# FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1997-12-18** | Period of Report: **1997-09-30**
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## FILER

**JOHNSON CONTROLS INC**

CIK:**53669**| IRS No.: **390380010** | State of Incorp.:**WI** | Fiscal Year End: **0930**
Type: **10-K405** | Act: **34** | File No.: **001-05097** | Film No.: **97740302**
SIC: **2531** Public bldg & related furniture

Business Address
*5757 N GREEN BAY AVENUE*
*P O BOX 591*
*MILWAUKEE WI 53209*
*4142281200*

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

# FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 1997

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<br>P.O. Box 591<br>Milwaukee, Wisconsin | 53201 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (414) 228-1200

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $.16-2/3 par value | New York Stock Exchange |
| Rights to Purchase Common Stock | New York Stock Exchange |

Securities Registered Pursuant to Section 12(g) of the Act: None

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. /X/

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 /X/ No / /

<TABLE>
<CAPTION>

| Title of Each Class | Aggregate Market Value of Nonaffiliates' Shares as of November 20, 1997 | Number of Shares Outstanding at November 20, 1997 |
|---|---|---|
| <S> | <C> | <C> |
| Common Stock, $.16-2/3 par value | $3,842,382,850 | 84,101,403 |
| Series D Convertible Preferred Stock, $1.00 par value, $512,000 liquidation value | $255,529,274 | 279.649 |

</TABLE>

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II and IV incorporate by reference portions of the Annual Report to Shareholders for the year ended September 30, 1997.

Part III incorporates by reference portions of the Proxy Statement dated December 5, 1997.

JOHNSON CONTROLS, INC.
Index to Annual Report on Form 10-K

Year Ended September 30, 1997

<TABLE>
<CAPTION>



</TABLE>

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

Johnson Controls, Inc. (the company) has made forward-looking statements in this document that are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future risks preceded by, following or that include the words "believes," "expects," "anticipates" or similar expressions. For those statements, the company cautions that the numerous important factors discussed elsewhere in this document and in the company's Form 8-K filing (dated October 30, 1997), 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.

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 N. Green Bay Avenue, Milwaukee, Wisconsin 53201-0591 (Telephone: 414-228-1200). From 1885 through 1978 the company's operations were predominantly in the controls business (see "Products and Services" discussion that follows). Through subsequent business acquisitions the company's operations have been expanded to include an additional business segment, the automotive segment.

In 1978 the company acquired Globe-Union, Inc. and thereby became a leading domestic manufacturer of automotive batteries for the United States replacement and original equipment markets.

In 1985 the company acquired Hoover Universal, Inc., a manufacturer of automotive seating and seating components, plastic containers and plastics blowmolding machinery. As a result of the acquisition, the company became the leading independent producer of automotive seating systems and plastic beverage bottles.

In 1989 the company acquired Pan Am World Services, Inc. (name subsequently changed to Johnson Controls World Services Inc., "World Services"), a leading provider of integrated facilities management for military bases, space centers and other government facilities worldwide. This acquisition served as the foundation for the controls segment's entry into the integrated facilities management business which has subsequently been extended to provide integrated facilities management to the non-residential buildings market worldwide.

The company completed two significant transactions during fiscal 1997. First, effective October 1, 1996, the company acquired Prince Holding Corporation (Prince), a major supplier of automotive interior systems and components including overhead systems and consoles, door panels and floor consoles. The acquisition of Prince serves as a conduit for the company's growth beyond seating in the automotive industry and positions the company as a worldwide interior systems integrator and supplier. Second, on February 28, 1997, the company completed





the sale of its Plastic Container division to Schmalbach-Lubeca AG/Continental Can Europe (a member of the VIAG Group), thereby exiting the plastic beverage bottle business.

Financial Information About Business Segments

Business segment financial information can be found within the 1997 Annual Report to Shareholders, which is incorporated herein by reference, on page 20 ("Business Segments" table) and on page 38 (Note 14 "Segment Information" of Notes to Consolidated Financial Statements).

Products and Services

Automotive Segment

The automotive segment's primary operations consist of its seating and interior systems business, which designs and manufactures complete automotive seating and interior systems; and its batteries business, which produces automotive batteries for the replacement and original equipment markets.

The automotive seating and interior systems business designs and manufactures complete seating systems, including seating foam pads, mechanisms, metal frames and trim covers, and interior systems, including overhead, door and instrument panel systems for manufacturers of cars and light trucks (including vans and sport utility vehicles). Worldwide, the business is among the top 20 automotive suppliers, with sales to all of the top 10 automobile companies in the world.

In addition to its U.S. operations, the automotive seating and interiors business has operations in the Asia/Pacific region, Canada, Europe, Mexico, South America, South Africa and Australia through wholly-owned, majority-owned and partially-owned businesses. The business operates 81 wholly-owned and 30 majority-owned manufacturing or assembly facilities. The business is the world's largest supplier of automotive seating systems and the largest independent North American supplier of automotive interior systems, subsystems and components.

The automotive seating and interior systems business operates 51 wholly or majority-owned assembly plants that supply automotive manufacturers with complete seats on a "just-in-time/in-sequence" basis. All foam and metal seating components, covers and seat mechanisms are shipped to these plants from the business' production facilities or outside suppliers. The seats are then assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line.

The seating and interior systems business has increased significantly during the last several years. Seating systems operations have expanded principally through internal growth, while interior systems operations have been bolstered by several strategic acquisitions. In 1996, the company acquired a majority interest in Roth Freres S.A., which supplies seats, headliners and other interior components, and in 1997 acquired Prince, a major supplier of automotive interior systems. Seating and interior systems business sales represent approximately 85% of total segment sales.





The segment's batteries business sales represent approximately 10% of total segment sales. The business is a leading manufacturer of lead-acid automotive batteries for the North American replacement and original equipment markets. Automotive batteries, which account for over 90% of the business' sales, are sold primarily under private label to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The business is developing several new battery technologies to alter the way lead-acid batteries are designed and used, including its Thin Metal Film technology, which is expected to significantly decrease battery size and weight. Manufacturing of batteries and plastic battery containers is conducted at 11 plants in the United States, one plant in Mexico and, via partially-owned affiliates, at plants in Brazil and China.

The batteries business also produces and markets lead-acid batteries for use in a variety of industrial and consumer applications. The most important are those based on gelled electrolyte technology and absorbent glass mat (AGM) technology. The gelled electrolyte batteries are portable, maintenance-free, rechargeable units used in various applications including cable/telecommunication and deep cycling applications. The AGM batteries are sealed, maintenance free, rechargeable units used mainly in uninterruptible power supply (UPS) systems for computers, telecommunications, cable television and other applications where a UPS system is required.

## Controls Segment

Overall, approximately 40% of the controls segment's sales are derived from the installation and service of control systems to the existing worldwide commercial building market, 20% from new construction, while the remaining 40% originates from integrated facilities management.

The controls segment is a major worldwide supplier of control systems, services and products providing energy management, temperature and ventilation control, security and fire safety for non-residential buildings. Building control systems are sold, installed and serviced, and mechanical equipment is serviced, primarily by employee sales engineers, application engineers and mechanics working out of branch offices located in approximately 260 principal cities throughout the world. The segment manufactures a broad line of electric and electronic products for sale to its own sales force and to original equipment manufacturers, wholesalers and distributors of air-conditioning, refrigeration, commercial and residential heating, water-pumping and gas-burning equipment. Control system products are manufactured in six domestic and five foreign facilities.

The segment is also a leading supplier of integrated facilities management for commercial buildings worldwide and government facilities. Commercial facilities management ensures the reliability of a building's mechanical systems and energy supply, as well as provides a wide range of on-site building support such as maintenance, security, food services, etc. Government facilities management services are provided for military bases, space centers and other government facilities.





## Major Customers and Competition

The company has sales to the automotive industry. Ford Motor Company accounted for 17% of the company's net sales in fiscal 1997, 14% in 1996 and 8% in 1995. General Motors Corporation accounted for 11%, 8% and 11% in 1997, 1996 and 1995, respectively. Chrysler Corporation accounted for 11%, 10% and 12% in 1997, 1996 and 1995, respectively.

### Automotive Segment

The segment's seating and interior systems business supplies the automotive original equipment market and faces competition from other automotive parts suppliers and, with respect to certain products, from the automobile manufacturers which themselves produce or have the capability to produce many of the products supplied by the business. Competition is based on technology, quality and price. Design, engineering and product planning are increasingly important factors.

The business' seating systems operations principally compete in North America with Lear Corporation and Magna International, Inc. In Europe, the seating systems operations primarily compete with Lear Corporation, Bertrand Faure, Magna International, Inc. and automotive manufacturers. The market for interior systems is highly fragmented in both North America and Europe. In North America, the business' interior systems operations compete with Lear Corporation; Davidson Interior Trim, a division of Textron, Inc.; UT Automotive, a subsidiary of United Technologies, Inc. and The Becker Group. In Europe, the primary competitors are Lear Corporation, Sommer Allibert, The Becker Group and Magna International, Inc.

Approximately 60% of the seating and interior systems business' sales over the last three years were to four major automobile manufacturers. Because of the importance of new vehicle sales of major automotive manufacturers to its operations (see pages 18 through 19 of the company's 1997 Annual Report to Shareholders), the business is affected by general business conditions in this industry.

Approximately 80% of the automotive segment's batteries business sales are to the automotive replacement market, with the remaining 20% to the original equipment market. The business is the principal supplier of automotive batteries to Interstate Battery System of America ("Interstate") and AutoZone, and is a major supplier of automotive batteries to Wal-Mart and Sears' Western Auto Parts America. The business has also won a new three-year contract to manufacture Sears DieHard Gold batteries, beginning in October 1997. Each of these customers sell replacement batteries under their own brand labels. Original equipment and replacement batteries are sold to a number of large manufacturers of motor vehicles and heavy construction equipment.

Replacement batteries are also sold to battery distributors for resale to retail outlets.

Sales of the batteries business depend primarily on quality, price, delivery and service, including marketing support and technical advice. The business primarily competes in North America with Exide Corporation; Delphi Automotive Systems, a division of General Motors Corporation; and GNB Batteries, a subsidiary of Pacific Dunlop Limited.





