report.

ITEM 11 *EXECUTIVE COMPENSATION*

Incorporated by reference to sections entitled "Executive Compensation," "Compensation Committee Report," "Performance Graph," "Board Information" and "Employment Agreements" of the fiscal year 2005 Proxy Statement.

ITEM 12 *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

Incorporated by reference to sections entitled "Johnson Controls Share Ownership" and "Equity Compensation Plan Information" of the fiscal year 2005 Proxy Statement.

ITEM 13 *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

None.

ITEM 14 *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Incorporated by reference to the section entitled "Audit Committee Report" of the fiscal year 2005 Proxy Statement.

PART IV

ITEM 15 *EXHIBITS AND FINANCIAL STATEMENT SCHEDULE*

Reference is made to the separate exhibit index contained on pages 94 through 95 filed herewith.

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

Financial statements of 50 percent or less-owned companies have been omitted because the proportionate share of their profit before income taxes and total assets are less than 20 percent of the respective consolidated amounts, and investments in such companies are less than 20 percent of consolidated total assets.

Other Matters

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-30309, 33-31271, 33-58092, 33-58094, 333-10707, 333-66073, 333-41564 and 333-117898.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

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

JOHNSON CONTROLS, INC.

By /s/ R. Bruce McDonald
R. Bruce McDonald
Vice President and
Chief Financial Officer

Date: December 9, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of December 9, 2005, by the following persons on behalf of the registrant and in the capacities indicated:

/s/ John M. Barth
John M. Barth
President, Chief Executive Officer
and Director (Chairman)

/s/ Stephen A. Roell
Stephen A. Roell
Vice Chairman and
Executive Vice President

/s/ R. Bruce McDonald
R. Bruce McDonald
Vice President and
Chief Financial Officer

/s/ Jeffrey G. Augustin
Jeffrey G. Augustin
Vice President and Corporate
Controller (Principal Accounting
Officer)

/s/ Paul A. Brunner
Paul A. Brunner
Director

/s/ Natalie A. Black
Natalie A. Black
Director

/s/ Robert A. Cornog
Robert A. Cornog
Director

/s/ Richard F. Teerlink
Richard F. Teerlink
Director

/s/ Willie D. Davis
Willie D. Davis
Director

/s/ Jeffrey A. Joerres
Jeffrey A. Joerres
Director

/s/ Robert L. Barrnett
Robert L. Barrnett
Director

/s/ William H. Lacy
William H. Lacy
Director

JOHNSON CONTROLS, INC.

INDEX TO EXHIBITS

Exhibits	Title
3.(i)	Composite of Restated Articles of Incorporation of Johnson Controls, Inc., as amended through December 12, 2003 (incorporated by reference to Exhibit 3.(ii) to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2003).
3.(ii)	By-laws of Johnson Controls, Inc., as amended July 27, 2005 (incorporated by reference to Exhibit 3.(ii) to Johnson Controls, Inc. Current Report on Form 8-K dated July 27, 2005).
4.A	Miscellaneous long-term debt agreements and financing leases with banks and other creditors and debenture indentures.*
4.B	Miscellaneous industrial development bond long-term debt issues and related loan agreements and leases.*
4.C	Letter of agreement dated December 6, 1990 between Johnson Controls, Inc., LaSalle National Trust, N.A. and Fidelity Management Trust Company which replaces LaSalle National Trust, N.A. as Trustee of the Johnson Controls, Inc. Employee Stock Ownership Plan Trust with Fidelity Management Trust Company as Successor Trustee, effective January 1, 1991 (incorporated by reference to Exhibit 4.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991).
4.D	Indenture for debt securities dated February 22, 1995 between Johnson Controls, Inc. and Chemical Bank Delaware (now known as Chase Bank), trustee (incorporated by reference to Johnson Controls, Inc. Registration Statement on Form S-3, [Reg. No. 33-57685]).
10.A	Johnson Controls, Inc. 1992 Stock Option Plan as amended through January 24, 1996 (incorporated by reference to Exhibit 10.A to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996).**
10.B	Johnson Controls, Inc. Common Stock Purchase Plan for Executives as amended November 17, 2004 and effective December 1, 2004 (incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004).**
10.C	Johnson Controls, Inc. 1992 Stock Option Plan for Outside Directors (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1992).
10.D	Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors as amended through October 1, 2003 (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003).
10.E	Johnson Controls, Inc. Executive Incentive Compensation Plan as amended through October 1, 2001 (incorporated by reference to Exhibit 10.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001).**
10.F	Johnson Controls, Inc. Executive Incentive Compensation Plan, Deferred Option, Qualified Plan as amended and restated effective October 1, 2003, (incorporated by reference to Exhibit C of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 4, 2003) (Commission File No. 1-5097).**
10.G	Johnson Controls, Inc. Long-Term Performance Plan, as amended and restated effective October 1, 2003 (incorporated by reference to Exhibit B of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 4, 2003) (Commission File No. 1-5097).**
10.H	Johnson Controls, Inc. Executive Survivor Benefits Plan amended through October 1, 2001 (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001).**
10.I	Johnson Controls, Inc. Equalization Benefit Plan, as amended through October 1, 2003 (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004).**
10.J	Johnson Controls, Inc. PERT Equalization Benefit Plan, as amended through October 1, 2003 (incorporated by reference to Exhibit 10.J to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003).**
10.K	Form of employment agreement effective May 23, 2005, between Johnson Controls, Inc. and all elected officers and certain key executives (incorporated by reference to Exhibit 99 to Johnson Controls, Inc. Current Report on Form 8-K dated May 23, 2005).**
10.L	Form of indemnity agreement effective September 21, 2005, between Johnson Controls, Inc. and each of the directors, elected officers, and certain executives (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated September 21, 2005). **

Exhibits	Title
10.M	Johnson Controls, Inc., Director Share Unit Plan, as amended through October 1, 2003 (incorporated by reference to Exhibit 10.M to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003).
10.N	Johnson Controls, Inc., 2000 Stock Option Plan, as amended through October 1, 2001 (incorporated by reference to Exhibit 10.N to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001).**
10.O	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended through October 1, 2001 (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2004).**
10.P	Johnson Controls, Inc., 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003 (incorporated by reference to Exhibit E of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 4, 2003) (Commission File No. 1-5097).**
10.Q	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003, as in use through January, 2004, filed herewith.**
10.R	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003, as approved for use for future grants, filed herewith.**
10.S	Johnson Controls, Inc. Executive Deferred Compensation Plan, as amended through October 1, 2003 (incorporated by reference to Exhibit 10.P to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004).**
10.T	Johnson Controls, Inc. 2003 Stock Plan for Outside Directors, effective October 1, 2003 (incorporated by reference to Exhibit D of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 4, 2003) (Commission File No. 1-5097).
10.U	Letter agreement dated November 29, 2004 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.S to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005), relating to the letter agreement dated November 21, 2002 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.R to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003), and to the Johnson Controls, Inc. Executive Survivor Benefits Plan (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001).**
10.V	Agreement and Plan of Merger between Johnson Controls, Inc., YJC Acquisition Corp., and York International Corp. effective August 24, 2005 (incorporated by reference to Exhibit 2 to Johnson Controls, Inc. Current Report on Form 8-K/A dated August 24, 2005).
10.W	Share Purchase Agreement between Valeo S.A. and Johnson Controls Automotive Electronics SAS dated January 10, 2005 (incorporated by reference to Exhibit 10.U to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.X	Stock Purchase Agreement between IAP Worldwide Services Inc. and Johnson Controls, Inc. dated as of December 17, 2004 (incorporated by reference Exhibit 10.T to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
12	Statement regarding computation of ratio of earnings to fixed charges for the year ended September 30, 2005, filed herewith.
21	Subsidiaries of the Registrant, filed herewith.
23	Consent of Independent Registered Public Accounting Firm dated December 12, 2005, filed herewith.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* These instruments are not being filed as exhibits herewith because none of the long-term debt instruments authorizes the issuance of debt in excess of ten percent of the total assets of Johnson Controls, Inc. and its subsidiaries on a consolidated basis. Johnson Controls, Inc. agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

** Denotes a management contract or compensatory plan.

Form 10-Q
Jan-Mar 2008

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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin *(State or Other Jurisdiction of Incorporation or Organization)*	**39-0380010** *(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue **Milwaukee, Wisconsin** *(Address of principal executive offices)*	**53209** *(Zip Code)*

(414) 524-1200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at March 31, 2008
Common Stock: $0.01 $^{7}/_{18}$ par value per share	593,417,685

JOHNSON CONTROLS, INC.

Form 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Johnson Controls, Inc.
Condensed Consolidated Statements of Financial Position
(in millions; unaudited)

	March 31, 2008	September 30, 2007	March 31, 2007
Assets			
Cash and cash equivalents	$ 233	$ 674	$ 172
Accounts receivable — net	6,451	6,600	5,933
Inventories	2,209	1,968	1,847
Other current assets	1,716	1,630	1,491
Current assets	10,609	10,872	9,443
Property, plant and equipment — net	4,324	4,208	4,056
Goodwill	6,401	6,131	6,019
Other intangible assets — net	793	773	783
Investments in partially-owned affiliates	854	795	600
Other noncurrent assets	1,638	1,326	1,586
Total assets	$24,619	$ 24,105	$22,487
Liabilities and Shareholders' Equity			
Short-term debt	$ 574	$ 264	$ 361
Current portion of long-term debt	443	899	696
Accounts payable	5,238	5,365	4,555
Accrued compensation and benefits	914	978	817
Accrued income taxes	90	97	128
Other current liabilities	2,254	2,317	2,220
Current liabilities	9,513	9,920	8,777
Commitments and contingencies (Note 16)			
Long-term debt	3,301	3,255	3,564
Postretirement health and other benefits	260	256	327
Minority interests in equity of subsidiaries	150	128	142
Other noncurrent liabilities	1,800	1,639	1,862
Shareholders' equity	9,595	8,907	7,815
Total liabilities and shareholders' equity	$24,619	$ 24,105	$22,487

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

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Johnson Controls, Inc.
Consolidated Statements of Income
(in millions, except per share data; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Net sales				
Products and systems*	$7,593	$6,841	$15,302	$13,533
Services*	1,813	1,651	3,588	3,169
	9,406	8,492	18,890	16,702
Cost of sales				
Products and systems	6,725	6,034	13,467	11,944
Services	1,371	1,265	2,806	2,491
	8,096	7,299	16,273	14,435
Gross profit	1,310	1,193	2,617	2,267
Selling, general and administrative expenses	(888)	(861)	(1,838)	(1,664)
Net financing charges	(66)	(69)	(135)	(138)
Equity income	31	19	48	48
Income from continuing operations before income taxes and minority interests	387	282	692	513
Provision for income taxes	81	17	145	70
Minority interests in net earnings of subsidiaries	17	3	23	13
Income from continuing operations	289	262	524	430
Loss from discontinued operations, net of income taxes	—	(4)	—	(10)
Loss on sale of discontinued operations, net of income taxes	—	(30)	—	(30)
Net income	$ 289	$ 228	$ 524	$ 390
Earnings per share from continuing operations				
Basic	$ 0.49	$ 0.44	$ 0.88	$ 0.73
Diluted	$ 0.48	$ 0.44	$ 0.87	$ 0.72
Earnings per share				
Basic	$ 0.49	$ 0.39	$ 0.88	$ 0.66
Diluted	$ 0.48	$ 0.38	$ 0.87	$ 0.65

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

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

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Johnson Controls, Inc.
Condensed Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Operating Activities				
Net income	$ 289	$ 228	$ 524	$ 390
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation	185	176	366	350
Amortization of intangibles	9	12	19	24
Equity in earnings of partially-owned affiliates, net of dividends received	(22)	(15)	—	(32)
Minority interests in net earnings of subsidiaries	17	3	23	13
Deferred income taxes	(29)	(54)	(20)	(49)
Loss on sale of discontinued operations	—	30	—	30
Equity-based compensation	13	10	33	25
Other	—	18	19	21
Changes in working capital, excluding acquisitions and divestitures of businesses				
Accounts receivable	(57)	(277)	429	(128)
Inventories	(68)	(43)	(150)	(90)
Other current assets	(57)	44	39	43
Restructuring reserves	(18)	(30)	(32)	(63)
Accounts payable and accrued liabilities	75	395	(760)	121
Accrued income taxes	(39)	(42)	(14)	(48)
Cash provided by operating activities	298	455	476	607
Investing Activities				
Capital expenditures	(174)	(211)	(361)	(441)
Sale of property, plant and equipment	17	9	32	17
Acquisition of businesses, net of cash acquired	(43)	—	(69)	—
Business divestitures	—	35	—	35
Recoverable customer engineering expenditures	19	—	15	—
Settlement of cross-currency interest rate swaps	(61)	—	(93)	(57)
Changes in long-term investments	—	2	(12)	3
Cash used by investing activities	(242)	(165)	(488)	(443)
Financing Activities				
Increase (decrease) in short-term debt — net	370	(254)	283	68
Increase in long-term debt	232	—	233	105
Repayment of long-term debt	(691)	(16)	(712)	(382)
Payment of cash dividends	(78)	(126)	(143)	(130)
Stock repurchases	(38)	(16)	(73)	(23)
Other	(25)	42	(17)	77
Cash used by financing activities	(230)	(370)	(429)	(285)
Decrease in cash and cash equivalents	$(174)	$ (80)	$(441)	$(121)

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

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2008
(unaudited)

1. Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which include normal recurring adjustments except as disclosed herein) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Johnson Controls, Inc. (the Company) Annual Report on Form 10-K for the year ended September 30, 2007. The results of operations for the three and six month periods ended March 31, 2008 are not necessarily indicative of results for the Company's 2008 fiscal year because of seasonal and other factors.

Certain prior period amounts have been revised to conform to the current year's presentation.

2. New Accounting Standards

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133." SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 161 will have on its consolidated financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard will change the Company's accounting treatment for business combinations on a prospective basis, when adopted.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment to FASB Statement No. 115." SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition and results of operations.

In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 11 for the impact of the Company's adoption of FIN 48 as of October 1, 2007.

