

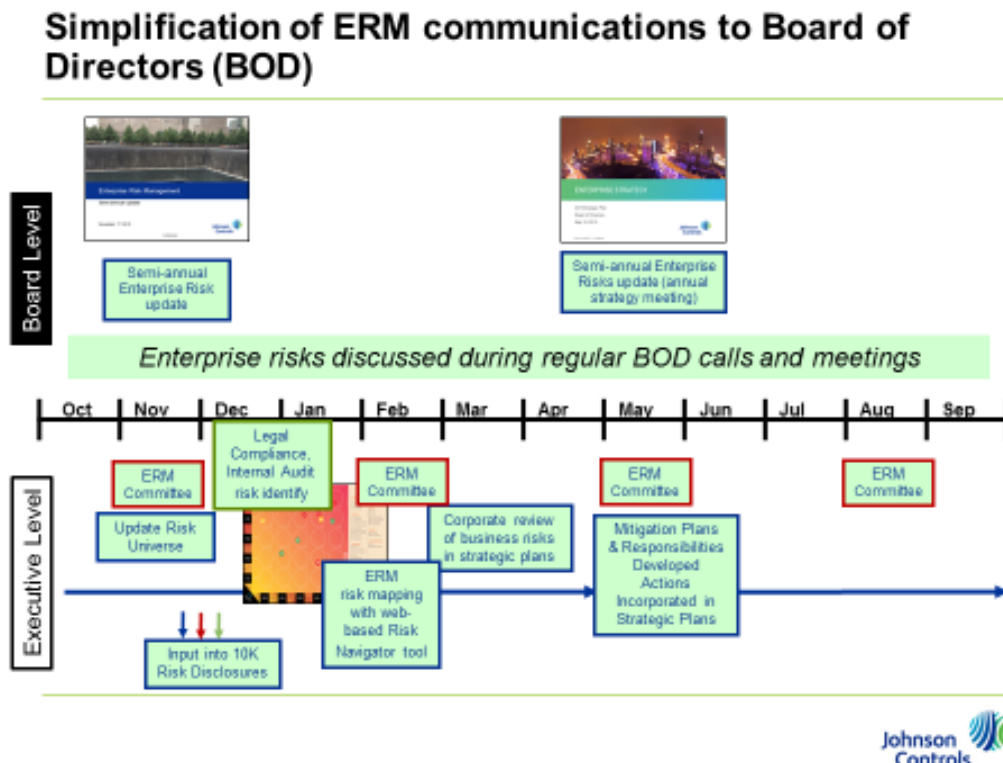
## Executive Summary

Enterprise Risk Management (ERM) remains one of the most important tasks of corporate leadership teams. The increased pace and magnitude of technology innovation, regulatory changes, and investor activism, combined with global uncertainty driven by geopolitical events, sovereign debt concerns, natural catastrophes and slowing growth in key market economies have increased the need for leadership engagement on risk, particularly around strategic risks that could impact long term growth. Pressure remains on corporate boards and executive teams to enhance their ERM activities and improve the linkage between performance and accountability. Rating agencies have also placed increased attention and importance on proactive ERM programs.

Our ERM program continues to seek a healthy balance between risk and opportunity, ensuring increased risk is balanced with appropriate reward, while also improving and optimizing our processes. With this in mind, the Risk Committee made two primary program enhancements during the past year:

- Streamlined communication to the Board of Directors. Given the significant transformation underway, Enterprise risks and mitigating actions have been a regular topic for Board meetings, thereby allowing the Committee to trim formal Board risk updates to twice per year; one during the annual strategy meeting and a second mid-year report (**Exhibit 1**).

### Exhibit 1- Streamlined communication to the Board of Directors



- Upgraded annual Enterprise Risk Survey. In order to focus on issues of greatest importance to the entire company, we revised and reduced the size of the Enterprise Risk Universe from 50 to 31 risks. Additionally, given the pending separation of Adient, we increased the participation in the survey by including members of the broader Global Management Team (~top 200 leaders).

The company continues to make a conscious effort to increase the interaction among the corporate and business unit functions that regularly address and manage risk. Though the Enterprise Risk Management program is run independently from Financial Risk Management, Legal and Compliance, Risk and Insurance, and Enterprise Security - they are all critical pillars in Johnson Controls Total Risk Management Process. All five activities continue to actively communicate and share risk data. The Enterprise Security team for example has introduced additional crisis management tools and processes that were instrumental in addressing some of the recent business continuity challenges. The 24-7-365 Global Security Operations Center is a good example, providing global event-related command & control and support throughout an event's lifecycle.