Controls Segment

The controls segment conducts much of its systems installation business and its integrated facilities management business through thousands of individual contracts that are either negotiated or awarded on a competitive basis. Key factors in awarding contracts include product and service quality, price, reputation with respect to customer service, design, application engineering capability and construction management expertise. Although differences in corporate organization and product mix make comparisons difficult, management believes that the controls segment's domestic installed systems sales are approximately equal to those of its next largest competitor, Honeywell, Inc. The integrated facilities management services market is highly fragmented, with no one company being dominant.

Sales of the segment's integrated facilities management business are largely dependent upon numerous individual contracts with commercial businesses worldwide and various departments and agencies of the U.S. Federal Government. The loss of any individual contract would not have a materially adverse effect on the company.

Backlog

The company's backlog relates to the controls segment's systems installation and services business, which derives a significant portion of its revenues from long-term contracts which are accounted for on the percentage-of-completion method. In accordance with customary industry practice, the controls segment progress bills customers on an estimated basis as work proceeds. Information concerning contracts in progress for the controls segment is as follows:

| (in millions) | September 30, 1997 | September 30, 1996 |
|---|---|---|
| Backlog of uncompleted building systems and services contracts | $2,102 | $1,970 |
| Earned revenues on uncompleted building systems and services contracts | 1,342 | 1,224 |
| Unearned backlog of building systems and services contracts | $ 760 | $ 746 |

The data above does not include amounts associated with unearned contracts of the controls segment's integrated facilities management business because such contracts are typically multi-year service awards, the amount of which are outstanding at any given period is not necessarily indicative of the amount of revenue to be earned in the coming fiscal period. In addition, certain of the company's manufacturing businesses accumulate backlog data, but the amounts, when considered in the aggregate, are not significant to an understanding of these businesses.

Raw Materials

Raw materials used by the automotive segment's seating and interiors business, such as steel, urethane chemicals and chromium, were readily available during the year and such availability is expected to continue. Principal raw materials used in the manufacture of the automotive segment's batteries are lead, antimony, calcium, sulfuric acid and polypropylene, all of which are generally available in the open market. The controls segment is not dependent upon any single source of supply for essential materials, parts or components.

Intellectual Property

Generally, statutory protection is sought for most intellectual property embodied in patents, trademarks and copyrights. Some intellectual property, where appropriate or possible, is protected by contract, license, agreement or hold-in-confidence undertaking.

The company owns numerous U.S. and counterpart foreign patents, 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 are "JOHNSON CONTROLS" (including a stylized version thereof) and "JOHNSON." These marks are universally used in connection with certain of its product lines and services. The trademarks and servicemarks "ALLIANCE," "PENN," "BASO," "UNI-TRIM," "COUNTERLINE," "UNILOY-SPRINGFIELD," "METASYS," "UNILOY," "HOMELINK," and "AUTOLINK" are used in connection with certain company product lines and services. Original equipment and replacement automotive batteries are sold carrying customer-owned private labels and trademarks. The company also markets automotive batteries under the licensed trademarks "EVEREADY" and "ENERGIZER." Industrial batteries for original equipment and/or replacement usage are sold carrying either company or customer-owned trademarks, including the company mark "DYNASTY."

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 and Health and Safety Matters

The company's domestic operations are governed by a variety of laws intended to protect the environment, principally the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Water Act, the Clean Air Act and the state counterparts of these laws (collectively, "Environmental Laws"), and by laws addressing workers' safety administered by both the Occupational Safety and Health Administration and similar state agencies and federal and state laws regulating health (collectively "Worker Safety Laws"). The Environmental Laws implemented by the United States Environmental Protection Agency and state agencies govern the generation and management of hazardous and toxic materials, the discharge of pollutants into the air and into surface and underground waters, the construction of new discharge sources, and environmental reporting and record keeping, among other things. These laws govern ongoing operations, require remediation of sites associated with past operations, and provide for civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance or cleanup.





The company's policy is to comply with applicable Environmental Laws and Worker Safety Laws, and the company maintains procedures designed to foster and ensure compliance. The company has expended substantial resources, both financial and managerial, to ensure compliance with Environmental Laws and Worker Safety Laws. Certain of the company's businesses are and have been engaged in the handling or use of substances or compounds that may be considered toxic or hazardous within the meaning of the Environmental Laws and Worker Safety Laws.

While this creates the risk of environmental liability rising out of the company's operations and products, the company is committed to protect the environment and comply with all such applicable laws utilizing available technology.

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. Resolution of such matters typically has been achieved by negotiation with the regulatory authorities resulting in commitments to compliance or abatement programs and 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.) Although the company believes that its operations are in substantial compliance with such laws, there are no assurances that substantial additional costs for compliance will not be incurred in the future.

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 1997 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, 1997, the company employed approximately 72,300 employees, of whom 50,400 were hourly and 21,900 were salaried.

Seasonal Factors

Sales of seating and 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.

The business of the controls segment is executed on a relatively continuous basis, with no significant fluctuation in revenues during the year.





International Operations

The automotive segment has manufacturing facilities worldwide. The automotive seating and interior systems business has wholly-owned and majority-owned manufacturing facilities located outside the United States, including plants in Argentina, Australia, Austria, Belgium, Brazil, Canada, the Czech Republic, France, Germany, Mexico, the Netherlands, Portugal, South Africa, Spain and the United Kingdom. These facilities produce, depending on the location, complete seats, interior systems and related components. The business also has partially-owned operations in the Asia/Pacific region, Europe and Mexico that manufacture complete seats, headliners and/or seating components. The segment's batteries business has a manufacturing operation in Mexico and partially-owned affiliates in Brazil and China that produce batteries. Licensing and joint venture arrangements are also in effect with certain foreign manufacturers of batteries and automotive parts.

Through a number of foreign subsidiaries and branches, the controls segment operates fully-staffed sales offices, offering engineering, installation and service capabilities (the counterpart to the domestic controls operations), and, in many cases, integrated facilities management services. Offices are located in Australia, Austria, Belgium, Canada, China, CIS (Russia), the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Israel, Italy, Korea, Malaysia, Mexico, the Netherlands, Norway, the

Philippines, Poland, Portugal, Republic of Kazakhstan, Saudi Arabia, Singapore, Slovak Republic, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates and the United Kingdom. In addition, controls segment products are marketed through distributors represented in approximately 40 countries. Products are manufactured in plants located in China, Germany, Italy, Mexico and the Netherlands, with the remainder of the product line supplied from the United States. The controls segment also has joint venture operations in the United States, Brazil, China, Italy, Japan, Kuwait, Malaysia, Singapore, Switzerland and Thailand.

The financial results of all foreign operations are subject to currency exchange rate fluctuations. The company selectively uses financial instruments to minimize its risk of loss from fluctuations in exchange rates. The company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables, predominately intercompany transactions. Gains and losses from hedging instruments offset the gains or losses on the underlying assets, liabilities and investments being hedged. 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.

Financial Information About Geographic Areas

Note 14 of Notes to Consolidated Financial Statements, "Segment Information," on page 38 of the 1997 Annual Report to Shareholders is incorporated herein by reference.

Research and Development Expenditures

Expenditures for research activities relating to product development and improvement are charged against income as incurred. Such expenditures amounted to $232 million in 1997, $156 million in 1996 and $127 million in 1995. The acquisition of Prince, and its related research and development activities, accounted for the majority of the current year's increase in expenditures





for research and development. In addition, the company expended $119 million in 1997, $108 million in 1996 and $76 million in 1995 for research activities sponsored by customers.

ITEM 2 PROPERTIES

The company has numerous wholly-owned and majority-owned manufacturing facilities located throughout the world. The company considers its facilities to be suitable and adequate. The majority of all of the company's facilities are operating at normal levels based on capacity.

The principal manufacturing, administrative, and research and development facilities listed on the following pages by segment and location aggregate approximately 23 million square feet of floor space and are owned by the company except as noted. In addition, approximately 260 controls segment branch offices 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.





AUTOMOTIVE SYSTEMS GROUP

<TABLE>

| <S> | <C> | <C> | <C> |
|---|---|---|---|
| Alabama | Cottondale (1) | Argentina | Escobar |
| California | City of Industry | | Rosario |
| | Fullerton | Australia | Adelaide |
| | Livermore | | Melbourne |
| | Modesto | | Thomastown |
| | Stockton (1) | Austria | Graz |
| Delaware | Middletown | | Mandling |
| Florida | Tampa | Belgium | Anderlecht (1) |
| Georgia | Atlanta | | Geel |

| | | | |
|---|---|---|---|
| | John's Creek (1) | Brazil | Pouso Alegre |
| Illinois | Geneva | | Santo Andre |
| | Lawrenceville | | Sao Bernardo (1) |
| | Sycamore | | Sao Jose |
| Indiana | Ossian | Canada | Milton |
| Kentucky | Bardstown | | Orangeville |
| | Cadiz | | Saint Mary's |
| | Florence (1) | | Stratford |
| | Georgetown (1) | | Tillsonburg |
| | Glasgow | Czech Republic | Ceska Lipa |
| | Harrodsburg | | Mlada Boleslav |
| | Leitchfield | | Policka Boriny (1) |
| | Maysville | | Roudnice (1) |
| | Nicholasville | | Straz Pod Ralskem |
| | Shelbyville (1) | France | Schweighouse-sur-Moder |
| | Winchester (1) | | Strasbourg (2) |
| Louisiana | Shreveport (1) | | Rosny (1) |
| Maryland | Belcamp (2) | Germany | Berlin (1) |
| Michigan | Holland | | Betriebsgelande |
| | Lapeer | | Bochum (1) |
| | Lincoln Park (1) | | Burscheid |
| | Livonia (1) | | Epselkamp |
| | Manchester (2) | | Lahnwerk |
| | Mt. Clemens (1) | | Mallersdorf |
| | Plymouth (2) | | Radesomweld (1) |
| | Southfield (1) | | Rastatt (1) |
| | Sterling Heights (1) | | Schwalbach (1) |
| | Taylor (1) | | Waghausel |
| | Williamston (1) | | Zwickau |
| Missouri | Jefferson City | Italy | Florence |
| | Kansas City (1) | | Milan |
| | St. Joseph (1) | Mexico | Juarez (2) |
| New Jersey | Dayton (1) | | Mexico City (1) |
| | Edison (1) | | Torreon |
| North Carolina | Winston-Salem | The Netherlands | Sittard |
| Ohio | Greenfield | Portugal | Nelas |
| | Oberlin (1) | | Portalegre |
| | Strongsville (1) | South Africa | Port Elizabeth (1) |
| | Toledo | | Pretoria (1) |
| Oregon | Canby (Portland) | | Uitenhaige (1) |
| South Carolina | Oconee | Spain | Alagon |
| Tennessee | Athens | | Barcelona |
| | Lewisburg (2) | | Valencia |
| | Lexington (2) | United Kingdom | Birmingham (1) |
| | Linden | | Chelmsford (1) |
| | Murfreesboro (2) | | Dagenham (1) |
| | Pulaski | | Mansfield |
| Texas | El Paso (1) | | Silloth |
| Virginia | Chesapeake | | Speke (2) |
| Wisconsin | Hudson | | Staffordshire |
| | Milwaukee (2) | | Telford |
| | | | Warwickshire (1) |
| | | | Wednesbury |