3. Acquisition of Businesses

In the first quarter of fiscal 2008, the Company completed three acquisitions for a combined purchase price of $75 million, of which $43 million was paid in the three months ended March 31, 2008. None of the acquisitions were material to the Company's consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $36 million.

In September 2007, the Company recorded a $200 million equity investment in a joint venture with U.S. Airconditioning Distributors, Inc., a California based, privately-owned HVAC distributor serving five western U.S. states, in order to enhance the distribution of residential and light-commercial products in that geography. This investment is accounted for under the equity method as the Company does not have a controlling interest, but does have significant influence.

4. Discontinued Operations

In March 2007, the Company completed the sale of the Bristol Compressor business, which was acquired in December 2005 as part of the acquisition of York International Corporation, for approximately $40 million, of which $35 million was received in cash in the three months ended March 31, 2007 and $5 million was received in cash in the three months ended September 30, 2007 after final purchase price adjustments. The sale of the Bristol Compressor business resulted in a loss of approximately $49 million ($30 million after-tax), including related costs.

Net assets of the Bristol Compressor business at the disposal date totaled approximately $86 million, which consisted of current assets of $97 million, fixed assets of $6 million and liabilities of $17 million.

In the second quarter of fiscal 2007, the Company settled a claim related to the February 2005 sale of the engine electronics business that resulted in a loss of approximately $4 million ($3 million after-tax).

5. Percentage-of-Completion Contracts

The building efficiency business records certain long term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable — net and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the condensed consolidated statements of financial position. Amounts included within accounts receivable - net related to these contracts were $618 million, $633 million and $525 million at March 31, 2008, September 30, 2007, and March 31, 2007, respectively. Amounts included within other current liabilities were $544 million, $538 million and $430 million at March 31, 2008, September 30, 2007, and March 31, 2007, respectively.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

6. Inventories

Inventories consisted of the following (in millions):

	March 31, 2008	September 30, 2007	March 31, 2007
Raw materials and supplies	$ 923	$ 774	$ 730
Work-in-process	359	329	284
Finished goods	989	930	885
FIFO inventories	2,271	2,033	1,899
LIFO reserve	(62)	(65)	(52)
Inventories	$ 2,209	$ 1,968	$ 1,847

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in each of the Company's reporting segments for the six month period ended September 30, 2007 and the six month period ended March 31, 2008 were as follows (in millions):

	March 31, 2007	Business Acquisitions	Currency Translation and Other	September 30, 2007
Building efficiency				
North America systems	$ 502	$ —	$ (5)	$ 497
North America service	620	—	2	622
North America unitary products	480	—	1	481
Global workplace solutions	168	—	13	181
Europe	387	—	5	392
Rest of world	508	—	20	528
Automotive experience				
North America	1,180	—	(3)	1,177
Europe	1,109	—	58	1,167
Asia	193	—	12	205
Power solutions	872	—	9	881
Total	$ 6,019	$ —	$ 112	$ 6,131

	September 30, 2007	Business Acquisitions	Currency Translation and Other	March 31, 2008
Building efficiency				
North America systems	$ 497	$ 8	$ 1	$ 506
North America service	622	28	3	653
North America unitary products	481	—	—	481
Global workplace solutions	181	—	—	181
Europe	392	—	19	411
Rest of world	528	—	59	587
Automotive experience				
North America	1,177	—	—	1,177
Europe	1,167	—	102	1,269
Asia	205	—	12	217
Power solutions	881	—	38	919
Total	$ 6,131	$ 36	$ 234	$ 6,401

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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

	March 31, 2008			September 30, 2007			March 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	$ 309	$(161)	$148	$315	$(147)	$168	$298	$(133)	$165
Unpatented technology	25	(10)	15	21	(8)	13	33	(11)	22
Customer relationships	347	(36)	311	306	(24)	282	311	(22)	289
Miscellaneous	35	(13)	22	47	(32)	15	29	(23)	6
Total amortized intangible assets	716	(220)	496	689	(211)	478	671	(189)	482
Unamortized intangible assets									
Trademarks	297	—	297	295	—	295	295	—	295
Pension asset	—	—	—	—	—	—	6	—	6
Total unamortized intangible assets	297	—	297	295	—	295	301	—	301
Total intangible assets	$1,013	$(220)	$793	$984	$(211)	$773	$972	$(189)	$783

Amortization of other intangible assets for the six month periods ended March 31, 2008 and 2007 was $19 million and $24 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately $36 million per year over the next five years.

8. Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been adequate, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the condensed consolidated statements of financial position.

The change in the carrying amount of the Company's total product warranty liability for the six months ended March 31, 2008 and March 31, 2007 was as follows (in millions):

	2008	2007
Balance as of September 30	$ 150	$ 189
Accruals for warranties issued during the period	76	61
Accruals from acquisitions	1	—
Accruals related to pre-existing warranties (including changes in estimates)	—	2
Settlements made (in cash or in kind) during the period	(80)	(71)
Currency translation	5	3
Balance as of March 31	$ 152	$ 184

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

9. Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal 2006 and recorded a $197 million restructuring charge in that quarter. During the fourth quarter of fiscal 2006, the Company increased its 2006 Plan restructuring charge by $8 million for additional employee severance and termination benefits. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of fiscal 2008. The automotive experience business related restructuring focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business primarily related to Europe where the Company has launched a systems redesign initiative.

The 2006 Plan included workforce reductions of approximately 5,000 employees (2,500 for automotive experience — North America, 1,400 for automotive experience — Europe, 200 for building efficiency — North America, 600 for building efficiency — Europe, 280 for building efficiency — rest of world and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of March 31, 2008, approximately 4,700 employees have been separated from the Company pursuant to the 2006 Plan. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience — North America, 3 in automotive experience — Europe, 1 in building efficiency — Europe and 1 in building efficiency — rest of world). As of March 31, 2008, 14 of the 15 plants have been closed. The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

The following table summarizes the changes in the Company's 2006 Plan reserve, included within other current liabilities in the consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2007	$ 38	$ 6	$ 1	$ 45
Utilized — Cash	(5)	(4)	—	(9)
Balance at December 31, 2007	33	2	1	36
Utilized — Cash	(12)	—	—	(12)
Balance at March 31, 2008	$ 21	$ 2	$ 1	$ 24

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

The Company recorded restructuring reserves of $161 million related to the December 2005 York acquisition, including workforce reductions of approximately 3,150 building efficiency employees (850 for North America systems, 300 for North America service, 60 for North America unitary products, 1,150 for Europe and 790 for rest of world), the closure of two manufacturing plants (one in North America systems and one in rest of world), the merging of other plants and branch offices with existing Company facilities and contract terminations. These restructuring activities were recorded as costs of the acquisition and were provided for in accordance with FASB Emerging Issues Task Force (EITF) Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

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During the second quarter of fiscal 2008, due primarily to a need for increased manufacturing capacity and changes in the global footprint, the Company reversed its decision to close the two plants originally included in the York restructuring plan. In addition, due to voluntary employee turnover and the decision not to close the two York manufacturing plants, the number of total workforce reductions decreased from 3,150 to 2,800. As such, severance costs will be lower than the original liability. In accordance with EITF 95-3, the excess reserves of $21 million were reversed to goodwill during the second quarter of fiscal 2008. The Company anticipates that substantially all of the non-contractual restructuring actions under the York restructuring plan will be completed in fiscal 2008.

As of March 31, 2008, approximately 2,185 employees have been separated from the Company pursuant to the York restructuring, including 295 for North America systems, 50 for North America unitary products, 1,095 for Europe and 745 for rest of world.

The following table summarizes the changes in the Company's York restructuring reserves, included within other current liabilities in the condensed consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2007	$ 23	$ 30	$ 3	$ 56
Utilized — Cash	(3)	(2)	—	(5)
Reclassification	9	(9)	—	—
Balance at December 31, 2007	29	19	3	51
Utilized — Cash	(4)	(2)	—	(6)
Noncash adjustment	(17)	(4)	4	(17)
Balance at March 31, 2008	$ 8	$ 13	$ 7	$ 28

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of its operations.

10. Research and Development

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses. A portion of the costs associated with these activities is reimbursed by customers. Such expenditures amounted to $104 million and $129 million for the three months ended March 31, 2008 and 2007, respectively, and $227 million and $270 million for the six months ended March 31, 2008 and 2007. These expenditures are net of customer reimbursements of $99 million and $63 million for the three months ended March 31, 2008 and 2007, respectively, and $176 million and $113 million for the six months ended March 31, 2008 and 2007, respectively.

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11. Income Taxes

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
ꟳederal, state and foreign income tax expense	$ 81	$ 59	$ 145	$ 107
ꟲffective tax rate adjustment	—	(5)	—	—
ꟲhange in tax status of foreign subsidiary	—	(22)	—	(22)
ꟲudit resolutions	—	(15)	—	(15)
ꟼrovision for income taxes	$ 81	$ 17	$ 145	$ 70

Effective Tax Rate

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter. For the three and six months ended March 31, 2008 and 2007, the Company's estimated annual effective income tax rate for continuing operations was 21.0%. In the three months ended March 31, 2007, the Company reduced its estimated annual effective income tax rate for continuing operations from 23.0% to 21.0%.

Change in Tax Status of Foreign Subsidiary

For the three and six months ended March 31, 2007, the tax provision decreased as a result of a $22 million tax benefit realized by a change in tax status of an automotive experience subsidiary in the Netherlands.

The change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of its investment. This election changed the tax status from a controlled foreign corporation (i.e., taxable entity) to a branch (i.e., flow through entity similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Uncertain Tax Positions

In June 2006, FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company adopted FIN 48 as of October 1, 2007.

Upon adoption, the Company increased its existing reserves for uncertain tax positions by $93 million. The increase was recorded as a cumulative effect adjustment to shareholders' equity of $68 million and an increase to goodwill of $25 million related to business combinations in prior years. As of the adoption date, the Company had gross tax affected unrecognized tax benefits of $616 million of which $475 million, if recognized, would affect the effective tax rate. Also as of the adoption date, the Company had accrued interest expense and penalties related to the unrecognized tax benefits of $75 million (net of tax benefit). The Company accrued approximately $8 million of additional interest and penalties during the six months ended March 31, 2008. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense or goodwill, when applicable.

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The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities including such major jurisdictions as Austria, Belgium, Canada, China, Czech Republic, France, Germany, Italy, Japan, Mexico, the Netherlands, Spain, United Kingdom, and the United States. The statute of limitations for each major jurisdiction is as follows:

Tax Jurisdiction	Statute of Limitations
Austria	5 years
Belgium	3 years
Canada	5 years
China	3 to 5 years
Czech Republic	3 years
France	3 years
Germany	4 to 5 years
Italy	4 years
Japan	5 to 7 years
Mexico	5 years
Netherlands	3 to 5 years
Spain	4 years
United Kingdom	6 years
United States — Federal	3 years
United States — State	3 to 5 years

In the U.S., fiscal 2004 through fiscal 2006 are currently under exam by the Internal Revenue Service (IRS) and fiscal 1999 through fiscal 2003 are currently under IRS Appeals. Additionally, the Company is currently under exam in the following major foreign jurisdictions:

Tax Jurisdiction	Tax Years Covered
Austria	2003 — 2005
Belgium	2005 — 2006
Canada	2002 — 2003
France	2005 — 2006
Germany	2001 — 2003
Italy	2003 — 2005
Japan	2005 — 2007
Spain	2003 — 2005

Tax years covered represent updates for the activities arising during the three months ended March 31, 2008, including additional years and removal of years under tax exam. In the three months ended March 31, 2008, the Company finalized its U.S. federal tax litigation for fiscal 1997 and fiscal 1998 and, consistent with the established reserves, made a tax payment of $27 million. The associated interest has not yet been assessed. It is reasonably possible that certain other U.S. and non-U.S. tax examinations, appellate proceedings and/or tax litigation will conclude within the next 12 months, including the resolution of the fiscal 1999 through fiscal 2001 U.S. federal tax years. However, it is not possible to reasonably estimate the effect this may have upon the unrecognized tax benefits. There was no other significant change in the total unrecognized tax benefits due to the settlement of audits, the expiration of the statute of limitations, or from other items arising during the three and six months ended March 31, 2008. In the three months ended March 31, 2007, the Company reduced its liability by $15 million due to the resolution of certain tax audits.

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Valuation Allowance

The Company reviews 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 is considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38% for Bristol Compressors in 2007. This effective tax rate approximates the local statutory rate adjusted for permanent differences.

12. Retirement Plans

The components of the Company's net periodic benefit costs associated with its defined benefit pension plans and other postretirement health and other benefits are shown in the tables below in accordance with SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88 and 106" (amounts in millions):

	U.S. Pension Plans			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Service cost	$ 20	$ 18	$ 40	$ 37
Interest cost	35	32	70	64
Expected return on plan assets	(41)	(38)	(83)	(76)
Amortization of transitional obligation	—	—	—	(1)
Amortization of net actuarial loss	1	3	3	6
Amortization of prior service cost	1	—	1	1
Net periodic benefit cost	$ 16	$ 15	$ 31	$ 31

	Non-U.S. Pension Plans			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Service cost	$ 9	$ 10	$ 19	$ 19
Interest cost	18	15	36	30
Expected return on plan assets	(16)	(14)	(33)	(27)
Amortization of net actuarial loss	2	2	4	4
Net periodic benefit cost	$ 13	$ 13	$ 26	$ 26

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	Postretirement Health and Other Benefits			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Service cost	$ 1	$ 2	$ 2	$ 3
Interest cost	5	4	9	9
Amortization of net actuarial gain	(1)	—	(1)	—
Amortization of prior service cost	(2)	(2)	(4)	(3)
Net postretirement benefit expense	$ 3	$ 4	$ 6	$ 9

13. Earnings Per Share

On July 25, 2007, the Company's Board of Directors declared a three-for-one split of the Company's outstanding common stock payable October 2, 2007 to shareholders of record on September 14, 2007. All prior year share and per share amounts disclosed in this document have been restated to reflect the three-for-one stock split. The stock split resulted in an increase of approximately 396 million in the outstanding shares of common stock as of the date of the split. In connection with the stock split, the par value of the common stock was changed from $.04 1/6 per share to $.01 7/18 per share.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Weighted Average Shares Outstanding				
Basic weighted average shares outstanding	592.8	590.1	593.0	588.9
Effect of dilutive securities:				
Stock options	7.9	7.8	9.1	7.2
Diluted weighted average shares outstanding	600.7	597.9	602.1	596.1
Antidilutive Securities				
Options to purchase common shares	1.0	—	0.8	0.3

14. Comprehensive Income

A summary of comprehensive income is shown below (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Net income	$ 289	$ 228	$ 524	$ 390
Realized and unrealized losses on derivatives	(1)	(3)	(52)	(21)
Foreign currency translation adjustments	324	32	448	139
Other comprehensive income	323	29	396	118
Comprehensive income	$ 612	$ 257	$ 920	$ 508

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The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the condensed consolidated statements of financial position at fair value. The effective portion of the contracts’ gains or losses due to changes in fair value are initially recorded as unrealized gains/losses on derivatives, a component of other comprehensive income, and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates or commodity price changes.