## Total Risk Management at Johnson Controls

We continue to place more attention on increasing the communication and coordination among the various corporate functions that assess and manage risk across the enterprise. As highlighted in **Exhibit 2** there are five key pillars in our Total Risk Management Program. Each pillar provides a unique focus and set of resources in addressing discrete portions of the total risk environment. The Enterprise Risk Committee serves as the oversight body for this Total Risk Management approach - ensuring increased accountability and communication with the Board and the applicable Board Committees. The Committee uses the Committee forum to discuss key risks and their potential impact on corporation and the cross function structure to identify and respond to emerging risks. A brief overview of the activities of the other four risk pillars follows.

### Exhibit 2 – Johnson Controls Total Risk Management Approach



## Financial Risk Management

### Internal Audit

The mission of Internal Audit at Johnson Controls is to provide independent and objective assurance on the control environment, reported financial information and advisory services designed to improve the Company's operations. Each year, the Internal Audit department undertakes a comprehensive exercise known as the 'Audit Risk Assessment' ("Assessment") to focus audit activities on the risks that matter most to the enterprise and to optimize the use of audit resources.

The Assessment is designed to identify key business risks across the enterprise and serves as a foundational element to align the Internal Audit function with business activities. More specifically, the Assessment:

- Provides insight on the significant risks at the Company and links them to the relevant business processes;
- Efficiently captures insight on risk across the enterprise using a combination of web-enabled surveys, interviews and additional data points such as prior audit results and investigations;
- Helps the department to define opportunities for audit engagements and special projects; and
- Allows Internal Audit to identify relevant risks in the Company's Audit Risk Universe.
- Through the scope of audits and special projects, Internal Audit documents the relevant risks and works with each Business Unit, including Corporate, to focus on areas requiring further risk management or mitigation attention. Specific benefits and outcomes of this process include the following:
  - Proactive identification and understanding of key business risks;
  - Enhanced understanding of expectations from the Audit Committee and Executive Management, and a clearer communication of the audit plan; and
  - Recommendations to improve the current risk management activities.

The VP of Internal Audit and the VP of Corporate Strategy meet regularly to discuss risk and risk management activities across the enterprise. Their increased communication is meant to ensure risk oversight and management coverage. ERM program findings and activities are considered in building the current year's Audit Plan.

### Financial accounting and reporting

The finance and reporting functions at Johnson Controls operate under a "large centralized regional business center" (RBC) model, which process a significant portion of the Company's transactional finance activities through three global RBCs (Bratislava, Dalian and Monterrey). This structure minimizes errors through process standardization, segregation of duties and robust internal controls, and provides exceptional finance talent for other parts of the business.

Centralization brings efficiency but it also brings its own unique risks. With such a large volume of critical activity flowing through a limited number of sites, business continuity and contingency planning becomes critical. Formal business continuity plans for each RBC have been developed,

with live drills performed periodically in order to assess its performance and adequacy. The ultimate goal is to seamlessly continue workflow from another RBC or offsite location in the event of a business interruption.

#### Treasury and liquidity

The mission of Treasury is to deliver, with unquestioned integrity, innovative, world class, Treasury services that support our global growth. Treasury is responsible for cash management, capital structure, financial risk management (derivatives and hedging), retirement plan funding and performance, and customer finance.

Treasury has developed and implemented guidelines, processes, and policies to manage its areas of responsibility. Treasury actively monitors the Company's performance against such guidelines, processes, and policies and is regularly audited by the Company's external auditors and the internal audit department to ensure compliance. Additionally, Treasury regularly reports to the Finance Committee of the Board of Directors which oversees the Company's Treasury organization.

Recently, Treasury successfully implemented a new Treasury Management System called Quantum, a universal internet banking platform called Trax which utilizes SwiftNet (replaces bank specific software platforms), and upgraded its commodity treasury system. Each of the systems significantly enhances the Company's compliance efforts, reduces currency exposure and risk and improves overall productivity. With respect to liquidity management, Treasury closely monitors current Johnson Controls requirements and global market conditions. Treasury utilizes a combination of committed bank revolvers and other lines of credit, capital market note and bond offerings, and cash management initiatives to ensure adequate liquidity and compliance with the Company's liquidity metrics. An example of a cash management initiative that enhances liquidity is Treasury's ongoing intra-month short-term borrowing reduction program which optimizes cash flows by matching global cash inflows and outflows as well as the implementation of various global supply chain financing programs which extend our accounts payable terms by allowing our suppliers to effectively factor our receivables at rates based on our credit rating.