</TABLE>

(1) Leased
(2) Both owned and leased facilities





CONTROLS GROUP                                        CORPORATE

<TABLE>

| | | | |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Florida | Cape Canaveral (2) | Wisconsin | Milwaukee |
| Georgia | Atlanta | | |
| Indiana | Goshen | | |
| Oklahoma | Poteau | | |
| Wisconsin | Milwaukee | | |
| | Watertown | | |
| Germany | Essen (1) | | |
| Italy | Lomagna | | |
| Mexico | Juarez | | |
| | Reynosa | | |
| The Netherlands | Leeuwarden | | |
| United Kingdom | Bournemouth (1) | | |
| | Waterlooville (1) | | |

(1) Leased
(2) Both owned and leased facilities

</TABLE>





ITEM 3 LEGAL PROCEEDINGS

Environmental Litigation and Proceedings. As noted previously, the activities of the company are subject to various environmental laws and worker safety laws. Liabilities potentially arise under these laws for any activities which are not in compliance with such laws and for the cleanup of sites where hazardous or toxic materials are present.

With respect to the cleanup of hazardous or toxic materials, the company's activities have led to allegations that the company is responsible for performing cleanups, or for the repayment of costs spent by governmental entities or others performing cleanups at approximately 60 sites. 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. Furthermore, the company may face similar claims of liability at additional sites in the future as a result of the company's past or future operations.

Liability for investigation and remediation costs exists regardless of fault or legality at the time of disposal, and it is joint and several, meaning that any one of the companies responsible for disposing materials at the site may be responsible for all of the cleanup expenses. Nevertheless, any responsible party that has paid more than its fair share of site costs may recover fair shares of its expenditures from other responsible parties. Thus, with respect to many of the sites for which the company has potential liabilities, there are other parties who the company believes will be required and have the ability to bear a significant share of site cleanup costs. At any given site, the liability and costs to be allocated among the parties depend on such factors as the number of parties, the willingness of governmental agencies to contribute public funds to the cleanup, the volume of material delivered to the site by each party, the nature of each party's materials, the costs of the site cleanup and the financial strength of the parties. Where the company is alleged to be responsible for performing cleanup or for costs, it pursues a course of action intended to mitigate its potential liabilities.

The company's policy is to accrue for potential environmental losses for cleanup consistent with generally accepted accounting principles. In that regard, the company accrues for potential environmental losses when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Its reserves for environmental related costs at the end of fiscal year 1997 totalled $36 million. The company reviews the status of the sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the company are undiscounted and 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 the site. It is difficult to estimate the company's ultimate level of liability for the 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, 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 remediation matters will have a material adverse effect on the company's financial position, results of operations or cash flows.





Typically, site remediation matters are addressed at the administrative agency level of the government. Occasionally, however, litigation is involved. The most significant of such matters where litigation has been commenced by the government or by private parties and remain pending against the company is as follows:

United States v. NL Industries, Inc., Case No. 91-CV-00578-WDS (United States District Court for the Southern District of Illinois), filed July 31, 1991. The EPA seeks to enforce an administrative order issued on November 27, 1990 against Johnson Controls and other defendants requiring performance of a cleanup at a secondary smelter facility in Granite City, Illinois. The company, the other defendants and the other parties to the 1990 order have chosen not to perform on the basis that the administrative record of decision underlying that order does not support the remedy the agency is requiring. The complaint alleges that the defendants should pay penalties (up to $25,000 per day and three times the cost of work the government performs) for failing to comply with the order. It also alleges the company should be responsible for past government expenditures. According to the agency, the total cost, both past and future, will probably exceed $64 million. The company is vigorously defending this action.

The company is also currently involved in litigation against its insurers to recover cleanup costs and other damages for which it may be adjudged responsible at many of the sites. The suit, Johnson Controls, Inc. v. Employers Insurance of Wausau (Case No. 89-CV-016174), was filed in 1989 in Milwaukee County Circuit Court. The suit seeks costs of defense and indemnity payments under the policies and also declaratory judgments for future costs. In 1994, the Wisconsin Supreme Court ruled that many types of cleanup costs are not recoverable under common comprehensive general liability insurance policies, such as those at issue in the company's cases. In 1995, the Milwaukee County Circuit Court decided that the Wisconsin Supreme Court's ruling applies to the company's case against its insurers and found for the insurers. The company has appealed the decision. In Spring 1997, the Wisconsin Supreme Court narrowed its 1994 decision in a manner advantageous to Johnson Controls' claims, and additional briefs have been submitted to the Wisconsin Court of Appeals, where the case is pending.

## ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None during the fourth quarter of the fiscal year covered by this report.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction of G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this report in lieu of being included in the company's Proxy Statement for its 1998 Annual Meeting of Shareholders.

James H. Keyes, 57, was elected Chairman of the Board in January, 1993, and Chief Executive Officer in 1988. He has served as President since 1986. Mr. Keyes joined the company in 1966.





John M. Barth, 51, was elected a member of the Board of Directors in November, 1997. He has served as an Executive Vice President with responsibility for the Automotive Systems Group since 1992. Previously, he served as Vice President, Automotive Systems Group, since 1990. Mr. Barth joined the company in 1969.

Joseph W. Lewis, 62, was elected an Executive Vice President in 1992 and has served as Vice President, Controls Group, since 1986. Mr. Lewis joined the company in 1958. He has announced his retirement, effective January, 1998.

Dr. Steven J. Bomba, 60, was elected Vice President, Corporate Technology in 1990. From 1987 to 1990 he was Vice President, Advanced Manufacturing Technologies, for Rockwell International.

Susan F. Davis, 44, was elected Vice President, Human Resources, in April 1994. From August 1993, she served as Vice President of Organizational Development for the Automotive Systems Group, and the former Plastics Technology Group and the Battery Group. Ms. Davis joined the company in 1983.

Giovanni (John) Fiori, 53, was elected a Corporate Vice President in 1992 and serves as Vice President and General Manager of automotive operations in Europe and emerging markets. Previously, he served as Vice President of automotive seating operations in Europe. Mr. Fiori joined the company in 1987.

Michael F. Johnston, 50, was elected a Corporate Vice President in July 1993, and was named Vice President and General Manager of the Automotive Systems Group's North American operations in November 1997. Previously, he served as Vice President and General Manager of the company's Interior Systems and Batteries businesses. Mr. Johnston joined the company in 1989.

John P. Kennedy, 54, was elected a Corporate Vice President in 1989 and has been Secretary since 1987 and General Counsel since 1984 when he joined the company.

William P. Killian, 63, was elected Vice President, Corporate Development and Strategy in 1988, and served as Vice President, Corporate Development, from 1985 to 1988. Mr. Killian joined the company in 1977.

Robert Netolicka, 50, was elected Vice President and General Manager of the Controls Group's Integrated Facilities Management business in 1997. Previously, he served as Vice President and General Manager of the Controls Group's Systems Products business, since 1993, and has held Controls Group management positions in Australia, Europe, Hong Kong and America since joining the company in 1974.

Stephen A. Roell, 47, was elected Vice President and Chief Financial Officer in 1991. Since 1990 he served as Corporate Controller and Assistant Secretary. He served as Treasurer from 1987 to 1991. Mr. Roell joined the company in 1982.





Brian J. Stark, 48, was elected Vice President and General Manager of the Controls Group's Systems and Services business in September 1995. Since joining the company in 1971, Mr. Stark has served as a Branch and Regional Manager within the Systems and Services field organization.

Keith E. Wandell, 47, was elected Vice President and General Manager of the Automotive Systems Group's Batteries business in 1997. Previously, he served in a number of management positions, most recently as Vice President and General Manager of the Batteries business' Starting, Lighting and Ignition Division. Mr. Wandell joined the company in 1988.

Denise M. Zutz, 46, was elected Vice President, Communication in 1991. She previously served as Director of Corporate Communication and had served in other communication positions since joining the company in 1973.

Ben C.M. Bastianen, 53, was named Treasurer in 1991, when he joined the company. Between 1984 and 1990 he served as Assistant Treasurer, and then Treasurer, of Borg-Warner Corporation.

Patrick J. Dennis, 46, was named Controller, with responsibility for the Automotive Systems Group, effective January, 1996. He has held controller responsibilities for the Automotive Systems Group since joining the company in 1983.

Stacy L. Fox, 44, was elected Assistant Secretary in November, 1996. She joined the company in 1989 and serves as Vice President and Division General Counsel of the Automotive Systems Group.

Jerome D. Okarma, 45, was elected Assistant Secretary in 1990. He has served as Assistant General Counsel since joining the company in 1989 and as Vice President and Division General Counsel of the Controls Group since 1993.

Franklin H. Smith, Jr., 46, was named Controller, with responsibility for the Controls Group, effective October, 1995. Between 1991 and 1995, he served as Corporate Controller, and from 1987 to 1991 he served as Director, Corporate Taxes for the company. Mr. Smith joined the company in 1987.

Subhash (Sam) Valanju, 55, joined the company in 1996 and is presently the Chief Information Officer. Prior to that time, Mr. Valanju was Director of Information Systems for Rockwell Automotive.

There are no family relationships, as defined by the instructions to this item, between the above executive officers.