The favorable foreign currency translation adjustments (CTA) for the six months ended March 31, 2008 were primarily due to the strengthening of the Euro and other foreign currencies against the U.S. dollar.

The Company has foreign currency-denominated debt obligations and cross-currency interest rate swaps which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as CTA within the accumulated other comprehensive income account until realized. A net loss of approximately $81 million and $8 million was recorded for the three month periods ending March 31, 2008 and 2007, respectively, and a net loss of approximately $107 million and $34 million was recorded for the six month periods ended March 31, 2008 and 2007, respectively. These losses were more than offset by gains on the underlying foreign currency-denominated assets.

15. Segment Information

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain segments are aggregated or combined based on materiality within building efficiency — rest of world and power solutions in accordance with the standard. The Company’s ten reportable segments are presented in the context of its three primary businesses — building efficiency, automotive experience and power solutions.

Building efficiency

North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

Global workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

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Automotive experience

Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport utility/crossover vehicles in North America, Europe and Asia. Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument panels and clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems.

Power solutions

Power solutions services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise.

Management evaluates the performance of the segments based primarily on segment income, which represents income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. General Corporate and other overhead expenses are allocated to business segments in determining segment income. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-segment assets. Financial information relating to the Company's reportable segments is as follows (in millions):

	Net Sales			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Building efficiency				
North America systems	$ 563	$ 484	$ 1,075	$ 928
North America service	582	536	1,123	1,007
North America unitary products	153	187	315	392
Global workplace solutions	781	670	1,562	1,316
Europe	616	553	1,281	1,165
Rest of world	604	533	1,187	1,077
	3,299	2,963	6,543	5,885
Automotive experience				
North America	1,699	1,825	3,518	3,561
Europe	2,551	2,347	4,952	4,455
Asia	400	369	769	745
	4,650	4,541	9,239	8,761
Power solutions	1,457	988	3,108	2,056
Total net sales	$ 9,406	$ 8,492	$18,890	$16,702

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	Segment Income			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Building efficiency				
North America systems	$ 63	$ 40	$ 112	$ 72
North America service	42	38	68	48
North America unitary products	(14)	6	(23)	14
Global workplace solutions	11	15	29	32
Europe	14	1	40	20
Rest of world	61	37	114	74
	177	137	340	260
Automotive experience				
North America	25	(1)	35	(53)
Europe	120	120	195	200
Asia	10	2	3	9
	155	121	233	156
Power solutions	121	93	254	235
Total segment income	$ 453	$ 351	$ 827	$ 651
Net financing charges	66	69	135	138
Income from continuing operations before income taxes and minority interests	$ 387	$ 282	$ 692	$ 513

16. Commitments and Contingencies

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds, although the accruals do take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

The Company has entered into supply contracts with certain vendors that include minimum volume requirements which, if not met, could subject the Company to potential liabilities. At the end of the second quarter of fiscal 2008, there were no known volume shortfalls for which the Company was contractually obligated. These supply contracts include cancellation penalties in the event that either party elects to terminate the agreement prior to its expiration. Such penalties, if incurred, could be material to the Company's consolidated financial condition, results of operations or cash flows.

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A significant portion of the Company's sales are to customers in the automotive industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations. In addition, the downturn in the North American automotive market is likely to impact certain vendors' financial solvency, including their ability to meet restrictive debt covenants. Such events could result in potential liabilities or additional costs to the Company, or investments by the Company, to ensure uninterrupted supply to its customers. For example, Plastech Engineered Products, Inc. (Plastech), a major supplier of certain injection molded and other molded plastic component parts to the Company and the North American automotive industry, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Company and Plastech's term lenders have proposed to establish a joint venture that would acquire the interiors and underhood business of Plastech, subject to certain activities, including approval by the Bankruptcy Court and approval by the Company's Board of Directors.

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Johnson Controls, Inc.

We have reviewed the accompanying condensed consolidated statements of financial position of Johnson Controls, Inc. and its subsidiaries (the "Company") as of March 31, 2008 and 2007, and the related consolidated statements of income and the condensed consolidated statements of cash flows for the three-month and six-month periods ended March 31, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position as of September 30, 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated November 26, 2007 we expressed an unqualified opinion on those consolidated financial statements. An explanatory paragraph was included in our report for the adoption of Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R);" Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment;" and Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of September 30, 2007, is fairly stated in all material respects in relation to the consolidated statement of financial position from which it has been derived.

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
May 6, 2008

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements for Forward-Looking Information

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Quarterly Report on Form 10-Q refer to Johnson Controls, Inc. and its consolidated subsidiaries.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," "guidance" or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2007. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Johnson Controls brings ingenuity to the places where people live, work and travel. By integrating technologies, products and services, the Company creates smart environments that redefine the relationships between people and their surroundings. The Company strives to create a more comfortable, safe and sustainable world through its products and services for more than 200 million vehicles, 12 million homes and one million commercial buildings. The Company provides innovative automotive interiors that help make driving more comfortable, safe and enjoyable. For buildings, it offers products and services that optimize energy use and improve comfort and security. It also provide batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise.

The Company's building efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the building efficiency business provides technical services, energy management consulting and operations of entire real estate portfolios for the non-residential buildings market. It also provides residential air conditioning and heating systems.

The Company's automotive experience business is one of the world's largest automotive suppliers, providing interior systems to more than 30 million vehicles annually. Its technologies extend into virtually every area of the interior including seating and overhead systems, door systems, floor consoles, instrument panels, cockpits and integrated electronics. Customers include most of the world's major automakers.

The Company's power solutions business is a leading global producer of lead-acid automotive batteries, serving both automotive original equipment manufacturers and the general vehicle battery aftermarket. It produces more than 120 million lead-acid batteries annually. It offers Absorbent Glass Mat (AGM), nickel-metal-hydride and lithium-ion battery technologies to power hybrid vehicles.

The following information should be read in conjunction with the September 30, 2007 consolidated financial statements and notes thereto, along with management's discussion and analysis of financial condition and results of operations included in the Company's 2007 Annual Report on Form 10-K. References in the following discussion and analysis to "Three Months" refer to the three months ended March 31, 2008 compared to the three months ended March 31, 2007, while references to "Year-to-Date" refer to the six months ended March 31, 2008 compared to the six months ended March 31, 2007.

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Summary

(In millions)	Three Months Ended March 31, 2008	2007	Change	Six Months Ended March 31, 2008	2007	Change
Net sales	$9,406	$8,492	11%	$18,890	$16,702	13%
Income from continuing operations before income taxes and minority interests	387	282	37%	692	513	35%

Three Months:

- The $914 million increase in consolidated net sales was primarily due to higher revenues in the power solutions segment ($390 million) mainly from pass-through pricing of higher lead costs, the favorable effects of foreign currency translation (approximately $590 million) and growth in the building efficiency business ($190 million) mainly from increased global demand for the Company's offerings for nonresidential buildings that improve energy efficiency and reduce greenhouse gas emissions. These increases were partially offset by lower volumes in the building efficiency unitary products group ($35 million) from a decline in the U.S. residential market and lower net volumes in the North American ($125 million) and European ($95 million) automotive markets.

- The $105 million increase in consolidated income from continuing operations before income taxes and minority interests was primarily due to higher sales volume and margin expansion in the building efficiency business ($50 million) despite higher selling, general and administrative (SG&A) expenses to support growth, cost savings measures in the automotive experience North America segment ($25 million), improved price/mix in the power solutions segment ($15 million) and the favorable effects of foreign currency translation (approximately $40 million). These increases were partially offset by unfavorable performance in the building efficiency unitary products group ($20 million) related to a decline in the U.S. residential market.

Year-to-Date:

- The $2.2 billion increase in consolidated net sales was primarily due to pass-through pricing of higher lead costs in the power solutions segment ($900 million), higher sales volumes in the building efficiency business ($350 million) mainly from increased global demand for the Company's offerings for nonresidential buildings and the favorable impact of foreign currency translation (approximately $1.0 billion), partially offset by lower sales in the automotive experience business ($100 million) reflecting the weaker North American automotive market.

- The $179 million increase in consolidated income from continuing operations before income taxes and minority interests was primarily due to higher sales volume and improving gross margins through pricing and cost savings measures in the building efficiency business ($110 million) despite higher SG&A expenses to support growth, operational efficiencies in the automotive experience North America segment ($90 million) and improved price/product mix in the power solutions segment ($20 million). These increases were partially offset by unfavorable performance in the building efficiency unitary products group ($37 million) related to a decline in the U.S. residential market.

Segment Analysis

Management evaluates the performance of its business units based primarily on segment income, which is defined as income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs.

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Building Efficiency — Net Sales

	Net Sales Three Months Ended March 31,			Net Sales Six Months Ended March 31,		
(In millions)	2008	2007	Change	2008	2007	Change
North America systems	$ 563	$ 484	16%	$ 1,075	$ 928	16%
North America service	582	536	9%	1,123	1,007	12%
North America unitary products	153	187	-18%	315	392	-20%
Global workplace solutions	781	670	17%	1,562	1,316	19%
Europe	616	553	11%	1,281	1,165	10%
Rest of world	604	533	13%	1,187	1,077	10%
	$ 3,299	$ 2,963	11%	$ 6,543	$ 5,885	11%

Three Months:

- The increase in North America systems was primarily due to higher product and equipment commercial volumes in the construction and replacement markets.
- The increase in North America service was primarily due to growth in the truck-based and energy performance contracting businesses ($34 million) and the impact of first quarter fiscal 2008 acquisitions ($12 million).
- The decrease in North American unitary products was primarily due to a depressed U.S. residential market which impacted new construction and housing starts.
- The increase in global workplace solutions primarily reflects a higher volume of global pass-through contracts ($10 million), a net increase and expansion in existing contracts ($45 million) and new business volumes ($6 million), and the favorable impact of foreign currency translation (approximately $50 million).
- The increase in Europe reflects the favorable impact of foreign currency translation (approximately $75 million), partially offset by a reduction in systems and product volumes ($12 million).
- The increase in rest of world is due to volume increases mainly in Latin America, Asia and the Middle East ($31 million) and the favorable impact of foreign currency translation (approximately $40 million).

Year-to-Date:

- The increase in North America systems was primarily due to higher product and equipment commercial volumes in the construction and replacement markets.
- The increase in North America service was primarily due to growth in the truck-based and energy performance contracting businesses ($99 million) and the impact of first quarter fiscal 2008 acquisitions ($17 million).
- The decrease in North American unitary products was primarily due to a depressed U.S. residential market which impacted new construction and housing starts.
- The increase in global workplace solutions primarily reflects a higher volume of global pass-through contracts ($35 million), a net increase and expansion in existing customers ($104 million) and new business volumes ($7 million), and the favorable impact of foreign currency translation (approximately $100 million).
- The increase in Europe reflects the favorable impact of foreign currency translation (approximately $135 million), partially offset by a reduction in systems and product volumes ($19 million).
- The increase in rest of world is due to volume increases ($50 million) in Asia, Latin America and the Middle East and the favorable impact of foreign currency translation (approximately $60 million).

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Building Efficiency — Segment Income

(In millions)	Segment Income Three Months Ended March 31, 2008	Segment Income Three Months Ended March 31, 2007	Change	Segment Income Six Months Ended March 31, 2008	Segment Income Six Months Ended March 31, 2007	Change
North America systems	$ 63	$ 40	58%	$ 112	$ 72	56%
North America service	42	38	11%	68	48	42%
North America unitary products	(14)	6	*	(23)	14	*
Global workplace solutions	11	15	-27%	29	32	-9%
Europe	14	1	*	40	20	*
Rest of world	61	37	65%	114	74	54%
	$ 177	$ 137	29%	$ 340	$ 260	31%

* Measure not meaningful.

Three Months:

- The increases in North America systems and North America service were primarily due to higher sales volumes and operational efficiencies ($33 million), partially offset by additional SG&A expenses to support business growth initiatives ($10 million).
- The decrease in North America unitary products was primarily due to the decline in sales volumes from a depressed U.S. residential market which impacted new construction and housing starts.
- Despite higher sales volumes, global workplace solutions decreased slightly due to less favorable margins and mix in North America.
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $3 million) and continuing benefit from prior year restructuring plans, branch office redesign and manufacturing footprint changes ($19 million), partially offset by increased SG&A expenses to support business growth and system implementations ($9 million).
- The increase in rest of world was primarily due to higher sales volumes and margin improvements in Latin America, Asia and the Middle East ($19 million).

Year-to-Date:

- The increases in North America systems and North America service were primarily due to higher sales volumes and improving gross margins through pricing and operational efficiencies ($77 million), partially offset by additional SG&A expenses to support business growth initiatives ($17 million).
- The decrease in North America unitary products was primarily due to the decline in sales volumes from a depressed U.S. residential market which impacted new construction and housing starts ($33 million), and purchase accounting adjustments related to the September 2007 equity investment in a joint venture with U.S. Airconditioning Distributors, Inc ($4 million).
- The slight decrease in global workplace solutions was primarily due to less favorable margins and mix in North American contracts, partially offset by higher volumes ($5 million).
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $8 million) and continuing benefit from prior year restructuring plans, branch office redesign and manufacturing footprint changes ($30 million), partially offset by increased SG&A expenses to support business growth and system implementations ($18 million).
- The increase in rest of world was primarily due to higher sales volumes and margin improvements in Asia, Latin America and the Middle East ($38 million).