## **Corporate Risk Management**

### Insurance

Johnson Controls' Corporate Risk Management department resides within the company's Compliance organization. They are a key component of the Total Risk Management effort. The group is primarily responsible for managing the company's global Property and Casualty insurance programs. To support that effort, the Corporate Risk Management department oversees several programs that assist the company in identifying risks and implementing sustainable risk management solutions and programs to eliminate, reduce or mitigate the frequency and impact of those risks on the company's operations and financial statements.

The Corporate Risk Management department is responsible for designing, placing and maintaining the company's global Property and Casualty insurance programs. These insurance programs include, but are not limited to, Property, Aviation, Workers Compensation, General Liability, Automobile Liability, Umbrella and Excess Liability, Professional Liability, Directors & Officers

Liability, Fiduciary Liability, Cyber Liability, and Surety. In consultation with the Finance Committee, the CFO and VP Compliance, Corporate Risk Management determines the amounts and types of insurance to be purchased including deductibles, retentions, limits, terms and conditions. The department also determines the structure of the company's global insurance programs and manages the company's captive insurance company.

The Corporate Risk Management department, through its Regional Risk Management structure, works directly with the company's business units and senior management to provide risk management consulting and risk control services. The objective of this role is to proactively identify risks and implement solutions and programs to manage them before a loss occurs. This consulting includes risk identification and evaluation, contract review, loss prevention, crisis management and business continuity.

The department is also responsible for the company's global property protection program. Johnson Controls is committed to the Highly Protected Risk (HPR) philosophy which strives to build and maintain the company's large and critical facilities to a higher standard of property protection to reduce the likelihood and impact of property loss. Corporate Risk Management oversees the delivery of property protection engineering services worldwide. This includes the establishment of property protection standards (based on the engineering standards of Factory Mutual), the selection and management of third party engineers, the oversight of new construction and renovations for property protection improvements, and the monitoring, tracking and resolution of outstanding property protection recommendations.

### Health & Safety

Reporting to the VP – Enterprise Operations & Engineering, the Corporate Health & Safety department, has oversight responsibility for the Company's global Health and Safety processes. Working with the Global Health & Safety Leadership Team, Global Manufacturing Operations Council (GMOC) and the Human Resources Leadership Team, the department sets the company's overall vision, strategy, standards and goals for the company's Health & Safety programs and processes. This includes the Health & Safety standards by which all Johnson Controls operations are required to comply. They consolidate and report on the company's Health & Safety metrics and performance while also managing the third party Health & Safety consultants, including those that conduct independent audits of our Health & Safety programs.

Health and Safety is included in the GMOC to assist in raising the manufacturing capability by designing and following a single, common, distinctive and dynamic production system. Health and Safety is incorporated into the Johnson Controls Manufacturing System (JCMS) to deploy a health and safety maturity assessment model to facilitate health and safety culture improvement and mitigate or eliminate health and safety risks. Environmental, Health and Safety is implementing a global EHS IT software solution to update and modernize the current EHS technology platform to provide a foundation to transform JCI's current EHS management activities into a global integrated program that enables excellence in both EHS practices and business productivity in alignment with enterprise and GMOC priorities and vision.

## **Enterprise Security**

Another key stakeholder in the company's risk management and mitigation program is Enterprise Security. Process driven and customer focused, the mission of Enterprise Security is to protect corporate assets (people, property & intellectual) through the implementation of appropriate risk based and business minded security and loss prevention tactics. Their responsibilities include providing thought leadership in the area of security operations, asset protection, executive protection, security investigations, brand protection, crisis management and business continuity planning.

Enterprise Security provides many services and capabilities for risk mitigation, including: subject matter expertise in the area of security; investigations and crisis management; and global risk assessment for company assets and high risk locations. The team develops risk mitigation strategies, standardized security policies for protection planning, and training & awareness programs for our employees. They have built a robust travel security program, track global events that impact company assets and provide incident response via the 24/7/365 Global Security Operations Center. In addition, they have a robust Security Risk Assessment program where security audits are regularly conducted at company sites throughout the enterprise.

## **Ethics & Compliance**

The Ethics and Compliance (E&C) function is another key pillar in our Total Risk Management Team. They have deployed an effective compliance program and robust governance structure to assist the business units in meeting their global regulatory and compliance requirements. The program is risk-based and tailored to fit the unique compliance risks of each business.