All officers are elected for terms which 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

The information required by Part II, Items 5, 6, 7, 7A and 8, are incorporated herein by reference to the company's 1997 Annual Report to Shareholders as follows:

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS - See price range and dividend information on page 18, and Note 9 "Shareholders' Equity" on page 34 of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders.

| Title of Class | Number of Record Holders as of November 20, 1997 |
|---|---|
| Common Stock, $.16-2/3 par value | 56,989 |

ITEM 6 SELECTED FINANCIAL DATA - See "Five Year Summary" on page 40 of the 1997 Annual Report to Shareholders.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - See pages 18 through 25 of the 1997 Annual Report to Shareholders.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - See "Risk Management" on pages 23 through 24 of Management's Discussion and Analysis section of the 1997 Annual Report to Shareholders.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - See pages 26 through 38 of the 1997 Annual Report to Shareholders.

ITEM 9 DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

All information required by Items 10 through 13 of Part III, with the exception of information on the Executive Officers which appears on pages 15-17 of Part I of this report, is incorporated by reference to pages 1-11 of the company's Proxy Statement for its 1998 Annual Meeting of Shareholders.





PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

<TABLE>
<CAPTION>

| | Page in Annual Report* |
|---|---|

<S> <C>

(a) The following documents are filed as part of this report:

| | |
|---|---|
| (1) Financial Statements | |
| Consolidated Statement of Income for the years ended September 30, 1997, 1996 and 1995 .......................... | 26 |
| Consolidated Statement of Financial Position at September 30, 1997 and 1996 ................................ | 27 |
| Consolidated Statement of Cash Flows for the years ended September 30, 1997, 1996 and 1995 | 28 |
| Consolidated Statement of Shareholders' Equity for the years ended September 30, 1997, 1996 and 1995 | 29 |
| Notes to Consolidated Financial Statements | 30-38 |
| Report of Independent Accountants | 39 |

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*Incorporated by reference from the indicated pages of the 1997 Annual Report to Shareholders.

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| | Page in Form 10-K |
|---|---|
| (2) Financial Statement Schedule | |
| Report of Independent Accountants on Financial Statement Schedule | 24 |
| For the years ended September 30, 1997, 1996 and 1995: | |
| II. Valuation and Qualifying Accounts | 26 |

</TABLE>

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.

(3) EXHIBITS

3.(i) Restated Articles of Incorporation of Johnson Controls, Inc., as amended January 22, 1997, filed herewith.

3.(ii) By-laws of Johnson Controls, Inc., as amended March 27, 1996 (incorporated by reference to Exhibit 3.(ii) to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996).

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 Rights Agreement between Johnson Controls, Inc. and Firstar Trust Company (Rights Agent) as amended November 16, 1994 (incorporated by reference to Exhibit 4.C to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended

September 30, 1994)

4.D Certificate of the Relative Rights and Preferences of the Series D Convertible Preferred Stock of Johnson Controls, Inc. (incorporated by reference to an exhibit to the Form 8-K dated May 26, 1989).

4.E Note and Guaranty Agreement dated June 19, 1989 between Johnson Controls, Inc., as Guarantor, and Johnson Controls, Inc. Employee Stock Ownership Trust, acting by and through LaSalle National Bank, as trustee, as issuer (incorporated by reference to Exhibit 4.E to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1990).

4.F 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.G Indenture for debt securities dated February 22, 1995 between Johnson Controls, Inc. and Chemical Bank Delaware, trustee (Incorporated by reference to the Form S-3 filed February 13, 1995, which became effective February 17, 1995).





(3) EXHIBITS (Continued)

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., 1984 Stock Option Plan as amended through September 22, 1993 (Incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1993).

10.C Johnson Controls, Inc., 1992 Stock 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., Common Stock Purchase Plan for Executives approved January 24, 1996 (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996).

10.E Johnson Controls, Inc., Deferred Compensation Plan for Certain Directors as amended through September 25, 1991 (incorporated by reference to Exhibit 10.C to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991).

10.F Johnson Controls, Inc., Directors Retirement Plan as amended through July 26, 1989 (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1989).

10.G Johnson Controls, Inc., Executive Incentive Compensation Plan Deferred Option as amended March 21, 1995 (incorporated by reference to Exhibit 10.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1995).

10.H Johnson Controls, Inc., Executive Incentive Compensation Plan as amended through September 22, 1993, (incorporated by reference to Exhibit 10.H to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1993).

10.I Johnson Controls, Inc., Executive Incentive Compensation Plan, Deferred Option, Qualified Plan effective September 28, 1994, (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994).

10.J Johnson Controls, Inc., Long-Term Performance Plan, as amended through September 28, 1994, (incorporated by reference to Exhibit 10.J to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994).





(3) EXHIBITS (Continued)

10.K Johnson Controls, Inc., Executive Survivor Benefits Plan, as amended through January 1, 1989, (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994).

10.L Johnson Controls, Inc., Equalization Benefit Plan as amended through May 24, 1989 (incorporated by reference to Exhibit 10.L to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996).

10.M Form of employment agreement as amended through October 1, 1991 between Johnson Controls, Inc. and Messrs. Barth, Kennedy, Keyes, Lewis and Roell, (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30,1992).

10.N Form of indemnity agreement, as amended, between Johnson Controls, Inc. and Messrs. Barth, Kennedy, Keyes, Lewis and Roell, (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991).

11 Statement regarding computation of earnings per share for the years ended September 30, 1997, 1996 and 1995, filed herewith.

12 Statement regarding computation of ratio of earnings to fixed charges for the year ended September 30, 1997, filed herewith.

13 1997 Annual Report to Shareholders (incorporated sections only in electronic filing), filed herewith.

21 Subsidiaries of the Registrant, filed herewith.

23 Consent of Independent Accountants dated December 18, 1997, filed herewith.

27 Financial Data Schedule (electronic filing only).

99 Proxy Statement for Annual Meeting of Shareholders of Johnson Controls, Inc., to be held January 28, 1998, 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.





(b) The following Form 8-K was filed during the fourth quarter of the company's 1997 fiscal year or thereafter through the date of this Form

10-K:

(1) On October 30, 1997, the company filed a Form 8-K in order to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and to provide updated disclosure of the factors that could affect any forward-looking statements made by, or on behalf of, the company.

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, 33-49862, 333-10707 and 333-36311.

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 Securities and Exchange Commission 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.





REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
of Johnson Controls, Inc.

Our audits of the consolidated financial statements referred to in our report dated October 20, 1997 appearing on page 39 of the 1997 Annual Report to Shareholders of Johnson Controls, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE LLP

Milwaukee, Wisconsin
October 20, 1997





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 Stephen A. Roell
Vice President and Chief
Financial Officer

Date: December 18, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of December 18, 1997, by the following persons on behalf of the registrant and in the capacities indicated:

James H. Keyes
Chairman and
Chief Executive Officer

Stephen A. Roell
Vice President and Chief
Financial Officer

Robert W. Smith
Assistant Corporate Controller

Martha R. Seger
Director

Gilbert R. Whitaker, Jr.
Director

Fred L. Brengel
Director

Robert A. Cornog
Director

Richard F. Teerlink
Director

William F. Andrews
Director





JOHNSON CONTROLS, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(in millions)

================================================================================

<TABLE>
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| YEAR ENDED SEPTEMBER 30, | 1997 | 1996 | 1995 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| ACCOUNTS RECEIVABLE - ALLOWANCE FOR DOUBTFUL ACCOUNTS | | | |
| Balance at beginning of period | $20.9 | $18.6 | $19.9 |
| Accounts charged off | (6.9) | (4.7) | (5.8) |
| Provision charged to costs and expenses | 5.2 | 6.8 | 4.5 |
| Acquisition of businesses | 2.6 | 1.0 | - |
| Currency translation | (0.9) | (0.1) | 0.4 |

| | | | |
|---|---|---|---|
| Recoveries on accounts previously charged off | - | (1.0) | 0.2 |
| Other | (0.1) | 0.3 | (0.6) |
| Balance at end of period | $20.8 | $20.9 | $18.6 |
| DEFERRED TAX ASSETS - VALUATION ALLOWANCE | | | |
| Balance at beginning of period | $56.6 | $30.9 | $23.8 |
| Allowance established for new loss carryforwards and tax credits | 38.9 | 30.6 | 8.5 |
| Allowance reversed for loss carryforwards utilized | (14.2) | (4.9) | (1.4) |
| Balance at end of period | $81.3 | $56.6 | $30.9 |

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INDEX TO EXHIBITS

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<CAPTION>

| EXHIBITS | TITLE | PAGE |
|---|---|---|
| <S> | <C> | <C> |
| 4.F | 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.G | Indenture for debt securities dated September 1, 1989 between Johnson Controls, Inc. and Chemical Bank Delaware, trustee (incorporated by reference to the Form S-3 dated September 20, 1989). | |
| 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., 1984 Stock Option Plan as amended through September 22, 1993 (incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1993). | |
| 10.C | Johnson Controls, Inc., 1992 Stock 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., Common Stock Purchase Plan for Executives, approved January 24, 1996 (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996). | |

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<TABLE>
<CAPTION>

| EXHIBITS | TITLE | PAGE |
|---|---|---|
| <S> | <C> | <C> |
| 10.E | Johnson Controls, Inc., Deferred Compensation Plan for Certain Directors as amended through September 25, 1991 | |

| | | |
|---|---|---|
| | (incorporated by reference to Exhibit 10.C to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991). | |
| 10.F | Johnson Controls, Inc., Directors Retirement Plan as amended through July 26, 1989 (incorporated by reference to Exhibit 10.D to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1989). | |
| 10.G | Johnson Controls, Inc., Executive Incentive Compensation Plan Deferred Option as amended March 21, 1995 (incorporated by reference to Exhibit 10.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1995). | |
| 10.H | Johnson Controls, Inc., Executive Incentive Compensation Plan as amended through September 22, 1993 (incorporated by reference to Exhibit 10.H to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1993). | |
| 10.I | Johnson Controls, Inc., Executive Incentive Compensation Plan, Deferred Option, Qualified Plan effective September 28, 1994, (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994). | |
| 10.J | Johnson Controls, Inc., Long-Term Performance Plan as amended through September 28, 1994, (incorporated by reference to Exhibit 10.J to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994). | |

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<TABLE>
<CAPTION>

| EXHIBITS | TITLE | PAGE |
|---|---|---|
| <S> | <C> | <C> |
| 10.K | Johnson Controls, Inc., Executive Survivor Benefits Plan amended through January 1, 1989, (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1994). | |
| 10.L | Johnson Controls, Inc., Equalization Benefit Plan dated May 24, 1989 (incorporated by reference to Exhibit 10.L to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1996). | |
| 10.M | Form of employment agreement, as amended through October 1, 1991, between Johnson Controls, Inc. and Messrs. Barth, Kennedy, Keyes, Lewis and Roell, (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1992). | |
| 10.N | Form of indemnity agreement, as amended, between Johnson Controls, Inc. and Messrs. Barth, Kennedy, Keyes, Lewis and Roell, | |

| | | |
|---|---|---|
| | (incorporated by reference to Exhibit 10.K to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991). | |
| 11 | Statement regarding computation of earnings per share for the years ended September 30, 1997, 1996 and 1995, filed herewith. | 50 |
| 12 | Statement regarding computation of ratio of earnings to fixed charges for the year ended September 30, 1997, filed herewith. | 51 |
| 13 | 1997 Annual Report to Shareholders (incorporated sections only in electronic filing), filed herewith. | 52-94 |

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| EXHIBITS | TITLE | PAGE |
|---|---|---|
| <S> | <C> | <C> |
| 21 | Subsidiaries of the Registrant, filed herewith. | 95-105 |
| 23 | Consent of Independent Accountants dated December 18, 1997, filed herewith. | 106 |
| 27 | Financial Data Schedule, (electronic filing only.) | |
| 99 | Proxy Statement for Annual Meeting of Shareholders of Johnson Controls, Inc., to be held January 28, 1998, filed herewith. | 107-125 |

</TABLE>

*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.