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Automotive Experience — Net Sales

(In millions)	Net Sales Three Months Ended March 31, 2008	2007	Change	Net Sales Six Months Ended March 31, 2008	2007	Change
North America	$ 1,699	$ 1,825	-7%	$ 3,518	$ 3,561	-1%
Europe	2,551	2,347	9%	4,952	4,455	11%
Asia	400	369	8%	769	745	3%
	$ 4,650	$ 4,541	2%	$ 9,239	$ 8,761	5%

Three Months:

- The decrease in North America was primarily due to volume reductions at Ford Motor Company, Chrysler LLC and Nissan Motor Company. The decrease in net sales of 7% was slightly better than the estimated industry's production decrease of 8% for the quarter. A worker's strike at a U.S. supplier to one of our major customers also unfavorably impacted net sales by $24 million in the second quarter of fiscal 2008.
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $300 million) and increased volumes at Kia Motors Corporation and Volkswagen AG, partially offset by decreased business with Daimler AG, General Motors Corporation, The Volvo Group and BMW AG.
- The increase in Asia was primarily due to the favorable impact of foreign currency translation (approximately $27 million) and higher volumes with Nissan Motor Company in Japan.

Year-to-Date:

- The decrease in North America was primarily due to a decline in volumes on sport utility vehicle programs with Ford Motor Company and Chrysler LLC, partially offset by higher sales volumes with Honda Motor Company.
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $540 million) and increased volumes at Kia Motors Corporation, Fiat Automobiles SpA and Volkswagen AG, partially offset by lower volumes and discontinued programs with Daimler AG and BMW AG.
- The increase in Asia was primarily due to the favorable impact of foreign currency translation (approximately $40 million), partially offset by lower sales volumes mainly in Korea and Japan.

Automotive Experience — Segment Income

(In millions)	Segment Income Three Months Ended March 31, 2008	2007	Change	Segment Income Six Months Ended March 31, 2008	2007	Change
North America	$ 25	$ (1)	*	$ 35	$ (53)	*
Europe	120	120	0%	195	200	-3%
Asia	10	2	*	3	9	*
	$ 155	$ 121	28%	$ 233	$ 156	49%

* Measure not meaningful.

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Three Months:

- The increase in North America was primarily due to favorable gross margins from purchasing savings ($12 million) and operational efficiencies ($39 million), partially offset by lower production volumes ($16 million) and the unfavorable impact of a worker's strike at a U.S. supplier to one of our major customers ($8 million).
- European segment income was consistent with the prior year primarily due the favorable impact of foreign currency translation (approximately $25 million), purchasing savings ($25 million) and favorable net engineering costs ($12 million), partially offset by the lower sales volumes ($23 million) and lower economic recoveries ($39 million).
- The increase in Asia was primarily due to higher volumes ($4 million), operating efficiencies ($3 million), higher equity income from China joint ventures ($2 million) and the favorable impact of foreign currency translation ($2 million), partially offset by higher employee expenses to support market expansion ($4 million).

Year-to-Date:

- The increase in North America was primarily due to pricing improvements ($12 million), favorable gross margins from purchasing savings ($19 million) and operational efficiencies ($82 million), partially offset by higher SG&A expenses ($23 million) and a worker's strike at a U.S. supplier to one of our major customers ($8 million).
- The decrease in Europe was primarily due to the timing of platform pricing adjustments and lower economic recoveries ($42 million), partially offset by the favorable impact of foreign currency translation ($37 million).
- The decrease in Asia is primarily due to higher employee expenses to support market expansion ($13 million), partially offset by the favorable impact of foreign currency translation ($4 million) and higher equity income from China joint ventures ($2 million).

Power Solutions

	Three Months Ended March 31,			Six Months Ended March 31,		
(In millions)	2008	2007	Change	2008	2007	Change
Net sales	$1,457	$988	47%	$3,108	$2,056	51%
Segment income	121	93	30%	254	235	8%

Three Months:

- Net sales increased primarily due to the pass-through pricing of higher lead costs ($310 million), the favorable impact of foreign currency translation (approximately $75 million) and improved price/product mix ($80 million).
- Segment income increased primarily due to improved price/product mix ($15 million), the favorable impact of foreign currency translation ($6 million) and higher equity income from Asia joint ventures ($6 million).

Year-to-Date:

- Net sales increased primarily due to the impact of higher lead costs on pricing ($675 million), improved price/product mix ($197 million), the favorable impact of foreign currency translation (approximately $145 million) and higher sales volumes ($25 million).
- Segment income increased due to improved price/product mix ($30 million) and operational efficiencies ($5 million), partially offset by higher SG&A costs ($15 million) mainly to support global business growth.

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Net Financing Charges

(In millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Change	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007	Change
Net financing charges	$66	$69	-4%	$135	$138	-2%

- The decrease in net financing charges in the three and six month periods is due to lower borrowing levels compared to the prior period, as well as lower short-term interest rates.

Provision for Income Taxes

(In millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007
Tax provision	$ 81	$ 17	$ 145	$ 70
Effective tax rate	21.0%	6.0%	21.0%	13.6%
Estimated annual effective tax rate	21.0%	21.0%	21.0%	21.0%

- In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.
- The tax provision for the three and six months ended March 31, 2007 reflects a $22 million tax benefit realized by a change in tax status of an automotive experience subsidiary in the Netherlands. This change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes.
- In the second quarter of fiscal 2007, the Company reduced its income tax liability by $15 million due to the favorable resolution of certain income tax audits.
- In the second quarter of fiscal 2007, the Company reduced its estimated annual effective income tax rate for continuing operations from 23.0% to 21.0%.
- The Company utilized an effective tax rate for discontinued operations of approximately 38% for Bristol Compressors in fiscal 2007. This effective tax rate approximated the local statutory rate adjusted for permanent differences.

Net Income

(In millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Change	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007	Change
Income from continuing operations	$ 289	$ 262	10%	$ 524	$ 430	22%
Loss from discontinued operations	—	(4)	*	—	(10)	*
Loss on sale of discontinued operations	—	(30)	*	—	(30)	*
Net income	$ 289	$ 228	27%	$ 524	$ 390	34%

* Measure not meaningful.

- The increase in income from continuing operations for the three month period ended March 31, 2008 was primarily due to higher sales volume and margin expansion in the building efficiency business ($50 million) despite higher SG&A expenses to support growth, cost savings measures in the automotive experience North America segment ($25 million), improved price/product mix in the power solutions segment ($15 million) and the favorable effects of foreign currency translation (approximately $40 million). These increases were partially offset by unfavorable performance in the building efficiency

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unitary products group ($20 million) related to a decline in the U.S. residential market and an increase in the provision for income taxes ($64 million) related to non-recurring adjustments in the prior year.

- The increase in income from continuing operations for the six month period ended March 31, 2008 was primarily due to higher sales volume and improving gross margins through pricing and operational efficiencies in the building efficiency business ($110 million) despite higher SG&A expenses to support growth, cost savings measures in the automotive experience North America segment ($90 million) and improved price/product mix in the power solutions segment ($20 million). These increases were partially offset by unfavorable performance in the building efficiency unitary products group ($37 million) related to a decline in the U.S. residential market and an increase in the provision for income taxes ($75 million) related to non-recurring adjustments in the prior year.

- Discontinued operations primarily relate to the Bristol Compressor business, which was acquired as part of the December 2005 York International Corporation acquisition and was sold in March 2007 resulting in an after tax loss of $27 million. Additionally, the Company settled a claim in the prior year related to the February 2005 sale of the engine electronics business that resulted in an after tax loss of $3 million.

Outlook

On April 16, 2008, the Company announced an increase in its previously issued fiscal 2008 guidance for net sales of approximately $38 billion to approximately $39 billion, an increase of 13% from prior year net sales, and reaffirmed its previously issued guidance that diluted earnings per share from continuing operations will increase 18% to approximately $2.45 to $2.50 per share.

Backlog

Building efficiency's backlog relates to its control systems and service activity. At March 31, 2008, the unearned backlog was $4.5 billion, compared to $3.9 billion at March 31, 2007, a 15% increase.

Financial Condition

Working Capital

(In millions)	March 31, 2008	September 30, 2007	Change	March 31, 2007	Change
Working capital	$1,880	$1,441	30%	$1,551	21%
Accounts receivable	6,451	6,600	-2%	5,933	9%
Inventories	2,209	1,968	12%	1,847	20%
Accounts payable	5,238	5,365	-2%	4,555	15%

- The Company defines working capital as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations. Management believes that this measure of working capital, which excludes financing-related items and discontinued activities, provides a more useful measurement of the Company's operating performance.

- The increase in working capital at March 31, 2008 as compared to September 30, 2007 is primarily due to the net impact of strengthening foreign currencies against the U.S. dollar, higher inventories resulting mainly from higher lead costs and some seasonality in the building efficiency business and lower accounts payable from timing of payments, partially offset by lower accounts receivable from improved collections and seasonality. Compared to March 31, 2007, the increase is primarily due to higher accounts receivable from increased sales and higher inventories from the impact of higher lead costs, partially offset by higher accounts payable from the higher cost of inventories.

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- The Company's days sales in accounts receivable for the three months ended March 31, 2008 were 57, slightly lower than 58 in the comparable period ended September 30, 2007 and higher than 55 for the comparable period ended March 31, 2007. There has been no significant deterioration in the credit quality of the Company's receivables or changes in revenue recognition policies. The decrease in accounts receivable compared to September 30, 2007 is due to the seasonality of net sales between the two periods, as well as the timing of unbilled revenues on long-term contracts. The increase in accounts receivable compared to March 31, 2007 is consistent with higher sales volume.
- The Company's inventory turns for the three months ended March 31, 2008 were lower than those for the period ended September 30, 2007 mainly due to seasonality and higher inventory levels in the building efficiency business from slower moving inventory because of the decline in the residential housing market. Inventory turns were higher compared to March 31, 2007 due to improvements in inventory management.
- Days payable at March 31, 2008 decreased to 67 days from 71 days at September 30, 2007 and increased from 63 days at March 31, 2007 mainly due to the timing of payments.

Cash Flows

	Three Months Ended March 31,		Six Months Ended March 31,	
(In millions)	2008	2007	2008	2007
Net cash provided by operating activities	$298	$455	$476	$607
Net cash used by investing activities	242	165	488	443
Net cash used by financing activities	230	370	429	285
Capital expenditures	174	211	361	441

- The decrease in net cash provided by operating activities in the three months ended March 31, 2008 was primarily due to timing differences in accounts payable and accrued liabilities, partially offset by higher accounts receivable due to the timing of unbilled revenues on long-term contracts and higher net income. For the six months ended March 31, 2008, the decrease in net cash provided by operating activities was due to higher inventory and lower accounts payable as compared to the prior fiscal year end, partially offset by higher net income and lower accounts receivable as compared to the prior fiscal year end.
- The increase in net cash used in investing activities for the three and six months ended March 31, 2008 was due to the acquisitions of businesses in fiscal 2008 and impact of the settlement of cross-currency interest rate swaps, partially offset by lower capital expenditures.
- The decrease in net cash used by financing activities for the three months ended March 31, 2008 was primarily the result of a slight decrease in debt repayments and the timing of dividend payments. For the six months ended March 31, 2008, the increase was due to higher debt repayments.
- The majority of the capital spending for property, plant and equipment in the three and six months ended March 31, 2008 was for investments within the automotive experience business.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Germany, Italy, the Netherlands, United Kingdom and the United States, which have generated operating and/or capital losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries in accordance with SFAS No. 109. SFAS No. 109 requires the Company to record a valuation allowance for each legal entity or consolidated group when realization is not likely and evaluate both positive and negative historical evidences as well as expected future events.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company's long-lived asset impairment analyses indicate that assets are not impaired based on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived

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Assets." SFAS No. 144 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. At March 31, 2008, the Company has concluded that it does not have any material assets whose recovery is at risk.

Capitalization

(In millions)	March 31 2008	September 30, 2007	Change	March 31, 2007	Change
Short-term debt	$ 574	$ 264	117%	$ 361	59%
Long-term debt	3,744	4,154	-10%	4,260	-12%
Shareholders' equity	9,595	8,907	8%	7,815	23%
Total capitalization	$13,913	$ 13,325	4%	$12,436	12%
Total debt as a % of total capitalization	31.0%	33.2%		37.2%	

- In December 2007, the Company entered into a 25 billion yen ($220 million), three year, floating rate loan agreement. The agreement gave the Company the right to borrow the loan proceeds through January 15, 2008. The Company borrowed the 25 billion yen on January 15, 2008.
- On January 17, 2008 and February 1, 2008, the Company retired $500 million and $175 million, respectively, in floating rate notes and fixed rate bonds at maturity. The Company used a combination of cash, commercial paper and the new three year, floating rate yen loan to repay the notes.
- In December 2006, the Company entered into a five-year, $2.0 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line during the three months ended March 31, 2008.
- In December 2006, the Company entered into a 12 billion yen ($104 million), three year, floating rate loan. The net proceeds of the bank loan were used to repay unsecured commercial paper obligations.
- In November 2006, the Company issued commercial paper to repay a $350 million note that matured.
- The Company also selectively makes use of short-term money market loans in both U.S. dollars and Euros. The Company estimates that, as of March 31, 2008, it could borrow up to $1 billion at its current debt ratings in money market loans.
- The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets to support business growth and future acquisitions. The Company believes its capital resources and liquidity position at March 31, 2008 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal 2008 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

New Accounting Standards

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133." SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 161 will have on its consolidated financial condition and results of operations.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations.” SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity’s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard, when adopted, will change the Company’s accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51.” SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment to FASB Statement No. 115.” SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition and results of operations.

In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109,” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 11 for the impact of the Company’s adoption of FIN 48 as of October 1, 2007.