The core of the Company's E&C program is based on the hallmarks of an effective compliance program as defined by the U.S. Federal Sentencing guidelines and includes the following key components:

- Leadership & Culture (Tone at the Top)
- Governance Structure
- Risk Assessment & Management
- Policies, Procedures & Records
- Communication
- Training
- Confidential Reporting & Investigations
- Remediation
- Monitoring & Measurement

The Compliance program's Governance Structure begins with oversight by the Company's Board of Directors, specifically with the Audit and Governance Committees. The Executive Compliance Committee (ECC), which is led by the Company's CEO and the VP Compliance, is the body within

the Company that is responsible for overall E&C program implementation and risk identification. The Corporate Compliance Team is charged with the day-to-day management of the E&C program.

Within each Business Unit, and for the Company's Corporate Functions (Accounting, Finance, Tax, Legal, HR, IT, Communications, etc.), there is a BU (and Corporate Functions) Compliance Committee and Compliance Management Team which guide program implementation, conduct risk identification, resolve compliance issues and monitor continuous improvement within each Business Unit. Each Compliance Committee is supported by a Program Management Office (PMO) which manages the day-to-day E&C activity within each Business Unit and the Corporate Functions. Finally, each Business Unit maintains active Regional Compliance Committees (RCCs) which are supported by dedicated Geographic Program Leads (GPLs). The RCCs are where much of the E&C issues and risks are identified and addressed on an ongoing basis.

Compliance risks, including those for Corruption and Bribery, Anti-Competition, Trade Compliance, Data Privacy, Record Retention, Government Contracting, Federal Filings and Joint Ventures, are managed through the Compliance program and Governance Structure. Emerging Compliance risks are identified and evaluated for their potential impact on the company's legal position, financial performance and reputation. If needed, mitigation plans are developed and implemented to address these risks and to continuously improve the Company's E&C program.

## **Total Risk Management in action**

The increased coordination and communication among the various risk functions provides many benefits, with emerging risk identification being one of the most significant. The Enterprise Risk Committee provides a regular forum for senior management to share information and increase visibility of emerging risks identified in a variety of functions and activities, putting the Committee in a position to quickly direct attention and resources for prompt mitigation.

## **ERM Program Overview**

This ERM program was designed to fit within the rhythm of our businesses, thereby providing value to the Enterprise and the appropriate level of risk management information to the Board of Directors. The program is broad based, multi-faceted and continues to evolve to address the rapidly changing global business environment. The current program includes participation from senior leadership at each of the business units, corporate, and the Executive Operating Team (EOT).

We continue to focus on Corporate Executive Board research that demonstrated that strategic risks pose a far greater threat and have had a far larger impact on corporate performance than more traditional audit related risks like fraud and compliance. For that reason, Corporate Strategy oversees and coordinates the ERM program at Johnson Controls. This team works closely with the strategic planning functions in the business units to direct critical ERM activities. Even though strategic planning has the lead on ERM, the program has broad participation throughout the leadership ranks. In addition, regular benchmarking of the Fortune 500 has resulted in program

changes and enhancements, including the addition of a formal executive level Risk Committee in January 2010 and the 2014 program restructuring described earlier. The Risk Committee provides C-suite leadership and regular attention on this important topic. The Committee oversees the ERM program and ensures increased accountability and communication with the Board and the applicable Board Committees.