EXHIBIT 3 (i)

# RESTATED ARTICLES OF INCORPORATION
# OF
# JOHNSON CONTROLS, INC.

Pursuant to the authority and provisions of Chapter 180 of the Wisconsin Statutes, the existing Articles of Incorporation are hereby amended, superseded and restated to read as follows:

## ARTICLE I

### Name

The name of the corporation is Johnson Controls, Inc.

## ARTICLE II

### Purpose

The corporation is organized for the purpose of any lawful activity within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statues, including (without in any manner limiting by the following enumeration the generality of the foregoing) the manufacture, sale and installation of, and dealing in, automatic temperature and humidity controls for heating, cooling, ventilating, air-conditioning and industrial processing.

## ARTICLE III

### Authorized Shares

The aggregate number of shares which this Corporation has authority to issue is 302,000,000* shares, consisting of 300,000,000* shares of class of designated "Common Stock" of the par value of $0.16-2/3* per share and 2,000,000 shares of class designated "Preferred Stock" of the par value of $1.00 per share. Any and all such shares of Common Stock and Preferred Stock may be issued for such consideration, not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. Any and all such shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such share shall not be liable for any further payments except as otherwise provided by applicable Wisconsin Statutes. Notwithstanding any other provision hereof, the Board of Directors shall have no authority to cause any shares of Preferred Stock to be issued if, as a result of such issuance, the aggregate amount payable in the event of voluntary or involuntary liquidation on all shares of Preferred





Stock outstanding would exceed $100,000,000. The preferences, limitations and relative rights of each class shall be as follows:

*(As Amended January 22, 1997)

(A) Preferred Stock

(1) Series of Preferred Stock
The Board of Directors shall (have) authority to divide the Preferred Stock into series, and shall determine and fix the relative rights and preferences of the shares of any series so established prior to the issuance thereof, but only with respect to:

(a) The rate of dividend and the date from which such dividends shall be cumulative;
(b) The price at and the terms and conditions on which shares may be redeemed;
(c) The amount payable upon shares in the event of voluntary or involuntary liquidation;
(d) Sinking fund provisions for the redemption or purchase of share;
(e) The terms and conditions on which shares may be converted into shares of Common Stock, if the shares or any series are issued with the privilege of conversion.
(f) Voting rights, if any.

Except as to the matters expressly set forth above in this Paragraph (1), all series of the Preferred Stock of the corporation, whenever designated and issued, shall have the same preferences, limitations and relative rights and shall rank equally, share ratably and be identical in all respects as to all matters.

All shares of any one series of Preferred Stock hereinabove authorized shall be alike in every particular, and each series thereof shall be distinctively designated by letter or descriptive words or figures.

(2) Dividends

The holders of Preferred Stock shall be entitled to receive dividends at the rate per annum specified as to each series pursuant to Paragraph (1), and no more, payable quarterly on the last day of March, June, September, and December in each year for the respective calendar quarter ending on such dates ("Dividend Periods") out of the unreserved earned surplus of the corporation or out of any capital surplus legally available for the payment of such dividends, when and as declared by the Board of Directors. Such dividends shall accrue on each share of Preferred Stock from the first day of the Dividend Period in which such share is issued or from such other date as the Board of Directors may fix for this purpose pursuant to Paragraph (1). All dividends on Preferred Stock shall be cumulative so that if the corporation shall not pay or set apart for payment the dividend, or any part thereof, for any Dividend Period, on the Preferred Stock then issued and outstanding, such deficiency in the dividend on the Preferred Stock shall thereafter be fully paid or declared and set apart for payment, but without interest before any dividend shall be paid or declared and set apart for payment on the Common Stock. The holders of Preferred Stock shall not be entitled to participate in





any other or additional earnings or profits of the corporation, except for such premiums, if any, as may be payable in case of redemption, liquidation, dissolution or winding up.

Any dividend paid upon the Preferred Stock at a time when any accrued dividends for any prior Dividend Period are delinquent shall be expressly declared to be in whole or partial payment of the accrued dividends to the extent thereof, beginning with the earliest Dividend Period for which dividends are then wholly or partly delinquent, and shall be so designated to each shareholder to whom payment is made.

No dividends shall be paid upon any shares of any series of Preferred Stock of the corporation for a current Dividend Period unless there shall have been paid or declared and set apart for payment dividends required to be paid to the holders of each other series of Preferred Stock for all past Dividend Periods of such other series. If any dividends are paid on any of the Preferred Stock with respect to any past Dividend Period at any time when less than the total dividends then accumulated and payable for all past Dividend Periods on all of the Preferred Stock then outstanding are to be paid or declared and set apart for payment, then the dividends being paid shall be paid on each series of Preferred Stock in proportions that the dividends than accumulated and payable on each series for all past Dividend Periods bear to the total dividends then accumulated and payable for all such past Dividend Periods on all outstanding Preferred Stock.

(3) Liquidation, Dissolution or Winding Up

In case of voluntary or involuntary liquidation, dissolution or winding up of the corporation, the holders of each series of Preferred

Stock shall be entitled to receive out of the assets of the corporation in money or money's worth the amount specified pursuant to Paragraph (1) with respect to that series of Preferred Stock, together with all accrued but unpaid dividends thereon (whether or not earned or declared), before any of such assets shall be paid or distributed to holders of Common Stock. In case of voluntary or involuntary liquidation, dissolution or winding up of the corporation, if the assets shall be insufficient to pay the holders of all of the series of Preferred stock then outstanding the full amounts to which they may be entitled, the holders of each outstanding series shall share ratably in such assets in proportion to the amounts which would be payable with respect to such series if all amounts payable thereon were paid in full. The consolidation or merger of the corporation with or into any restoration, or a sale of all or any part of its assets, shall not be deemed a liquidation, dissolution or winding up of the corporation within the meaning of this paragraph.

(4) Redemption

Except as otherwise provided with respect to a particular series pursuant to Paragraph (1), the following general redemption provisions shall apply to each series of Preferred stock (hereinafter in this paragraph referred to as "Series"):





On or prior to the date fixed for redemption of a particular Series or any part thereof as specified in the notice of redemption for said Series, the corporation shall deposit adequate funds for such redemption, in trust for the account of holders of the Series to be redeemed, with a bank having trust company in good standing organized under the laws of the United States of America or the State of Wisconsin doing business in the State of Wisconsin and having capital, surplus and undivided profits aggregating at least One Million Dollars ($1,000,000), and if the name and address of such bank or trust company and the deposit of or intent to deposit the redemption funds in such trust account shall have been stated in such notice of redemption, them from and after the mailing of such notice and the making of such deposit the shares of the Series called for redemption no longer be deemed to be outstanding for any purpose whatsoever, and all rights of the holders of such share in or with respect to the corporation shall forthwith cease and terminate except only the right of the holders of such shares (2) to transfer such shares prior to the date fixed for redemption, (b) to receive out of said deposit the redemption price of such shares, which shall nevertheless include accrued but unpaid dividends to the date fixed for redemption, without interest, upon surrender of the certificate or certificates representing the shares to be redeemed, and (c) to exercise on or before the close of business on the fifth day preceding the date fixed for redemption privileges of conversion, if any, not theretofore expired.

In case of redemption of only a part of a Series, the corporation shall designate by lot, in such manner as the Board of Directors may determine, the share to be redeemed, or shall effect such redemption pro rata.

Any moneys so deposited by the corporation which shall remain unclaimed by the holders of the shares called for redemption and not converted shall, at the end of six years after the date fixed for redemption, be paid to the corporation upon its request, after which repayment the holders of the shares so called for redemption shall no longer look to the said bank or trust company for the payment of the redemption price but shall look only to the corporation or to others, as the case may be, for the payment of any lawful claim for such moneys which holders of said shares may still have. After said six-year period, the right of any shareholder other person to receive such payment may be forfeited in the manner and with the effect provided under Wisconsin Law. Any portion of the moneys so deposited by the corporation, in respect of shares of the Series converted into Common Stock, shall be repaid to the corporation upon its request.

(5) Conversion Rights

Except as otherwise provided with respect to a particular series pursuant to Paragraph (1), the following general conversion provisions shall apply to each series of Preferred Stock which is convertible into Common Stock (hereinafter, in this paragraph, referred to as "Series"):





(a) All shares of Common Stock issued upon conversion shall be fully paid and nonassessable, and shall be free of all taxes, liens and charges with respect to the issue thereof except taxes, if any, payable by reason of issuance in a name other than that of the holder of the share or shares converted and except as otherwise provided by applicable Wisconsin Statutes.