Other Financial Information

The interim financial information included in this Quarterly Report on Form 10-Q has not been audited by PricewaterhouseCoopers LLP (PwC). PwC has, however applied limited review procedures in accordance with professional standards for reviews of interim financial information. Accordingly, you should restrict your reliance on their reports on such information. PwC is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information because such reports do not constitute “reports” or “parts” of the registration statements prepared or certified by PwC within the meaning of Sections 7 and 11 of the Securities Act of 1933.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2008, the Company did not experience any adverse changes in market risk exposures that materially affect the quantitative and qualitative disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of March 31, 2008 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the three months ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As noted in Item 1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2007, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 60 sites in the United States. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and

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remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other lawsuits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and lawsuits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

ITEM 1A. RISK FACTORS

There are no material changes to the disclosure regarding risk factors presented in Item 1A to the Company's Annual Report on Form 10-K for the year ended September 30, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In September 2006, the Company's Board of Directors authorized a stock repurchase program to acquire up to $200 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock 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.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006 (Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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.

Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the Swap Agreement with Citibank's consent. The net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company's earnings for the three months ended March 31, 2008. There were no purchases by Citibank in the three or six months ended March 31, 2008.

The following table presents information regarding the repurchase of the Company's common stock by the Company and purchases of the Company's common stock by Citibank in connection with the Swap Agreement during the three months ended March 31, 2008.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
1/1/08 – 1/31/08				
Purchases by Company (1)	423,089	$33.40	279,600	$107,300,792
2/1/08 – 2/29/08				
Purchases by Company (1)	—	—	—	$107,300,792
3/1/08 – 3/31/08				
Purchases by Company (1)	307,000	$32.27	307,000	$102,394,713
1/1/08 – 1/31/08				
Purchases by Citibank (2)	—	—	—	$ 48,382,000
2/1/08 – 2/29/08				
Purchases by Citibank (2)	—	—	—	$ 58,702,000
3/1/08 – 3/31/08				
Purchases by Citibank (2)	—	—	—	$ 54,660,000

(1) The repurchases of the Company's common stock by the Company are intended to partially offset dilution related to our stock option and restricted stock equity compensation plans and are treated as repurchases of Company common stock for purposes of this disclosure.

(2) Citibank may purchase shares of the Company's stock up to an amount equal to $200 million. The approximate dollar value of shares that may yet be purchased under the Citibank program fluctuates based on the market value of the Company's stock and/or sales by Citibank of the Company's stock.

ITEM 6. EXHIBITS

Reference is made to the separate exhibit index contained on page 36 filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSON CONTROLS, INC.

Date: May 6, 2008

By: /s/ *R. Bruce McDonald*
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

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JOHNSON CONTROLS, INC.

Form 10-Q

INDEX TO EXHIBITS

Exhibit No.	Description
15	Letter of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated May 6, 2008, relating to Financial Information.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Form 10-Q
Oct-Dec 2007

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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin *(State or Other Jurisdiction of Incorporation or Organization)*	**39-0380010** *(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue **Milwaukee, Wisconsin** *(Address of principal executive offices)*	**53201** *(Zip Code)*

(414) 524-1200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at December 31, 2007
Common Stock: $0.01 7/18 par value per share	593,770,096

JOHNSON CONTROLS, INC.

Form 10-Q

Report Index

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Johnson Controls, Inc.

Condensed Consolidated Statements of Financial Position

(in millions, unaudited)

	December 31, 2007	September 30, 2007	December 31, 2006
Assets			
Cash and cash equivalents	$ 407	$ 674	$ 252
Accounts receivable — net	6,180	6,600	5,648
Inventories	2,070	1,968	1,784
Other current assets	1,572	1,630	1,599
Current assets	10,229	10,872	9,283
Property, plant and equipment — net	4,214	4,208	4,030
Goodwill	6,251	6,131	6,000
Other intangible assets — net	775	773	795
Investments in partially-owned affiliates	812	795	569
Other noncurrent assets	1,522	1,326	1,519
Total assets	$ 23,803	$ 24,105	$ 22,196
Liabilities and Shareholders' Equity			
Short-term debt	$ 179	$ 264	$ 617
Current portion of long-term debt	896	899	17
Accounts payable	4,933	5,365	3,969
Accrued compensation and benefits	853	978	808
Accrued income taxes	108	97	192
Other current liabilities	2,283	2,317	2,433
Current liabilities	9,252	9,920	8,036
Commitments and contingencies (Note 16)			
Long-term debt	3,249	3,255	4,255
Postretirement health and other benefits	297	256	337
Minority interests in equity of subsidiaries	133	128	131
Other noncurrent liabilities	1,802	1,639	1,859
Shareholders' equity	9,070	8,907	7,578
Total liabilities and shareholders' equity	$ 23,803	$ 24,105	$ 22,196

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

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Johnson Controls, Inc.
Consolidated Statements of Income
(in millions, except per share data; unaudited)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Net sales		
Products and systems*	$ 7,693	$ 6,703
Services*	1,791	1,507
	9,484	8,210
Cost of sales		
Products and systems	6,731	5,910
Services	1,446	1,226
	8,177	7,136
Gross profit	1,307	1,074
Selling, general and administrative expenses	(950)	(803)
Net financing charges	(69)	(69)
Equity income	17	29
Income from continuing operations before income taxes and minority interests	305	231
Provision for income taxes	64	53
Minority interests in net earnings of subsidiaries	6	10
Income from continuing operations	235	168
Loss from discontinued operations, net of income taxes	—	(6)
Net income	$ 235	$ 162
Earnings per share from continuing operations		
Basic	$ 0.40	$ 0.29
Diluted	$ 0.39	$ 0.28
Earnings per share		
Basic	$ 0.40	$ 0.28
Diluted	$ 0.39	$ 0.27

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

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

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Johnson Controls, Inc.
Condensed Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Operating Activities		
Net income	$ 235	$ 162
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	181	174
Amortization of intangibles	10	12
Equity in earnings of partially-owned affiliates, net of dividends received	22	(17)
Minority interests in net earnings of subsidiaries	6	10
Deferred income taxes	9	5
Equity-based compensation	20	15
Other	19	3
Changes in working capital, excluding acquisitions and divestitures of businesses:		
Accounts receivable	486	149
Inventories	(82)	(47)
Other current assets	96	(1)
Restructuring reserves	(14)	(33)
Accounts payable and accrued liabilities	(835)	(274)
Accrued income taxes	25	(6)
Cash provided by operating activities	178	152
Investing Activities		
Capital expenditures	(187)	(230)
Sale of property, plant and equipment	15	8
Acquisition of businesses, net of cash acquired	(26)	—
Recoverable customer engineering expenditures	(4)	—
Settlement of cross-currency interest rate swaps	(32)	(57)
Changes in long-term investments	(12)	1
Cash used by investing activities	(246)	(278)
Financing Activities		
Increase (decrease) in short-term debt — net	(87)	322
Increase in long-term debt	1	105
Repayment of long-term debt	(21)	(366)
Payment of cash dividends	(65)	(4)
Stock repurchases	(35)	—
Other	8	28
Cash provided (used) by financing activities	(199)	85
Decrease in cash and cash equivalents	$ (267)	$ (41)

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

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
December 31, 2007
(unaudited)

1. Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which include normal recurring adjustments except as disclosed herein) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Johnson Controls, Inc. (the "Company") Annual Report on Form 10-K for the year ended September 30, 2007. The results of operations for the three month period ended December 31, 2007 are not necessarily indicative of results for the Company's 2008 fiscal year because of seasonal and other factors.

Certain prior period amounts have been revised to conform to the current year's presentation.

2. New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), "Business Combinations." SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard will change the Company's accounting treatment for business combinations on a prospective basis, when adopted.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment to FASB Statement No. 115." SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition and results of operations.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 11 for the impact of the Company's adoption of FIN 48 as of October 1, 2007.

3. Acquisition of Businesses

In the first quarter of fiscal 2008, the Company completed three acquisitions for a combined purchase price of $71 million, which were not material, individually or in aggregate, to the Company's consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $45 million.

In September 2007, the Company recorded a $200 million equity investment in a joint venture with U.S. Airconditioning Distributors, Inc., a California-based, privately-owned HVAC distributor serving five western U.S. states, in order to enhance the distribution of residential and light-commercial products in that geography. This investment was accounted for under the equity method as the Company does not have a controlling interest, but does have significant influence.

4. Discontinued Operations

In March 2007, the Company completed the sale of the Bristol Compressor business, which was acquired in December 2005 as part of the acquisition of York International Corporation (York), for approximately $40 million, of which $35 million was received in cash in the three months ended March 31, 2007 and $5 million was received in cash in the three months ended September 30, 2007 after final purchase price adjustments. The sale of the Bristol Compressor business resulted in a loss of approximately $49 million ($30 million after-tax), including related costs.

For the three months ended December 31, 2006, the Bristol Compressor business recorded net sales of $21 million and a loss before income taxes and minority interests of $9 million. Both the basic and diluted loss per share from discontinued operations were approximately $0.01.

Net assets of the Bristol Compressor business at the disposal date totaled approximately $86 million, which consisted of current assets of $97 million, fixed assets of $6 million and liabilities of $17 million.

5. Percentage-of-Completion Contracts

The building efficiency business records certain long term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable — net and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the condensed consolidated statements of financial position. Amounts included within accounts receivable - net related to these contracts were $629 million, $633 million and $484 million at December 31, 2007, September 30, 2007, and December 31, 2006, respectively. Amounts included within other current liabilities were $555 million, $538 million and $422 million at December 31, 2007, September 30, 2007, and December 31, 2006, respectively.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

6. Inventories

Inventories consisted of the following (in millions):

	December 31, 2007	September 30, 2007	December 31, 2006
Raw materials and supplies	$ 878	$ 774	$ 747
Work-in-process	323	329	257
Finished goods	931	930	832
FIFO inventories	2,132	2,033	1,836
LIFO reserve	(62)	(65)	(52)
Inventories	$ 2,070	$ 1,968	$ 1,784

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in each of the Company’s reporting segments for the nine month period ended September 30, 2007 and the three month period ended December 31, 2007 were as follows (in millions):

	December 31, 2006	Business Acquisitions	Currency Translation and Other	September 30, 2007
Building efficiency				
North America Systems	$ 502	$ —	$ (5)	$ 497
North America Service	620	1	1	622
North America Unitary Products	480	—	1	481
Global Workplace Solutions	169	8	4	181
Europe	385	—	7	392
Rest of World	499	1	28	528
Automotive experience				
North America	1,180	—	(3)	1,177
Europe	1,102	12	53	1,167
Asia	193	—	12	205
Power solutions	870	—	11	881
Total	$ 6,000	$ 22	$ 109	$ 6,131

	September 30, 2007	Business Acquisitions	Currency Translation and Other	December 31, 2007
Building efficiency				
North America Systems	$ 497	$ 8	$ —	$ 505
North America Service	622	37	—	659
North America Unitary Products	481	—	—	481
Global Workplace Solutions	181	—	—	181
Europe	392	—	9	401
Rest of World	528	—	35	563
Automotive experience				
North America	1,177	—	5	1,182
Europe	1,167	—	24	1,191
Asia	205	—	(7)	198
Power solutions	881	—	9	890
Total	$ 6,131	$ 45	$ 75	$ 6,251

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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

	December 31, 2007			September 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	$317	$(153)	$164	$315	$(147)	$168	$298	$(128)	$170
Unpatented technology	24	(9)	15	21	(8)	13	33	(10)	23
Customer relationships	327	(31)	296	306	(24)	282	311	(19)	292
Miscellaneous	15	(10)	5	47	(32)	15	32	(23)	9
Total amortized intangible assets	683	(203)	480	689	(211)	478	674	(180)	494
Unamortized intangible assets									
Trademarks	295	—	295	295	—	295	295	—	295
Pension asset	—	—	—	—	—	—	6	—	6
Total unamortized intangible assets	295	—	295	295	—	295	301	—	301
Total intangible assets	$978	$(203)	$775	$984	$(211)	$773	$975	$(180)	$795

Amortization of other intangible assets for the three month periods ended December 31, 2007 and 2006 were $9 million and $12 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately $36 million per year over the next five years.

8. Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the condensed consolidated statement of financial position.

The change in the carrying amount of the Company's total product warranty liability for the three months ended December 31, 2007 and 2006 was as follows (in millions):

	2007	2006
Balance as of September 30	$ 150	$ 189
Accruals for warranties issued during the period	37	35
Accruals from acquisitions	1	—
Accruals related to pre-existing warranties (including changes in estimates)	(2)	1
Settlements made (in cash or in kind) during the period	(26)	(39)
Currency translation	1	1
Balance as of December 31	$ 161	$ 187

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

9. Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal 2006 and recorded a $197 million restructuring charge in that quarter. During the fourth quarter of fiscal 2006, the Company increased its 2006 Plan restructuring charge by $8 million for additional employee severance and termination benefits. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of fiscal 2008. The automotive experience business related restructuring is focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly relate to Europe where the Company has launched a systems redesign initiative.

The 2006 Plan included workforce reductions of approximately 5,000 employees (2,500 for automotive experience — North America, 1,400 for automotive experience — Europe, 200 for building efficiency — North America, 600 for building efficiency — Europe, 280 for building efficiency — Rest of World and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of December 31, 2007, approximately 4,400 employees have been separated from the Company pursuant to the 2006 Plan. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience — North America, 3 in automotive experience — Europe, 1 in building efficiency — Europe and 1 in building efficiency — Rest of World). As of December 31, 2007, 14 of the 15 plants have been closed. The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

The following table summarizes the changes in the Company's 2006 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2007	$ 38	$ 6	$ 1	$ 45
Utilized — Cash	(5)	(4)	—	(9)
Balance at December 31, 2007	$ 33	$ 2	$ 1	$ 36

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

The Company recorded restructuring reserves of $161 million related to the December 2005 York acquisition, including workforce reductions of approximately 3,150 building efficiency employees (850 for North America Systems, 300 for North America Service, 60 for North America Unitary Products, 1,150 for Europe and 790 for Rest of World), the closure of two manufacturing plants (one in North America Systems and one in Rest of World), the merging of other plants and branch offices with existing Company facilities and contract terminations. These restructuring activities were recorded as costs of the acquisition and were provided for in accordance with FASB Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Company anticipates that substantially all of the non-contractual restructuring actions will be completed in fiscal 2008.