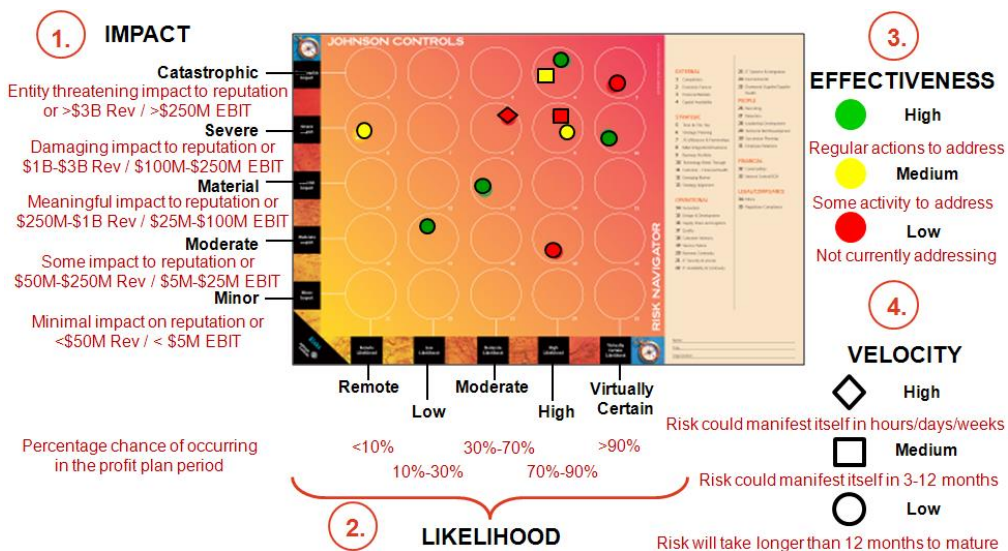
### ERM process steps

Though the ERM process is a dynamic year-round activity, a new assessment phase commences every November, coinciding with the start of the strategic planning calendar. As the business units revisit their strategic plans, they assess the changing environment and perform a refresh of their bottoms up risk assessment. These risks are highlighted in their reviews with corporate and consolidated in their strategic plans.

At the Enterprise level, the Risk Committee reviews the current enterprise risk universe, a collection of “corporate-wide” risks. This year’s review resulted in the consolidation of 50 risks in the 2015 program universe to 31 enterprise specific risks (**see appendix A**). All 31 risks came from the prior universe however many definitions were changed to address emerging issues and the change in focus to Enterprise-wide concerns.

The next step in the process is to have the Global Management Team (Top 200 executives) map each of the 31 risks. The mapping phase uses a Johnson Controls developed, web-hosted tool called the “Risk Solutions Navigator”. The tool evaluates each risk in four dimensions and maps them on a “Navigator Board” (**Exhibit 3**). The Enterprise Risk Committee reviews the mapping output and assesses whether the “top 10” by formula are in fact the “top 10” enterprise risks facing the corporation. The Committee has the option to modify the tool’s output and report and manage the risks they feel present the largest threat.

### Exhibit 3 – Risk Navigator Tool mapping dimensions



Once the Risk Committee and BUs have identified their respective top-down and bottoms-up risks, the Risk Committee reviews the final lists and provides additional perspectives and insight. The Risk Committee and BUs develop formal management / mitigation plans for each of their top Enterprise and BU risks. These mitigation roadmaps have assigned owners, identify specific actions and track ongoing progress.

Every year, the top risks identified by the ERM bottoms-up and top-down processes are compared against the risks statements covered in our current 10K report. The process confirms that the 10K risks are inclusive of the top risks identified in our ERM processes. The Risk Committee is responsible for reviewing the risk disclosures and updating or amending them as required based on risk process output or Committee discussion.

### Enterprise Risk Committee

In January of 2010, the Johnson Controls Risk Committee was formed with high level leadership participation from the senior corporate staff and the business units (**Exhibit 4**). The Vice President of Corporate Strategy serves as the risk coordinator and committee secretary. He is responsible for coordinating the risk program and the Risk Committee meetings. A senior leader from each business unit serves as the risk leader for their business. This assignment is a leadership development step for each of these participants, one that gives each of them greater exposure to risks from across the corporation. The Risk Committee roles and responsibilities are summarized below.

### Exhibit 4 – Johnson Controls Risk Committee members

Johnson Controls Risk Committee	
Vice Chairman	Bruce McDonald
CFO	Brian Stief
VP/Chief Marketing Officer	Kim Metcalf-Kupres
VP/Chief HR Officer	Simon Davis
VP/General Counsel	Brian Cadwallader
VP Corporate Strategy	Patrick Burns
VP Legal & Compliance	Brian Beeghly
AE Representative	Byron Foster
BE Representative	Randy Leslie
PS Representative	Robert (Bruce) Beach

The Risk Committee assists the company's senior leadership and Board of Directors in fulfilling their responsibilities for oversight of the company's Total Risk Management programs.