(b) The number of shares of Common Stock issuable upon conversion of a particular Series at any time shall be the quotient obtained by dividing the aggregate conversion value, as herein provided, of the shares of that Series surrendered for conversion, by the price per share of Common Stock then in effect for that Series as herein provided. The corporation shall not be required, however, upon any such conversion, to issue any fractional share of Common Stock, but in lieu thereof the corporation shall pay to the shareholder who would otherwise be entitled to receive such fractional share if issued, a sum in case equal to the value of such fractional share at the rate of the then market value per share of Common Stock which for purposes hereof shall mean the last reported sale price of Common Stock on the New York Stock Exchange. Share of Preferred Stock shall be deemed to have been converted as of the close of business on the date of receipt at the office of the Transfer Agent of the certificates therefor, duly endorsed, together with written notice by the holder of his election to convert the same.

(c) The basic conversion price per share of Common Stock for a particular Series, as provided for under the detailed description of the individual Series, shall be subject to adjustment from time to time as follows:

(i) In Case the corporation shall (A) pay a dividend or make a distribution of all holders of outstanding shares of its Common Stock as a class in shares of its Common Stock, (B) subdivide or split the outstanding shares of its Common Stock into a larger number of shares, or (C) combine the outstanding shares of its Common Stock into a smaller number of shares, the base conversion price per share of Common Stock in effect immediately prior thereto shall be adjusted retroactively so that the holder of each outstanding share of each Series of Preferred Stock which by its terms is convertible into Common Stock shall thereafter be entitled to receive upon the conversion of such share the number of shares of Common Stock of the corporation which he would have owned and been entitled to receive after the happening of any of the events described above had such share of such Series been converted immediately prior to the happening of such event. An adjustment made pursuant to this clause (c) (i) shall become effective retroactively immediately after such record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, split or combination. Such adjustments shall be made successively whenever any event described above shall occur.

(ii) In case the corporation shall issue to all holders of its Common Stock as a class any rights or warrants enabling them to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of





Common Stock (as hereinafter defined) at the record date for determination of shareholders entitled to receive such rights or warrants, the basic conversion price per share of Common Stock in effect immediately prior thereto for each Series of Preferred Stock which by its terms is convertible into Common Stock shall be adjusted retroactively by multiplying such basic conversion price by a fraction, of which the numerator shall be the sum of the number of shares of Common Stock outstanding at such record date and the number of share of Common Stock which the aggregate exercise price (before deduction of underwriting discounts or commissions and other expenses of the corporation in connection with the issue) of the total number of shares so offered for subscription or purchase would purchase at such current market price per share of which the denominator shall be the sum of the number of shares of Common Stock outstanding at such record date and the number of additional shares of Common Stock so offered for subscription or purchase. An adjustment made pursuant to this clause (c) (ii) shall become effective retroactively immediately after the record date for determination of shareholders entitled to receive such rights or warrants. Such adjustments shall be made successively whenever any event described above shall occur.

(iii) In case the corporation shall distribute to all holders of its Common Stock as a class evidences of its indebtedness or assets (other than cash dividends), the basic conversion price per share of Common Stock in effect immediately prior thereto for each Series of Preferred Stock which by its terms is convertible into Common Stock shall be adjusted retroactively by multiplying such basis conversion price by a fraction, of which the numerator shall be the difference between the current market price per share per share of Common Stock at the record date for determination of shareholders entitled to receive such distribution and the fair value (as determined by the Board of Directors) of the portion of the evidences of indebtedness or assets (other than cash dividends) so distributed applicable to one share of Common Stock, and of which the denominator shall be the current market price per share of Common Stock. An adjustment made pursuant to this clause (c) (iii) shall become effective retroactively immediately after such record date. Such adjustments shall be made successively whenever any event described above shall occur.

(d) For the purpose of any computation under clause (c) (iii) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the high and low sale prices of the Common Stock of the corporation, as reported in the New York Stock Exchange - Composite Transactions (or such other principal market quotation as may then be applicable to such Common Stock) for each of the 30 consecutive trading days commencing 45 trading days before such date.

(e) For the purpose of making the computations prescribed in clause

(c) of this Paragraph (5), no adjustment shall be made in the basic conversion price for any Series of Preferred Stock in effect immediately prior to such computation if the amount of such adjustment would be less than fifty cents; provided however, that any adjustments which by reason





of this clause (e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment; and provided further that anything to the contrary in the foregoing notwithstanding any adjustment required for purposes of making the computations in said clause (c) shall be made not later than the earlier of (x) 3 years after the effective date provided for under said clause (c) for such adjustment or (y) the date as of which such adjustment would require an increase or decrease of at least 3% in the aggregate number of shares of Common Stock issued and outstanding on the first date on which an event occurred which required the making of a computation prescribed in said clause (c). All calculations under this Paragraph (5) shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be."

(f) In the case of any capital reorganization or reclassification of Common Stock, or if the corporation shall be consolidated with or merged into, or sell or dispose of all substantially all of its property and assets, to any other corporation, proper provisions shall be made as part of the terms of such capital reorganization, reclassification, consolidation, merger or sale that any shares of a particular Series at the time outstanding shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock deliverable upon conversion of such shares of a particular Series would have been entitled upon such capital reorganization, reclassification, consolidation or merger.

(g) No adjustment with respect to dividends upon any Series or with respect to dividends upon Common Stock shall be made in connection with any conversion.

(h) Whenever there is an issue of additional shares Common Stock of the corporation requiring a change in the conversion price as provided above, and whenever there occurs any other event which results in a change in the existing conversion rights of the holders of shares of a series, the corporation shall file and its transfer agent or agents and at its principal office in Milwaukee, Wisconsin, a statement signed by the President or a Vice President and by the Treasurer or Assistant Treasurer of the corporation, describing specifically such issue of additional shares of Common Stock or such other event (and, in the case of a capital reorganization, reclassification, consolidation or merger, the terms thereof) and the actual conversion prices or basis of conversion as changed by such issue or event and the change, if any, in the securities issuable upon conversion. Whenever there are issued by the corporation to all holders of its Common Stock as a class any rights or warrants enabling them to subscribe for or purchase shares of Common Stock, the corporation shall also file in like manner a statement describing the same and the consideration receivable by the corporation therefrom. The statement so filed shall be open to inspection by any holder of record of shares of any Series.

(i) The corporation shall at all times have authorized and shall at all times reserve and set aside a sufficient number of duly authorized shares of Common Stock for the conversion of all stock of all then outstanding Series which are convertible into Common Stock.





(6) Reissuance of Shares

Any shares of Preferred Stock retired by purchase, redemption, through conversion or through the operation of any sinking fund or redemption or purchase account, shall thereafter have the status of authorized but unissued shares of Preferred Stock of the corporation, and may thereafter be reissued as part of the same series or may be reclassified and reissued by the Board of Directors in the same manner as any other authorized and unissued shares of Preferred Stock.

(7) Voting Rights of Preferred Stock

(a) Ordinary Voting Rights. Holders of Preferred Stock shall be entitled to one vote for each share of such class held on all questions on which shareholders of the corporation are entitled to vote and shall vote together share for share with the holders of Common Stock as one class, except as otherwise provided by law or as hereinafter otherwise provided or as otherwise determined by the Board of Directors at the time of the establishment of such Series of Preferred Stock pursuant to clause (f) of Paragraph (1) of this Section (A).

(b) Special Voting Rights. Holders of Preferred Stock shall have voting rights as provided in the preceding clause (a) and, in addition, the following special voting rights:

(i) Election of Directors. Whenever dividends payable on any series of the Preferred Stock shall be in arrears in an aggregate amount equivalent to six full quarterly dividends on the shares of all of the Preferred Stock of that series then outstanding, the holders of Preferred Stock of that series shall have the exclusive and special right voting separately as a class, to elect two directors of the corporation, and the number of directors constituting the Board of Directors shall be increased to the extent necessary to effectuate such right. Whenever such right of the Board of Directors shall be increased to the extent necessary to effectuate such right. Whenever such right of the holders of any series of the Preferred Stock shall have vested, such right may be exercised initially either at a special meeting of the holders of such series of the Preferred Stock called as hereinafter provided in clause (b) (ii), or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders. The right of the holders of any series of the Preferred Stock voting separately as a class to elect members of the Board of Directors of the corporation as aforesaid shall continue until such time as all dividends accumulated on such series of the Preferred Stock shall have been paid in full, at which time the special right of the holders of such series of the Preferred Stock so to vote separately as a class for the election of directors shall terminate, subject to revesting in the event of each and every subsequent default in an aggregate amount equivalent to six full quarterly dividends.





(ii) Special Meetings of Holders of Preferred Stock. At any time when such special voting power shall have vested in the holders of any series of the Preferred Stock as hereinbefore provided in clause (b) (i), a proper officer of the corporation shall, upon the written request of the holders of record of at least 10% of such series of the Preferred Stock then outstanding addressed to the Secretary of the corporation, call a special meeting of the holders of such series of the Preferred Stock for the purpose of electing directors pursuant to clause (b) (i). Such meeting shall be held at the earliest practicable date in such place as may be designated pursuant to the By-laws (or if there be no designation, at the principal offices of the corporation in Milwaukee, Wisconsin). If such meeting shall not be called by the proper officers of the corporation within 20 days after personal service of the said written request upon the Secretary of the corporation, or within 30 days after mailing the same within the United States of America by registered or certified mail addressed to the Secretary of the corporation at its principal office, then the holders of record of at least 10% of such series of the Preferred Stock then outstanding may designate in writing one of their numbers to call such meeting at the expense of the corporation, and such meeting may be called by such person so designated upon the notice required for annual meetings of shareholders and shall be held in Milwaukee, Wisconsin. Any holder of such series of Preferred Stock so designated shall have access to the stock books of the corporation for the purpose of causing meeting of shareholders to be called pursuant to these provisions. Notwithstanding the provisions of this clause (b) (ii), no such special meeting shall be called during the period within 90 days immediately preceding the date fixed for the next annual meeting of shareholders.

(iii) Special Rules Applicable While Any Series of Preferred Stock Has Special Voting Rights. At any annual or special meeting at which the holders of any series of the Preferred Stock shall have the special right, voting separately as a class, to elect directors as provided in clause (b) (i), the presence, in person or by proxy, of the holders of 33-1/3% of such series of the Preferred Stock shall be required to constitute a quorum of such series for the election of any director by the holders of such series as a class. At any such meeting or adjournment thereof, (A) the absence of a quorum of such series of the Preferred Stock shall not prevent the election of directors other than those to be elected by such series of the Preferred Stock voting as a class, and the absence of a quorum for the election of such other directors shall not prevent the election of the directors to be elected by such series of the Preferred Stock voting as a class and (B) in the absence of either or both such quorums, a majority of the holders present in person or by proxy of the stock or stocks which lack a quorum shall have power to adjourn the meeting for the election of directors which they are entitled to elect from time to time until a quorum shall be present, without notice other than announcement at the meeting.