As of December 31, 2007, approximately 2,180 employees have been separated from the Company pursuant to the York restructuring, including 295 for North America Systems, 50 for North America Unitary Products, 1,090 for Europe and 745 for Rest of World.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table summarizes the changes in the Company's York restructuring reserves, included within other current liabilities in the condensed consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2007	$ 23	$ 30	$ 3	$ 56
Utilized — Cash	(3)	(2)	—	(5)
Reclassification	9	(9)	—	—
Balance at December 31, 2007	$ 29	$ 19	$ 3	$ 51

Included within the "other" category are exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of its operations.

10. Research and Development

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statement of income. A portion of the costs associated with these activities is reimbursed by customers. Such expenditures amounted to $123 million and $141 million for the three months ended December 31, 2007 and 2006, respectively, net of customer reimbursements of $77 million and $50 million for the three months ended December 31, 2007 and 2006, respectively.

11. Income Taxes

Effective Tax Rate

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter. For the three months ended December 31, 2007 and 2006, the Company's estimated annual effective income tax rate for continuing operations was 21.0% and 23.0%, respectively. The decrease from the prior year is primarily due to the geographic composition of income.

Uncertain Tax Positions

In June 2006, FASB issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company adopted FIN 48 as of October 1, 2007.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Upon adoption, the Company increased its existing reserves for uncertain tax positions by $93 million. The increase was recorded as a cumulative effect adjustment to shareholders' equity of $68 million and an increase to goodwill of $25 million related to prior year business combinations. As of the adoption date, the Company had gross tax affected unrecognized tax benefits of $616 million of which $475 million, if recognized, would affect the effective tax rate. Also as of the adoption date, the Company had accrued interest expense and penalties related to the unrecognized tax benefits of $75 million (net of tax benefit). The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense or goodwill, when applicable.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities including such major jurisdictions as Austria, Belgium, Canada, China, Czech Republic, France, Germany, Italy, Japan, Mexico, the Netherlands, Spain, United Kingdom, and the United States. The statute of limitations for each major jurisdiction is as follows:

Tax Jurisdiction	Statute of Limitations
Austria	5 years
Belgium	3 years
Canada	5 years
China	3 to 5 years
Czech Republic	3 years
France	3 years
Germany	4 to 5 years
Italy	4 years
Japan	5 to 7 years
Mexico	5 years
Netherlands	3 to 5 years
Spain	4 years
United Kingdom	6 years
United States — Federal	3 years
United States — State	3 to 5 years

In the United States, the 2004 and 2005 fiscal years are currently under exam by the Internal Revenue Service (IRS) and the fiscal years 1999 to 2003 are currently under IRS Appeals. Additionally, the Company is currently under exam in the following major foreign jurisdictions:

Tax Jurisdiction	Tax Years Covered
Austria	2003 – 2005
Belgium	2005 – 2006
Canada	2001 – 2003
France	2005 – 2006
Germany	2001 – 2003
Italy	2003 – 2004
United Kingdom	2004

It is reasonably possible that certain tax examinations, appellate proceedings and/or tax litigation will conclude within the next 12 months. However, it is not possible to reasonably estimate the effect this may have upon the unrecognized tax benefits.

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Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Valuation Allowance

The Company reviews 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 is considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38% for Bristol Compressors. This effective tax rate approximates the local statutory rate adjusted for permanent differences.

12. Retirement Plans

The components of the Company's net periodic benefit costs associated with its defined benefit pension plans and other postretirement health and other benefits are shown in the tables below in accordance with SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88 and 106" (in millions):

	Pension Plans			
	U.S. Plans Three Months Ended December 31,		Non-U.S. Plans Three Months Ended December 31,	
	2007	2006	2007	2006
Service cost	$ 20	$ 19	$ 10	$ 9
Interest cost	35	32	18	15
Expected return on plan assets	(42)	(38)	(17)	(13)
Amortization of transition obligation	—	(1)	—	—
Amortization of net actuarial loss	2	3	2	2
Amortization of prior service cost	—	1	—	—
Net periodic benefit cost	$ 15	$ 16	$ 13	$ 13

	Postretirement Health and Other Benefits Three Months Ended December 31,	
	2007	2006
Service cost	$ 1	$ 1
Interest cost	4	5
Amortization of prior service cost	(2)	(1)
Net periodic benefit cost	$ 3	$ 5

13. Earnings Per Share

On July 25, 2007, the Company's Board of Directors declared a three-for-one split of the Company's outstanding common stock payable October 2, 2007 to shareholders of record on September 14, 2007. All prior year share and per share amounts disclosed in this document have been restated to reflect the three-for-one stock split. The stock split resulted in an increase of approximately 396 million in the outstanding shares of common stock as of the date of the split. In connection with the stock split, the par value of the common stock was changed from $.04 1/6 per share to $.01 7/18 per share.

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

	Three Months Ended December 31,	
	2007	2006
Weighted Average Shares Outstanding:		
Basic weighted average shares outstanding	593.3	587.7
Effect of dilutive securities:		
Stock options	9.6	6.9
Diluted weighted average shares outstanding	602.9	594.6
Antidilutive Securities		
Options to purchase common shares	0.6	0.3

14. Comprehensive Income

A summary of comprehensive income is shown below (in millions):

	Three Months Ended December 31,	
	2007	2006
Net income	$ 235	$ 162
Realized and unrealized losses on derivatives	(51)	(18)
Foreign currency translation adjustments	124	107
Other comprehensive income	73	89
Comprehensive income	$ 308	$ 251

The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the consolidated statement of financial position at fair value. The effective portion of the contracts' gains or losses due to changes in fair value are initially recorded as a component of accumulated other comprehensive income and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates or commodity price changes.

The favorable foreign currency translation adjustments (CTA) for the three months ended December 31, 2007 were primarily due to the strengthening of the Euro and other non-U.S. currencies against the U.S. dollar.

The Company has foreign currency-denominated debt obligations and cross-currency interest rate swaps which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as CTA within the accumulated other comprehensive income account until realized. A net loss of approximately $26 million was recorded for each of the three month periods ending December 31, 2007 and 2006.

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15. Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain segments are aggregated or combined based on materiality within building efficiency — rest of world and power solutions in accordance with the standard. The Company's ten reportable segments are presented in the context of its three primary businesses – building efficiency, automotive experience and power solutions.

Building efficiency

North America Systems designs, produces, markets and installs HVAC and control systems that monitor, automate and integrate critical building segment equipment and conditions including HVAC, fire-safety and security in commercial buildings and in various industrial applications in North America.

North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

Global workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

Automotive experience

Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport utility/crossover vehicles in North America, Europe and Asia. Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument panels and clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems.

Power solutions

Power solutions services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise.

Management evaluates the performance of the segments based primarily on segment income, which represents income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. General Corporate and other overhead expenses are allocated to business segments in determining segment income. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-segment assets. Financial information relating to the Company's reportable segments is as follows (in millions):

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	Net Sales Three Months Ended December 31, 2007	2006
Building efficiency		
North America Systems	$ 512	$ 444
North America Service	541	471
North America Unitary Products	162	205
Global Workplace Solutions	781	646
Europe	665	612
Rest of World	583	544
	3,244	2,922
Automotive experience		
North America	1,819	1,736
Europe	2,401	2,108
Asia	369	376
	4,589	4,220
Power solutions	1,651	1,068
Total net sales	$ 9,484	$ 8,210

	Segment Income Three Months Ended December 31, 2007	2006
Building efficiency		
North America Systems	$ 49	$ 32
North America Service	26	10
North America Unitary Products	(9)	8
Global Workplace Solutions	18	17
Europe	26	19
Rest of World	53	37
	163	123
Automotive experience		
North America	10	(52)
Europe	75	80
Asia	(7)	7
	78	35
Power solutions	133	142
Total segment income	$ 374	$ 300
Net financing charges	(69)	(69)
Income from continuing operations before income taxes and minority interests	$ 305	$ 231

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16. Commitments and Contingencies

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds, however, do take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management's opinion that none of these will have a material adverse effect on the Company's financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

The Company has entered into supply contracts with certain vendors that include minimum volume requirements which, if not met, could subject the Company to potential liabilities. At the end of the first quarter of fiscal 2008, there were no known volume shortfalls for which the Company was contractually obligated. These supply contracts include cancellation penalties in the event that either party elects to terminate the agreement prior to its expiration. Such penalties, if incurred, could be material to the Company's consolidated financial condition, results of operations or cash flows.

A significant portion of the Company's sales are to customers in the automotive industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations. In addition, the downturn in the North American automotive market is likely to impact certain vendors' financial solvency, including their ability to meet restrictive debt covenants. For example, the Company is aware that one of its vendors to the automotive experience — North America reporting segment, Plastech Engineered Products, Inc., filed for Chapter 11 bankruptcy protection on February 1, 2008. Such events could result in potential liabilities or additional costs to the Company to ensure uninterrupted supply to its customers.

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(PRICEWATERHOUSECOOPERS LOGO)

PricewaterhouseCoopers LLP
100 E. Wisconsin Ave.,
Suite 1800
Milwaukee WI 53202
Telephone (414) 212 1600

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Johnson Controls, Inc.

We have reviewed the accompanying condensed consolidated statements of financial position of Johnson Controls, Inc. and its subsidiaries (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of income for each of the three-month periods ended December 31, 2007 and 2006 and the condensed consolidated statements of cash flows for the three-month periods ended December 31, 2007 and 2006. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position as of September 30, 2007, and the related consolidated statements of income, shareholders’ equity, and cash flows for the year then ended (not presented herein), and in our report dated November 26, 2007 we expressed an unqualified opinion on those consolidated financial statements. An explanatory paragraph was included in our report for the adoption of Statement of Financial Accounting Standards No. 158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R);” Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment;” and Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143.” In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of September 30, 2007, is fairly stated in all material respects in relation to the consolidated statement of financial position from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
February 5, 2008

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements for Forward-Looking Information

Unless otherwise indicated, references to "Johnson Controls," the "Company," "we," "our" and "us" in this Quarterly Report on Form 10-Q refer to Johnson Controls, Inc. and its consolidated subsidiaries.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2007. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Johnson Controls brings ingenuity to the places where people live, work and travel. By integrating technologies, products and services, we create smart environments that redefine the relationships between people and their surroundings. We strive to create a more comfortable, safe and sustainable world through our products and services for more than 200 million vehicles, 12 million homes and one million commercial buildings. Johnson Controls provides innovative automotive interiors that help make driving more comfortable, safe and enjoyable. For buildings, we offer products and services that optimize energy use and improve comfort and security. We also provide batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise.

Our building efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the building efficiency business provides technical services, energy management consulting and operations of entire real estate portfolios for the non-residential buildings market. We also provide residential air conditioning and heating systems.

Our automotive experience business is one of the world's largest automotive suppliers, providing interior systems to more than 30 million vehicles annually. Our technologies extend into virtually every area of the interior including seating and overhead systems, door systems, floor consoles, instrument panels, cockpits and integrated electronics. Customers include most of the world's major automakers.

Our power solutions business is a leading global producer of lead-acid automotive batteries, serving both automotive original equipment manufacturers and the general vehicle battery aftermarket. We produce more than 120 million lead-acid batteries annually. We offer Absorbent Glass Mat (AGM), nickel-metal-hydride and lithium-ion battery technologies to power hybrid vehicles.

The following information should be read in conjunction with the September 30, 2007 consolidated financial statements and notes thereto, along with management's discussion and analysis of financial condition and results of operations included in the Company's 2007 Annual Report on Form 10-K. References in the following discussion and analysis to "Three Months" refer to the three months ended December 31, 2007 compared to the three months ended December 31, 2006.

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Summary

(In millions)	Three Months Ended December 31, 2007	2006	Change
Net sales	$9,484	$8,210	16%
Income from continuing operations before income taxes and minority interests	305	231	32%

Three Months:

- The $1.3 billion increase in consolidated net sales was primarily due to higher sales in the power solutions business ($500 million) mainly from pass-through pricing of higher lead costs, the favorable effects of foreign currency translation (approximately $460 million), growth in the building efficiency business ($200 million) mainly from increased global demand for the Company's offerings for nonresidential buildings that improve energy efficiency and reduce greenhouse gas emissions and higher net volumes in the North American automotive market ($75 million). These increases were partially offset by lower volumes in the building efficiency residential sector ($40 million) from a decline in new housing starts and lower volumes in automotive experience Asia ($20 million).
- The $74 million increase in consolidated income from continuing operations before income taxes and minority interests was primarily due to higher sales volume, margin expansion and operational cost reductions in the building efficiency business ($55 million) despite higher selling, general and administrative (SG&A) expenses to support growth, higher sales volumes and cost savings measures in the automotive experience North America segment ($62 million) and the favorable effects of foreign currency translation (approximately $20 million). These increases were partially offset by unfavorable performance in the North American residential market ($20 million) related to lower housing starts, in automotive experience Europe ($17 million) from the timing of platform pricing adjustments, lower economic recoveries, lower sales volumes and higher SG&A costs to support market expansion in automotive experience Asia ($14 million) and in the power solutions segment ($12 million) mainly from non-recurring items from the prior year.

Segment Analysis

Management evaluates the performance of its business units based primarily on segment income, which is defined as income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs.

Building Efficiency

	Net Sales Three Months Ended December 31,			Segment Income Three Months Ended December 31,		
(In millions)	2007	2006	Change	2007	2006	Change
North America Systems	$ 512	$ 444	15%	$ 49	$ 32	53%
North America Service	541	471	15%	26	10	160%
North America Unitary Products	162	205	-21%	(9)	8	*
Global Workplace Solutions	781	646	21%	18	17	6%
Europe	665	612	9%	26	19	37%
Rest of World	583	544	7%	53	37	43%
	$ 3,244	$ 2,922	11%	$ 163	$ 123	33%

* Measure not meaningful

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Net Sales:

- The increase in North America Systems was primarily due to higher product and equipment commercial volumes in the construction and replacement markets.
- The increase in North America Service was primarily due to growth in the truck-based and energy performance contracting businesses and the impact of first quarter acquisitions.
- The decrease in North American Unitary Products was primarily due to a depressed U.S. residential market which impacted new construction and housing starts.
- The increase in Global Workplace Solutions primarily reflects a higher volume of global pass-through contracts, a net increase in North America and Asia new business volumes and the favorable impact of foreign currency translation (approximately $50 million).
- The increase in Europe reflects the favorable impact of foreign currency translation (approximately $60 million), partially offset by a reduction in systems volumes.
- The increase in Rest of World is due to volume increases in Asia and Latin America.