Responsibilities include:

- Development, deployment and monitoring of an Enterprise Risk Management process applicable to the company's operations worldwide
- Review all information related to various risk identification processes at corporate and in the business units (ERM, Internal Audit, Legal & Compliance, etc)
- Use ERM mapping data and other inputs in a top-down process to identify the top ten Enterprise Risks facing the corporation.
- Assign responsibility to manage and mitigate these key risks and periodically assess progress throughout the year
- Raise and discuss potential risks that have been identified in other risk assessment forums like Internal Audit, Enterprise Security, Legal & Compliance, Insurance, etc.
- Identify emerging risks and threats both discrete and those created by aggregated and cascading risks - redirecting resources and focus if necessary
- Annually review the 10K Risk Factors and if necessary coordinate with the Disclosure Committee to report changes or updates in the 10Q
- Ensure regular reporting of program status to senior leadership and the Board of Directors to satisfy oversight responsibilities of the Board of Directors and its Committees

### **Strategic Planning roles and responsibilities**

Corporate Strategic Planning works closely with the strategic planning functions in the business units and with the Enterprise Risk Committee to coordinate critical ERM activities. The BU strategy groups are responsible for supporting their individual risk representative. The strategic planning teams work with the BU President and his Executive Operating Team to identify in a bottoms-up fashion the top five risks to achieving the strategic plan. Management and mitigation plans are constructed to address each risk with specific actions assigned to key BU leaders. Progress is monitored on dashboards that are reported twice a year. The strategic planning teams also assist their risk representative in identifying emerging and competitive risks and ensure risks and risk mitigations are incorporated in strategic planning initiatives.

### **Business Unit Risk Representatives roles and responsibilities**

The Business Unit Risk Committee member acts as the business unit representative to the Risk Committee. They use their senior position within the business unit to collect risk related information and emerging concerns. Their responsibilities include assisting in the creation of the BU top risk list, identifying "emerging" risks throughout the year and redirecting risk mitigation resources and attention as required. They work with the strategy leads to assess risk management / mitigation progress and they provide a two way communication channel for risk management issues between the business unit and the Risk Committee.

### **Risk topics and the calendar**

The Risk Committee regularly reviews key risk topics to monitor the size and nature of potential risks to which Johnson Controls is exposed. These topics include: Enterprise Security, Information

Technology, Treasury, Environmental, and Cyber Security. At every meeting, time is set aside for a roundtable discussion of these and other emerging risks.

The Enterprise Risk Committee communicates its activities, recommendations and risk management / mitigation status to the Executive Operating Team and Board of Directors through the annual strategic planning process as well as periodic updates.

### **Board of Directors Responsibility**

In 2010, the SEC issued a new rule (33-9089) requiring additional risk related disclosure requirements in the annual proxy statement including the Board's role in managing enterprise-wide risks. The regulation went into effect February 28, 2010 and focuses on disclosure of board measures to manage enterprise-wide risks, including policies related to risk identification, risk appetite, and management of risk/reward tradeoffs throughout the enterprise. The intent of the disclosure is to extend risk management responsibility beyond the C-suite and enhance risk management awareness for all employees. Key messages in the Johnson Controls disclosure:

- Board of Directors has primary responsibility for overall risk oversight, including the Company's risk profile and management controls
- Board oversees the implementation of the Strategic Plan and the risks inherent in the operation of its businesses
- Company implemented an ERM program in 2008 to identify, assess, prioritize and manage risks across the Company
- Board endorsed an expansion of the ERM program in 2010 which included an executive level Risk Committee
- Risk Committee reviews areas of risk within the BU operations, at the Enterprise level and identifies emerging risks and reports their findings at regularly scheduled reviews
- Each of the Board committees is responsible for oversight of risk management practices for categories of top risks relevant to their functions as summarized in the proxy statement.
- While each of the four Board committees contributes to the risk management oversight function by assisting the Board, the Board itself remains responsible for the oversight of the Company's overall ERM program.

### **Summary**

The Board of Directors and the senior leadership team have embraced the importance of a robust corporate risk management program. The tone at the top has been clearly communicated and the corporation continues to develop a culture of prudent risk management. The creation of additional tools and the formation of a Risk Committee have greatly increased our ability to identify emerging risks and improve the communication frequency and fidelity between corporate leadership and the Board of Directors. The Total Risk Management approach overseen by the Enterprise Risk Committee is being viewed as a best-in-class approach to enterprise risk management. The increased dialog and coordination across multiple functions has served to significantly improve our risk management effectiveness. The separation of the Business Unit and Enterprise Risk identification processes has allowed for a more focused effort and targeted mitigation activity in the BUs. In short, the right people are focused on addressing the right risks. Despite this good



progress, we remain committed to our culture of continuous improvement. We will continue to search for new best-in-class approaches and better tools and processes to proactively identify, address and manage the risks that pose the greatest threat to Johnson Controls.