During any period in which the holders of any series of the Preferred Stock have the right to vote as a class for directors as provided in clause (b) (i), any vacancies in the Board of Directors shall be filled only be vote of a majority (even if that be only a single director) of the remaining directors theretofore elected by the holders of the series or class of stock which elected the directors whose office shall have become vacant. During such period the directors so elected by the holders of any series of the Preferred Stock shall continue in office (A) until the next succeeding annual meeting or until their successors, if any are elected by such holders and qualify, or (B) unless required by applicable law to continue in office for longer period, until termination of the right of the holders of such series of the Preferred Stock to vote as a class for directors, if earlier. If and to the extent permitted by applicable law, immediately upon any termination of the right of the holders of any series of the Preferred Stock to vote as a class for directors as provided in clause (b) (i), the term of office of the directors then in office so elected by the holders of such series shall terminate.

(iv) Action Requiring Approval of Two-Thirds of Outstanding Shares of Each Series of Preferred Stock. The affirmative vote or written consent of the holders of record of at least tow-thirds of the outstanding shares of a series of the Preferred Stock shall be a prerequisite of the right of the corporation.

(A) To create any shares of any securities convertible into or evidencing the right to purchase shares ranking prior to such series of the Preferred Stock with respect to the payment of dividends or of assets upon liquidation, dissolution or winding up; or

(B) To change the designations, preferences, limitations, or relative rights of the outstanding shares or such series of Preferred Stock in any manner prejudicial to the holders thereof.

(v) Action Requiring Approval of a Majority of Outstanding Shares of Each Series of Preferred Stock. The affirmative vote or written consent of the holders of a majority of the outstanding shares of each series of Preferred Stock shall be a prerequisite to the right of the corporation to authorize any shares of Preferred Stock in excess of 2,000,000 shares or any other shares ranking on a parity with Preferred Stock with respect to the payment of dividends or of assets upon liquidation, dissolution or winding up.

(8) Restrictions in Event of Default in Dividends on Preferred Stock

If at any time the corporation shall have failed to pay dividends in full on the Preferred Stock, thereafter and until dividends in full, including all accrued and unpaid dividends for all past quarterly dividend periods on the Preferred Stock outstanding, shall have been declared and set apart in trust for payment or paid, or if at any time the corporation shall have failed to pay in full amounts payable with respect to any obligations to retire shares of the Preferred Stock, thereafter and until such amount shall have been paid in full or set apart in trust for payment (a) the corporation, without the affirmative vote or consent of the holders of at least 66-2/3% of the Preferred Stock at the time outstanding given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, at which the holders of the Preferred Stock shall vote separately as a class, regardless of series, shall not redeem less than all of the Preferred Stock at such time outstanding; (b) the corporation shall not purchase any Preferred Stock except in accordance with a purchase offer made in writing to all holders of Preferred Stock of all series upon such terms as the Board of Directors in its sole discretion after consideration of the respective annual dividend rate and other relative rights and preferences of the respective series, shall determine (which determination shall be final and conclusive) will result in fair and equitable treatment among the respective series; provided that (i) the corporation, to meet the requirements of any purchase retirement or sinking fund provisions with respect to any series, may use shares of such series acquired by it prior to such failure and then held by it as treasury stock and (ii) nothing shall prevent the corporation from completing the purchase or redemption of shares of Preferred Stock for which a purchase contract was entered into for any purchase, retirement or sinking fund purposes, or the notice of redemption of which was initially mailed, prior to such failure; and (c) the corporation shall not redeem, purchase or otherwise acquire, or permit any subsidiary to purchase or acquire any shares of any other stock of the corporation ranking junior to the Preferred Stock as to dividends and upon liquidation.

(9) Series B, $2.00 Cumulative Convertible Preferred Stock.

(a) Designation - Series B. There shall be a series of the Preferred Stock of this corporation hereby designated as Series B, $2.00 Cumulative Convertible Preferred Stock (hereinafter in this Paragraph (9) referred to as "Series B Stock") consisting of 1,000,000 shares. The shares of Series B Stock shall have the rights and preferences hereinafter set forth, in addition to those otherwise provided with respect to all shares of Preferred Stock.

(b) Dividends - Series B. The rate of dividends on the Series B Stock shall be $2.00 pre annum, payable quarterly on the last days of March, June, September and December of each year for the respective Dividend Periods ending on such dates. Dividends on shares of Series B Stock shall accrue from and after October 1, 1978 and shall be cumulative from and after such date whether or not on nay quarterly dividend date there shall be funds legally available for the payment of dividends.

(c) Liquidation, Dissolution or Winding Up - Series B. In case of voluntary or involuntary liquidation, dissolution or winding up of the corporation, the holders of Series B Stock shall be entitled to receive out of the assets of the corporation in money's worth an amount equal to $40.00 for each share of the Series B Stock, plus all accrued but unpaid dividends thereon, and no more, before any of such assets shall be paid or distributed to holders of Common Stock. The consolidation or merger of the corporation with or into any other corporation, or a sale of all or any part of its assets, shall not be deemed a liquidation, dissolution or winding up of the corporation within the meaning of this paragraph.





(d) Redemption - Series B.

(1) The shares of Series B Stock shall not be redeemable on or before October 9, 1983 and thereafter will be redeemable at any time at the option of the corporation, exercised by resolution of the Board of Directors, either in whole or in part, at (x) a redemption price per share equal to the lesser of (i) $40.00 per share, or (ii) 110% of the less of (A) the average of the high and low sales prices of the shares of Common Stock, par value $5 per share, of Globe-Union Inc. as reported in the New York Stock Exchange - Composite Transactions (or by any such other national securities exchange on which such shares shall be listed) on the trading day immediately preceding the date on which the shareholders of Globe-Union Inc. approve the Plan and Agreement of Reorganization dated June 27, 1978 between Globe-Union Inc. and the corporation, or (B) the average "when issued" price of the Series B Stock as quoted in the customary "when issued" market on such trading day immediately preceding the date of such approval by the shareholders of Globe-Union Inc., except that in the event that there is not in the opinion of Goldman Sachs & Co. a readily ascertainable "when issued" market for the Series B Stock on such trading day, then such average "when issued" price shall, for purposes of this clause (II)(B), be the average of the high and low sales prices of the Series B Stock as reported in the New York Stock Exchange - Composite Transactions (or by any such other national securities exchange on which such shares shall be listed) on the first trading day on which such shares are traded after October 10, 1978 (or if such Series B Stock is not listed on the New York Stock Exchange (or any such other national securities exchange) on such first trading date after October

10, 1978 then the average of the bid and asked prices of the Series B Stock on such first trading date as quoted by the National Association of Securities Dealers through its automated quotation system), plus (y) in each case a sum equal to all accrued but unpaid dividends of such Series B Stock; provided, however, that the corporation shall have no such right to redeem shares of Series B Stock unless the product of (A) the quotient of the conversion value (as defined in clause (e) below) divided by the basic conversion price (as adjusted from time to time), times (B) the average of the high and low sales prices of the Common Stock of the corporation, as reported in the New York Stock Exchange - Composite Transactions (or such other principal market quotation as may then be applicable to such Common Stock) for ten consecutive trading days ending with the tenth trading day prior to the date of the corporation's notice of redemption under clause (d) (2) below, is at least $42.00 for each such trading day.

(2) Notice of any redemption of Series B Stock, specifying the time and place of redemption, shall be mailed to each holder of record of the shares to be redeemed, at his address of record, not more than all the shares owned by such shareholder are then to be redeemed, the notice shall also specify the number of shares thereof which are to be redeemed and the number of the certificates representing such shares.





(e) Conversion Right - Series B. Any holder of Series B Stock may convert the same, at any time, into shares of Common Stock on the basis herein provided, at a basic conversion price of $32.40 per share, subject to adjustment from time to time as hereinbefore provided in Paragraph (5), provided that the conversion right of any shares of Series B Stock which shall have been called for redemption shall terminate at the close of business on the fifth day preceding the date fixed for the redemption of such shares. For the purpose of such conversion, shares of Series B Stock shall at all times be taken to have a conversion value of 440.00 per share.

(f) Notice to Holders of Series B Stock. Immediately after the initial issuance of the Series B Stock the corporation shall file with its transfer agent or agents a statement specifying the redemption price provided in clause (d) (1) (x) and the basic conversion price provided in clause (e) (including, in reasonable detail, the manner in which such redemption price and basic conversion price were calculated), and cause a notice, setting forth such redemption price and basic conversion price, to be mailed to holders of record of shares of Series B Stock at their addresses as shown on the books of the corporation."

(B) Common Stock

(1) Dividends

After all dividends on all series of Preferred Stock entitled to dividends which shall have accrued through the ends of the last preceding Dividend Periods set for all such series shall have been paid or declared and set apart for payment at the rates at which such series of Preferred Stock are entitled for the last preceding Dividend Periods set for such series, the holders of the Common Stock shall be entitled to receive such dividends as may be declared thereon from time to time by the Board of Directors, at its discretion, out of any assets of the corporation at the time legally available for payment of dividends of Common Stock.

(2) Dissolution

In the event of the dissolution of the corporation, whether voluntary or involuntary, after distribution to the holders of all shares of Preferred Stock which shall be entitled to a preference over the holders of Common Stock of the full preferential amounts to which they are entitled, the holders of Common Stock shall be entitled to share ratably in the distribution of the remaining assets of the corporation.

(3) Voting Rights of Common Stock

Holders of Common Stock shall be entitled to one vote for each share of such class held on all questions on which shareholders of the corporation as entitled to vote and shall vote together share for share with the holders of Preferred Stock as one class, except as otherwise provided by law or as herein otherwise provided.



(C) General

(1) Pre-emptive Rights

No holder of any class of stock of the corporation shall have any pre-emptive or preferential right to subscribe for or purchase any of the unissued shares of stock the corporation, whether now or hereafter authorized, or any stock of this corporation purchased by this corporation or by its nominee or nominees, or any bonds, certificates of indebtedness, debentures or other securities convertible into stock of this corporation, or any right of subscription to any thereof other than such, if any, as the Board of Directors in its discretion may from time to time determine.