Segment Income:

- The increases in North America Systems and North America Service were primarily due to higher sales volumes and improving gross margins through pricing and operational efficiencies, partially offset by additional SG&A expenses to support business growth initiatives.
- The decrease in North America Unitary Products was primarily due to the decline in sales volumes from a depressed U.S. residential market which impacted new construction and housing starts, and purchase accounting adjustments related to the September 2007 equity investment in a joint venture with U.S. Airconditioning Distributors, Inc.
- Despite the higher sales volume, Global Workplace Solutions increased only slightly due to the pass-through nature of facility management contracts and lower margins on certain North American contracts.
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $5 million) and continuing benefit from prior year restructuring plans, branch office redesign and manufacturing footprint changes, partially offset by increased SG&A expenses to support business growth and system implementations.
- The increase in Rest of World was primarily due to higher sales volumes and margin improvements in Asia and the Middle East.

Automotive Experience

	Net Sales Three Months Ended December 31,			Segment Income Three Months Ended December 31,		
(In millions)	2007	2006	Change	2007	2006	Change
North America	$ 1,819	$ 1,736	5%	$ 10	$ (52)	*
Europe	2,401	2,108	14%	75	80	-6%
Asia	369	376	-2%	(7)	7	*
	$ 4,589	$ 4,220	9%	$ 78	$ 35	123%

* Measure not meaningful

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Net Sales:

- The increase in North America was primarily due to net volume increases at General Motors Corporation, Toyota Motor Corporation and Honda Motor Co. and improved pricing, partially offset by volume decreases with Chrysler LLP and Nissan Motor Company. The increase in net sales of 5% was slightly higher than the industry's estimated domestic production increases as compared to the prior year, primarily due to the Company's platform mix relative to the industry.
- The increase in Europe was primarily due to the favorable impact of foreign currency translation (approximately $240 million). Excluding the foreign currency impact, Europe net sales increased 3% from the prior year as a result of higher volumes from new business with Kia Motor Company, Fiat S.p.A. and Ford Motor Company, partially offset by lower volumes from discontinued programs with Daimler AG and BMW AG.
- The decrease in Asia was primarily due to lower volumes in Korea and Japan, partially offset by the favorable impact of foreign currency translation (approximately $10 million).

Segment Income:

- The increase in North America was primarily due to higher sales volumes and pricing improvements, as well as favorable gross margins from purchasing savings, operational efficiencies and lower SG&A expenses (mainly from reduced net engineering costs), partially offset by lower equity income related to development costs in certain joint ventures.
- The decrease in Europe, despite the higher sales volumes, was primarily due to the timing of platform pricing adjustments and lower economic recoveries and higher SG&A expenses related to new business opportunities and administrative footprint changes.
- The decrease in Asia was primarily due to lower sales volumes, unfavorable product mix and higher employee expenses to support market expansion.

Power Solutions

	Three Months Ended December 31,		
(In millions)	2007	2006	Change
Net sales	$1,651	$1,068	55%
Segment income	133	142	-6%

- Net sales increased primarily due to the pass-through pricing of higher lead costs, the favorable impact of foreign currency translation (approximately $70 million) and higher unit volumes to original equipment manufacturers in Europe and North America .
- Segment income decreased primarily due to non-recurring prior year insurance recoveries ($11 million) and costs related to the increased investment in a hybrid battery joint venture, partially offset by higher sales volumes and favorable impact of foreign currency translation.

Net Financing Charges

	Three Months Ended December 31,		
(In millions)	2007	2006	Change
Net financing charges	$69	$69	0%

- Net financing charges are comparable to the prior year period due to a decrease in borrowing levels offset by the impact of higher short-term interest rates.

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Provision for Income Taxes

(In millions)	Three Months Ended December 31, 2007	2006
Tax provision	$ 64	$ 53
Effective tax rate	21.0%	23.0%

- In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.
- The decrease in the effective tax rate is due to the implementation of various tax planning initiatives and changes in the geographic mix of the Company's taxable income.
- The Company utilized an effective tax rate for discontinued operations of approximately 38% for Bristol Compressors. This effective tax rate approximated the local statutory rate adjusted for permanent differences.

Net Income

(In millions)	Three Months Ended December 31, 2007	2006	Change
Income from continuing operations	$ 235	$ 168	40%
Loss from discontinued operations	—	(6)	*
Net income	$ 235	$ 162	45%

* Measure not meaningful.

- The increase in income from continuing operations was primarily due to higher sales volume, margin expansion and operational cost reductions in the building efficiency business ($55 million) despite higher SG&A expenses to support growth, higher sales volumes and cost savings measures in the automotive experience North America segment ($62 million) and the favorable effects of foreign currency translation (approximately $20 million). These increases were partially offset by unfavorable performance in the North American residential market ($20 million) related to lower housing starts, in automotive experience Europe ($17 million) from the timing of platform pricing adjustments, lower economic recoveries, lower sales volumes and higher SG&A expenses to support market expansion in automotive experience Asia ($14 million), and in the power solutions segment ($12 million) mainly from non-recurring items from the prior year and an increase in the provision for income taxes ($11 million).
- Discontinued operations relate to the Bristol Compressor business, which was acquired as part of the December 2005 York acquisition and was sold in March 2007. For the three months ended December 31, 2006, the Bristol Compressor business reported a $6 million net loss after taxes.

Outlook

On January 18, 2008, the Company reaffirmed its previously issued fiscal 2008 guidance, which anticipates that net sales will grow to approximately $38 billion, an increase of 10% from prior year net sales, and that diluted earnings per share from continuing operations will increase 18% to approximately $2.45 to $2.50 per share.

Backlog

Building efficiency's backlog relates to its control systems and service activity. At December 31, 2007, the unearned backlog was $4.4 billion, compared to $3.9 billion at December 31, 2006, a 13% increase.

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Financial Condition

Working Capital

(In millions)	December 31, 2007	September 30, 2007	Change	December 31, 2006	Change
Working capital	$1,645	$1,441	14%	$1,629	1%
Accounts receivable	6,180	6,600	-6%	5,648	9%
Inventories	2,070	1,968	5%	1,784	16%
Accounts payable	4,933	5,365	-8%	3,969	24%

- The Company defines working capital as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations. Management believes that this measure of working capital, which excludes financing-related items and discontinued activities, provides a more useful measurement of the Company's operating performance.
- The increase in working capital as compared to September 30, 2007 is primarily due to the net impact of strengthening foreign currencies against the U.S. dollar, higher inventories resulting mainly from higher lead costs and some seasonality in the building efficiency business and lower accounts payable from timing of payments, partially offset by lower accounts receivable from improved collections and seasonality. Compared to December 31, 2006, the increase is primarily due to higher accounts receivable due to increased sales and higher inventories from the impact of higher lead costs, partially offset by higher accounts payable from the higher cost of inventories.
- The Company's days sales in accounts receivable for the three months ended December 31, 2007 were 57, slightly lower than 58 in the comparable period ended September 30, 2007 and 59 for the comparable period ended December 31, 2006. There has been no significant deterioration in the credit quality of the Company's receivables or changes in revenue recognition policies. The decrease in accounts receivable compared to September 30, 2007 is due to the seasonality of net sales between the two periods, as well as the timing of unbilled revenues on long-term contracts. The increase in accounts receivable compared to December 31, 2006 is consistent with higher sales volume.
- The Company's inventory turns for the three months ended December 31, 2007 were lower than the period ended September 30, 2007 due to higher inventory levels in the building efficiency business from slower moving inventory because of the decline in the residential housing market and an increase in in-transit inventory between various international locations, which have longer delivery times. Inventory turns were higher compared to December 31, 2006 due to improvements in inventory management.
- Days payable at December 31, 2007 decreased to 65 days from 71 days at September 30, 2007 and increased from 50 days at December 31, 2006 mainly due to the timing of payments.

Cash Flows

	Three Months Ended December 31,	
(In millions)	2007	2006
Net cash provided by operating activities	$ 178	$152
Net cash used by investing activities	246	278
Net cash provided (used) by financing activities	(199)	85
Capital expenditures	187	230

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- The increase in net cash provided by operating activities in the three months ended December 31, 2007 was primarily due to higher net income and a reduction in accounts receivable from improved collections and seasonality, partially offset by lower accounts payable and accrued liabilities from a reduction in payment days outstanding and accrued compensation and benefits balances.
- The decrease in net cash used in investing activities for the three months ended December 31, 2007 was due to lower capital expenditures.
- The increase in net cash used by financing activities for the three months ended December 31, 2007 is primarily the result of debt repayments, the timing of dividend payments and stock repurchases.
- The majority of the capital spending for property, plant and equipment in the three months ended December 31, 2007 was for investments within the automotive experience business.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Germany, Italy, the Netherlands, United Kingdom and the United States, which have generated operating and/or capital losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries in accordance with SFAS No. 109. SFAS No. 109 requires the Company to record a valuation allowance for each legal entity or consolidated group based on the tax rules in the applicable jurisdiction and evaluate both positive and negative historical evidences as well as expected future events.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company's long-lived asset impairment analyses indicate that assets are not impaired based on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. At December 31, 2007, the Company has concluded that it does not have any material assets whose recovery is at risk.

Capitalization

(In millions)	December 31, 2007	September 30, 2007	Change	December 31, 2006	Change
Short-term debt	$ 179	$ 264	-32%	$ 617	-71%
Long-term debt	4,145	4,154	0%	4,272	-3%
Shareholders' equity	9,070	8,907	2%	7,578	20%
Total capitalization	$ 13,394	$ 13,325	1%	$ 12,467	7%
Total debt as a % of total capitalization	32.3%	33.2%		39.2%	

- In December 2007, the Company entered into a 25 billion yen ($220 million), three year, floating rate loan agreement. The agreement gave the Company the right to borrow the loan proceeds through January 15, 2008. As of December 31, 2007, no draws were made against this loan.
- In December 2006, the Company entered into a five-year, $2.0 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line during the three months ended December 31, 2007.
- In December 2006 the Company entered into a 12 billion yen ($104 million), three year, floating rate loan. The net proceeds of the bank loan were used to repay unsecured commercial paper obligations.
- In November 2006 the Company issued commercial paper to repay a $350 million note that matured.

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- The Company also selectively makes use of short-term money market loans in both U.S. dollars and Euros. The Company estimates that, as of December 31, 2007, it could borrow up to $1 billion at its current debt ratings in money market loans.
- The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets to support business growth and future acquisitions. The Company believes its capital resources and liquidity position at December 31, 2007 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal 2008 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.
- On January 17, 2008 and February 1, 2008, the Company retired $500 million and $175 million, respectively in floating rate notes at maturity. The Company issued commercial paper and borrowed under the 25 billion Yen floating rate loan to repay the notes.

New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(revised 2007), "Business Combinations." SFAS No. 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard will change the Company's accounting treatment for business combinations on a prospective basis, when adopted.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment to FASB Statement No. 115." SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in the first quarter of fiscal 2009 (October 1, 2008). The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition and results of operations.

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In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109,” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 11 in “Notes to Condensed Consolidated Financial Statements” for the impact of the Company’s adoption of FIN 48 as of October 1, 2007.

Other Financial Information

The interim financial information included in this Quarterly Report on Form 10-Q has not been audited by PricewaterhouseCoopers LLP (PwC). PwC has, however applied limited review procedures in accordance with professional standards for reviews of interim financial information. Accordingly, you should restrict your reliance on their reports on such information. PwC is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information because such reports do not constitute “reports” or “parts” of the registration statements prepared or certified by PwC within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2007, the Company did not experience any adverse changes in market risk exposures that materially affect the quantitative and qualitative disclosures presented in the Company’s Annual Report on Form 10-K for the year ended September 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of December 31, 2007 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company’s internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As noted in Item 1 to the Company’s Annual Report on Form 10-K for the year ended September 30, 2007, which was filed with the SEC on November 29, 2007, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 60 sites in the United States. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company’s ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company’s financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other lawsuits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and lawsuits of this nature. It is management’s opinion that none of these will have a material adverse effect on the Company’s financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

ITEM 1A. RISK FACTORS

There are no material changes to the disclosure regarding risk factors presented in Item 1A to the Company’s Annual Report on Form 10-K for the year ended September 30, 2007.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In September 2006, the Company's Board of Directors authorized a stock repurchase program to acquire up to $200 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock 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.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006 (Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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.

Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. The Company disclaims that Citibank is an "affiliated purchaser" of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company's intention is to continually renew the Swap Agreement with Citibank's consent. The net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company's earnings for the three months ended December 31, 2007. Citibank reduced its holdings of Company stock by 500,000 shares in the quarter ended December 31, 2007 in connection with the Swap Agreement.

The following table presents information regarding the repurchase of the Company's common stock by the Company and purchases of the Company's common stock by Citibank in connection with the Swap Agreement during the three months ended December 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
10/1/07 – 10/31/07				
Purchases by Company (1)	7,570	$43.46	—	$174,548,402
11/1/07 – 11/30/07				
Purchases by Company (1)	—	—	—	$174,548,402
12/1/07 – 12/31/07				
Purchases by Company (1)	1,438,492	$37.30	1,434,767	$121,287,557
10/1/07 – 10/31/07				
Purchases by Citibank (2)	—	—	—	$ 9,856,000
11/1/07 – 11/30/07				
Purchases by Citibank (2)	—	—	—	$ 14,624,000
12/1/07 – 12/31/07				
Purchases by Citibank (2)	—	—	—	$ 45,028,000

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(1) The repurchases of the Company's common stock by the Company are intended to partially offset dilution related to our stock option and restricted stock equity compensation plans and are treated as repurchases of Company common stock for purposes of this disclosure.

(2) Citibank may purchase shares of the Company's stock up to an amount equal to $200 million. The approximate dollar value of shares that may yet be purchased under the Citibank program fluctuates based on the market value of the Company's stock and/or sales by Citibank of the Company's stock.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Shareholders on January 23, 2008. The Company's shareholders approved the election of four directors to serve for a three-year term expiring in 2011:

	For	Withheld
Natalie A. Black	509,274,102	10,736,212
Robert A. Cornog	501,958,225	18,052,089
William H. Lacy	501,861,312	18,149,002
Stephen A. Roell	502,396,650	17,613,664

The other directors of the Company whose terms in office expire after the 2008 Annual Meeting of Shareholders are as follows: terms expiring at the 2009 Annual Meeting of Shareholders — Dennis W. Archer, John M. Barth, Richard Goodman and Southwood J. Morcott; and terms expiring at the 2010 Annual Meeting of Shareholders — Robert L. Barnett, Eugenio Clariond Reyes-Retana, Jeffrey A. Joerres and Richard F. Teerlink.

The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2008 was approved by the shareholders with 500,327,459 shares voted for, 14,546,368 shares voted against and 5,136,487 shares abstaining.

ITEM 6. EXHIBITS

Reference is made to the separate exhibit index contained on page 32 filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSON CONTROLS, INC.

Date: February 5, 2008

By: /s/ *R. Bruce McDonald*
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

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JOHNSON CONTROLS, INC.

Form 10-Q

INDEX TO EXHIBITS

Exhibit No.	Description
15	Letter of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated February 5, 2008, relating to Financial Information.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certificate of Insurance

MARSH USA INC. CERTIFICATE OF INSURANCE

DATE 12/17/2007

PRODUCER

Marsh USA Inc.
411 East Wisconsin Avenue
Suite 1600
Milwaukee, Wisconsin 53202-4419
Attn: CPU, Phone (414) 290-4912 Fax (414) 290-4953
CPU_Milwaukee@marsh.com

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER OTHER THAN THOSE PROVIDED IN THE POLICY. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES DESCRIBED HEREIN.

COMPANIES AFFORDING COVERAGE		AM Best Rating *See Below
Company A	ACE American Insurance Company P.O. Box 41484, Philadelphia, PA 19101	A+ XV
Company B	Sentry Insurance A Mutual Co. 1800 North Point Drive, Stevens Point, WI 54481	A+ XV
Company C	Indemnity Insurance Company of North America and for CA, WI & EX WC: ACE American Insurance Company P.O. Box 41484, Philadelphia, PA 19101	A+ XV
Company D	Lexington Insurance Company 100 Summer Street, Boston, MA 02110	A+ XV

INSURED

Johnson Controls, Inc.
Johnson Controls Battery Group, Inc.
Johnson Controls Interiors, L.L.C.
Cal-Air, Inc.
GES America, L.L.C.
Optima Batteries, Inc.
USI Companies Inc.
York International Corporation

Attn: Corp. Risk Mgmt. X-92
P.O. Box 591
Milwaukee, WI 53201

COVERAGES

This certificate supersedes and replaces any previously issued certificate.

THIS IS TO CERTIFY THAT POLICIES OF INSURANCE DESCRIBED HEREIN HAVE BEEN ISSUED TO THE INSURED NAMED HEREIN FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THE CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, CONDITIONS AND EXCLUSIONS OF SUCH POLICIES, LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS	
A	GENERAL LIABILITY (1) (3) (4)				GENERAL AGGREGATE	$ 5,000,000
	X COMMERCIAL GENERAL LIABILITY	HDOG2373283A	10-1-2007	10-1-2008	PRODUCTS-COMP/OP AGG	$ 5,000,000
	CLAIMS MADE X OCCUR				PERSONAL & ADV INJURY	$ 5,000,000
	OWNER'S & CONTRACTOR'S PROT				EACH OCCURRENCE	$ 5,000,000
	X Contractual				FIRE DAMAGE (Any one fire)	$ 5,000,000
	X X,C,U (Explosion, Collapse, Underground)					
	X Additional Insured-Owners Lessees or Contractors See Below				MED EXP (Any one person)	$ 50,000
B	AUTOMOBILE LIABILITY (2) (3) (4)				COMBINED SINGLE LIMIT	$ 5,000,000
	X ANY AUTO	90-04606-01	10-1-2007	10-1-2008		
	ALL OWNED AUTOS				BODILY INJURY (Per person)	
	SCHEDULED AUTOS					
	X HIRED AUTOS				BODILY INJURY (Per accident)	
	X NON-OWNED AUTOS					
					PROPERTY DAMAGE	
	GARAGE LIABILITY				AUTO ONLY-EA ACCIDENT	
	ANY AUTO				OTHER THAN AUTO ONLY:	
					EACH ACCIDENT	
D	EXCESS LIABILITY				EACH OCCURRENCE	$ 5,000,000
	X UMBRELLA FORM	5577735	10-1-2007	10-1-2008	AGGREGATE	$ 5,000,000
	OTHER THAN UMBRELLA FORM					
C	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY (4)	WLRC44473094 - AOS WLRC44473136- CA SCFC44473057 - WI WCUC4447301A – EX WC	10-1-2007	10-1-2008	X WC STATU-TORY LIMITS / OTH-ER	
					EL EACH ACCIDENT	$ 1,000,000
	THE PROPRIETOR/ PARTNERS/EXECUTIVE OFFICERS ARE: X INCL / EXCL				EL DISEASE-POLICY LIMIT	$ 1,000,000
					EL DISEASE-EACH EMPLOYEE	$ 1,000,000

Other

(1) ADDITIONAL INSURED: If required by contract, Includes coverage for Additional Insured's per attached Endorsement
(2) ADDITIONAL INSURED: If required by contract, Includes coverage for Additional Insured's and Loss Payee as required by contract.
(3) PRIMARY COVERAGE: Where required by lease or contract, this coverage is primary and not excess of or contributing with other insurance or self-insurance.
(4) WAIVER OF SUBROGATION: Insured waives subrogation to the extent required by contract.

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS JCI Contract No.
Project Name:
Customer PO Number:

CERTIFICATE HOLDER

CANCELLATION

SHOULD ANY OF THE POLICIES DESCRIBED HEREIN BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ~~ENDEAVOR TO~~ MAIL _30_ DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED HEREIN, ~~BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER AFFORDING COVERAGE, ITS AGENTS OR REPRESENTATIVES.~~

MARSH USA INC. BY:

- **A.M. Best ratings of insurers are provided for information purposes only and are based upon information with respect to such ratings available to Marsh USA Inc. on the date set forth herein with respect to such ratings. Marsh USA Inc. will not, and will have no responsibility or obligation to, inform the certificate holder or any person relying upon this certificate of any changes in such A.M. Best ratings occurring after such date. Marsh USA Inc. will have no liability with respect to the solvency or future ability to pay claims of any of the insurance companies which have issued the insurance policies referenced herein.**

** The Auto Liability placement was made by Risk Management Resources, Inc. 205 W. Wacker Drive, Suite 622, Chicago, IL 60606. Marsh USA, Inc. acts in the role of consultant to the Insured with respect to this placement.

Green Compass

Our Green Compass™ Tool Simplifies LEED Certification and Much More

Green Compass, a Web-based software application developed by Johnson Controls to streamline LEED™ certification, offers those in the building industry an integrated, easy to use tool to address the entire process of greening a building. This program offers our customers the following benefits:

- **Assess the customer's facility** – determine the facility's status by identifying green building gaps and opportunities
- **Evaluate Return on Investment and develop a plan** – evaluate practical solutions for improvement based on first costs and payback
- **Manage the City's green building project** – organize and assign tasks, manage workflow, maintain budgets and schedules, upload documentation
- **Submit for certification** – assemble all documentation in its proper format and submit it to the certifying entity
- **Manage and improve the customer's green facility** – continuously improve the customer's building year-after-year

The points in the LEED rating system align with the core products and services we deliver; about 35 points in the LEED rating system directly relate to our business. Taking it a step further, when we combine the products and services of member partners of the Alliance for Sustainable Built Environments (www.greenerfacilities.org/), we can generate over 60 points, almost enough points to view Johnson Controls as a "one-stop-shop" for LEED certification.

Originally developed to simplify and expedite green building certification and systemize the green building process, the real power of Green Compass lies well beyond its initial concept. As part of its integrated process, the tool is embedded with dozens of features that anyone undertaking a green building project can benefit from, even those who are not interested in certification.

Johnson Controls LEED Project List Using Our Green Compass Tool (* = Certified)

Project Name	Johnson Controls Office	Bldg Type
Bartle Hall Kansas City Convention Center Ballroom Expansion 1	Kansas City Office	New
Boulder Community Hospital - Foothills Campus*	Denver Office	New
Buffalo Public Schools	Buffalo NY Office	Existing
City of Dallas - Jack Evans Police HQ*	Dallas Office	New
City of Dallas Convention Center - PC project	Dallas Office	Existing
City of Madison - Manona Terrace Convention Center	Wisconsin Area Office	Existing
City of Newburgh City Hall	Westchester Office	Existing
City of Newburgh Courthouse	Westchester Office	New
City of Plano Animal Shelter	Westin Office	Existing
Dalco Corporate HQ	Minneapolis Office	Existing
Durham County Courthouse – Oshawa ON, Canada	Toronto Office	New
Elk River ISD - Westwood Elementary*	Minneapolis Office	New
Emory University - Goizueta School of Business*	Atlanta Office	Existing
Frontier Harley-Davidson	Lincoln Nebraska Office	New
Harley-Davidson Corporate HQ	Milwaukee Office	Existing
J&J PRD Lab, La Jolla Phase 1*	Cypress CA Office	New
Jackson County Administration Building	Kansas City Office	Existing
Janssen Pharmaceutica, Inc. HQ Campus*	Union NJ Office	Existing
JC Penney Corp. HQ	Dallas Office	Existing
Joe Serna - California EPA Offices*	Sacramento Office	Existing
Johnson Controls Building Efficiency HQ - Brengel Tech. Center*	Milwaukee Office	New & Existing

Johnson Controls LEED Project List Using Our Green Compass Tool (* = Certified)		
Project Name	Johnson Controls Office	Bldg Type
Johnson Controls Corporate Headquarters Building	Corporate Office	Existing
JohnsonDiversey HQ*	Milwaukee Office	Existing
Key Bank - Tiedeman Campus*	Columbus OH Office	Existing
Louisiana National Guard Covington Readiness Center	New Orleans Office	New
Louisiana National Guard Marrero Readiness Center	New Orleans Office	New
Merck Corporate Headquarters	Union NJ Office	Existing
Merrill Lynch – Hopewell, NJ Campus	Union NJ Office	Existing
Milliken & Company - RMC (Corp. HQ)	Atlanta Office	Existing
Milliken & Company Milliken Design Center	Atlanta Office	Existing
National Geographic Society HQ - PC Project*	Washington DC Office	Existing
Owens Corning World HQ*	Toledo Office	Existing
Parrish Medical Center Campus	Orlando Office	Existing
Port St. John Medical Center*	Orlando Office	New
Schlitz Audubon Society (Commissioning Only)	Wisconsin Area Office	New
Scowcroft Renovation - IRS*	Salt Lake City Office	New
University of Washington - Research Lab Building*	Seattle Office	New
Yale - Engineering Research Building*	Hartford Office	New
Indicates Commissioning Services Included in Scope of Work		

Sustainability Energy Education and Communications Program (SEEC)

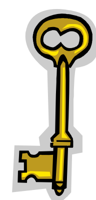
Sustainable Energy and Environmental Communications (SEEC) program

Johnson Controls' Sustainable Energy Education and Communications (SEEC) program educates your occupants on efficient energy use at work and at home as well as the environmental impacts of their actions. Each customer's commitment to environmental stewardship and the positive impact on the planet are easily communicated with SEEC.

Education is the first and most important element of SEEC. SEEC's ten educational modules show your staff why sustainability is important and how they can find financial, environmental and social benefits.

Module 1: Introduction to Sustainability

Staff members learn what sustainability is all about as well as the importance of their impact on an organization's overall financial, social and environmental success.



Key Differentiator:

SEEC Internal Communications help to generate excitement among staff and boost participation.

Module 2: Energy and You

Employees discover our current and future energy sources, the benefits of energy efficiency, the company's efforts to increase energy efficiency and how to save energy at work and home.

Module 3: Illuminate Your Life

Participants learn how to properly use lighting, how improvements to lighting in our workplaces are beneficial and how you can save money making more energy efficient lighting choices at home.

Module 4: Getting to Know $H_2$0

Water is all around us and so little of it is readily drinkable. Attendees see how actions to improve water efficiency in the workplaces and at home can make a real difference.

Module 5: The Great Indoors

Indoor Environmental Quality (IEQ) affects us more than one might imagine. This module explains what the company is doing to improve IEQ and how people can contribute to improve their own health.

Module 6: Watching Your Waste-Line

Why is recycling important at work and home? What can people do to reduce-reuse-recycle more of what is thrown away? What is the company doing to address the issue?

Module 7: Reinventing the Wheels

Participants discover how vehicles affect the environment, what environmentally-friendly transportation options are available and their long list of benefits.

Module 8: A Change of Climate

Greenhouse gases are altering weather patterns and contributing to global warming. This module shows people the steps they can take now to reduce their impact on global climate before it's too late.

Module 9: Greening the Supply Chain

Make money go even further simply by being more aware. Participants find out how to purchase everyday products and services, at work and at home, with an eye on the environment and the community.

Module 10: Sustaining the Momentum

The financial benefits of sustainable practices are going to get people started, but it will be the triple bottom line impact sustainability has on them at home that will keep these practices going in the workplace.

Through SEEC, people learn in compelling and interactive ways about saving energy and water, keeping indoor air clean, recycling, using alternative transportation and other sustainable strategies. It's relevant because it shows them what to do both at work and at home. SEEC is for everyone involved in an organization because any single person can have an impact on an organization's sustainability if he or she understands why it is being done.

You decide the best way to deliver the educational material. Sessions come with a Facilitator's Guide so that they can be taught on-site by an existing employee or by a professional knowledgeable in a particular field. Also included is a workbook for each participant. On-line Sessions deliver the same information, but through interactive, Web-based installments that automatically deliver progress reports.

In summary, SEEC's 10 education modules offer in-depth understanding of the sustainability issues that face today's businesses and offer practical solutions that individuals can do at work and at home.