(2) Holders of Record

The corporation shall be entitled to treat the holder of record of any share or shares or stock as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in any such share or shares on the part of any other person, whether or not it shall have express or other notice thereof.

(3) Increases Shareholder Voting Requirement in Connection with Certain Merger and Other Transactions

(a) Except as set forth in clause (d) of this Paragraph (3), the affirmative vote or consent of the holders of four-fifths of all classes of stock of this corporation entitled to vote in elections of directors, considered for the purposes of this Paragraph (3) as one class, shall be required (i) for the adoption of any agreement for the merger or consolidation of this corporation with or into any other corporation, or (ii) to authorize any sale, lease, exchange, mortgage, pledge or other disposition of all or any substantial part of the assets of this corporation to, or any sale, lease, exchange, mortgage, pledge or other disposition to this corporation or any subsidiary thereof in exchange for securities of this corporation of any assets of, any other corporation, person or other entity, if, in either case, as of the record date for the determination of shareholders entitled to notice thereof and to vote thereon or consent thereto such other corporation, person or entity is the beneficial owner, directly or indirectly, of more than 10% of the outstanding shares of stock of this corporation entitled to vote in elections of directors considered for the purposes of this Paragraph (3) as one class. Such affirmative vote or consent shall be in addition to the vote or consent of the holders of the stock of this corporation otherwise required by law, these Articles of Incorporation or any agreement between this corporation and any national securities exchange.





(b) For the purposes of this paragraph (3), (i) any corporation, person or other entity shall be deemed to be the beneficial owner of any shares of stock of this corporation (A) which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise or (B) which are beneficially owned, directly or indirectly (including shares deemed owned through application of subclause (A), above), by any other corporation, person or entity with which it or its "affiliate" or "associate" (as defined below) has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposition of stock of this corporation, or which is its "affiliate" or "associate" as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on January 1, 1969, and (ii) the outstanding shares of any class of stock of this corporation shall include shares deemed owned through application of subclauses (A) and (B) above but shall not include any other shares which may be issuable pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise.

(c) The Board of Directors shall have the power and duty to determine for the purposes of this Paragraph (3), on the basis of information known to such Board, whether (i) such other corporation, person or other entity beneficially owns more than 10% of the outstanding shares of stock of this corporation entitled to vote in elections of directors, (ii) a corporation, person, or entity is an "affiliate" or associate (as defined above) of another, and (iii) the memorandum of understanding referred to below is substantially consistent with the transaction covered thereby. Any such determination shall be conclusive and binding for all purposes of this Paragraph (3).

(d) The provisions of this Paragraph (3) shall not be applicable to (i) any merger or consolidation of this corporation with or into any other corporation, or any sale, lease, exchange, mortgage, pledge or other disposition of all or any substantial part of the assets of this corporation to, or any sale, lease mortgage, pledge or other disposition to this corporation or any subsidiary thereof in exchange for securities of this corporation of any assets of, any other corporation, person or other entity, if the Board of Directors of this corporation shall by resolution have approved a memorandum of understanding with such other corporation, person or other entity, with respect to and substantially consistent with such transaction prior to the time such other corporation, person or other entity shall have become a beneficial owner of more than 10% of the shares of stock of this corporation entitled to vote in elections of directors; or (ii) any merger or consolidation of this corporation with, or any sale, lease, exchange, mortgage, pledge or other disposition to this corporation or any subsidiary thereof of any assets of any corporation of which a majority of the outstanding shares of all classes of stock entitled to vote in elections of directors is owned of record or beneficially by this corporation and its subsidiaries.





(e) No amendment to these Articles of Incorporation shall amend, alter, change or repeal any of the provisions of this Paragraph (3), unless the amendment effecting such amendment, alteration, change or repeal shall receive the affirmative vote or consent of the holders of four-fifths of all classes of stock of this corporation entitled to vote in elections of directors, considered for the purposes of this Paragraph (3) as one class.

## ARTICLE IV

## Board of Directors

The Board of Directors shall consist of such number of directors (not less than three) as in fixed from time to time by the By-laws. The By-laws may provide, to the extent permitted by law, that the directors be divided into classes and that the terms of office or directors of each class may be more than one year. A director may be removed from office during the term for which he has been elected only by affirmative vote to two-thirds of the outstanding shares entitled to vote for the election of such director.

## ARTICLE V

## Registered Office and Agent

The address of the registered office is 5757 North Green Bay Avenue, Glendale, Wisconsin 53209, and the name of the registered agent at such address is John P. Kennedy.

## ARTICLE VI

## Indemnification

(A) The corporation shall indemnify any person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suite or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorney's fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connect with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to he best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did





not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(B) The corporation shall indemnify any person who was or is a party threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorney's fees, actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(C) To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in the preceding Sections (A) and (B) of this Article VI, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorney's fees, actually and reasonably incurred by him in connection therewith.

(D) Any indemnification under Sections (A) or (B) of this Article VI, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in such Sections. Such determination shall be made:

(1) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding.

(2) If such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or

(3) By the shareholders.

(E) Expenses, including attorney's fees, incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided in Section (D) upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this Article VI.





(F) The right to indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(G) The corporation may purchase and maintain insurance on behalf of any person who is or was a director, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

* * * * * * *

These Restated Articles of Incorporation supersede and take the place of the existing Articles of Incorporation and all amendments to the Articles of Incorporation.

This document was drafted by John P. Kennedy, Esq.

EXHIBIT 11

JOHNSON CONTROLS, INC.
COMPUTATION OF PRIMARY AND FULLY DILUTED
EARNINGS PER SHARE
(in millions, except per share data)

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> |
| PRIMARY EARNINGS PER SHARE | | | |
| Net Income | $288.5 | $234.7 | $195.8 |
| Preferred dividends, net of tax benefit | (9.5) | (9.5) | (9.4) |
| Earnings available for common shareholders | $279.0 | $225.2 | $186.4 |
| Average common shares outstanding | | | |
| Common stock | 83.5 | 82.6 | 81.8 |
| Common stock equivalents - Assumed exercise of stock options | 1.3 | 1.0 | 0.5 |
| | 84.8 | 83.6 | 82.3 |
| Primary earnings per share | $3.29 | $2.69 | $2.26 |
| FULLY DILUTED EARNINGS PER SHARE | | | |
| Net Income | $288.5 | $234.7 | $195.8 |
| After tax compensation expense which would arise from the assumed conversion of the Series D Convertible Preferred Stock | (5.5) | (5.6) | (5.8) |

| | | | |
|---|---|---|---|
| Fully diluted earnings | $283.0 | $229.1 | $190.0 |
| Average common shares outstanding | | | |
| Common stock | 83.5 | 82.6 | 81.8 |
| Conversion of Series D Convertible Preferred Stock | 5.6 | 6.0 | 6.2 |
| Common stock equivalents - Assumed exercise of stock options | 1.8 | 1.3 | 1.1 |
| | 90.9 | 89.9 | 89.1 |
| Fully diluted earnings per share | $3.12 | $2.55 | $2.13 |

</TABLE>

EXHIBIT 12

JOHNSON CONTROLS, INC.
COMPUTATION OF RATIO OF EARNINGS TO
FIXED CHARGES
(dollars in millions)

<TABLE>
<CAPTION>

| | For the Year Ended September 30, 1997 |
|---|---|
| <S> | <C> |
| Income from continuing operations | $220.6 |
| Provision for income taxes | 180.9 |
| Undistributed earnings of partially-owned affiliates | (9.1) |
| Minority interest in earnings of consolidated subsidiaries | 24.1 |
| Amortization of previously capitalized interest | 4.0 |
| | 420.5 |
| Fixed charges: | |
| Interest incurred and amortization of debt expense | 136.8 |
| Estimated portion of rent expense | 32.3 |
| Fixed charges | 169.1 |
| Less: Interest capitalized during period | (7.9) |
| | 161.2 |
| Earnings | $581.7 |
| Ratio of earnings to fixed charges | 3.4 |

</TABLE>

For the purpose of computing this ratio, "earnings" consist of (a) income from continuing operations before income taxes (adjusted for undistributed earnings or recognized losses of partially-owned affiliates, minority interest in earnings or losses of consolidated subsidiaries, and amortization of previously capitalized interest), plus (b) fixed charges, minus (c) interest capitalized during the period. "Fixed charges" consist of (a) interest incurred and amortization of debt expense plus (b) the portion of rent expense representative of the interest factor.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCONTINUED OPERATIONS

On February 28, 1997, the Company completed the sale of its Plastic Container division (PCD) to Schmalbach-Lubeca AG/Continental Can Europe (a member of the VIAG Group) for approximately $650 million, with a portion of the proceeds deferred. The Company recorded a gain on the sale of $135 million ($69 million or $.76 per fully diluted share, after-tax).

Operating results, net assets and cash flows of PCD have been segregated as discontinued operations in the accompanying consolidated financial statements. Net (loss) earnings of PCD were $(1.1) million ($(.01) per fully diluted share) on sales of $242 million for the five months ended February 28, 1997 and $12.0 million ($.13 per fully diluted share) on sales of $799 million for the year ended September 30, 1996.

| | Common Stock Price Range | | Dividends | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| First Quarter | $35-3/4 - 42-11/16 | $28-7/8 - 34-7/8 | $0.215 | $0.205 |
| Second Quarter | 39-3/8 - 45-11/16 | 32-5/16 - 37-13/16 | 0.215 | 0.205 |
| Third Quarter | 35-3/8 - 43-7/8 | 33-1/2 - 37-9/16 | 0.215 | 0.205 |
| Fourth Quarter | 41 - 49-13/16 | 31-1/4 - 38-1/4 | 0.215 | 0.205 |
| Year | $35-3/8 - 49-13/16 | $28-7/8 - 38-1/4 | $0.86 | $0.82 |

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 PCD as a discontinued operation.

CONTINUING OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

SALES

Consolidated net sales for 1997 reached a record $11,145 million, representing a 21% increase over 1996 sales of $9,210 million. The Company's automotive segment was the principal contributor to the year's increased sales.

Automotive segment sales for 1997 rose 28% to $8,022 million, up from the prior year's $6,250 million. Approximately one-half of the increase is attributable to the acquisition of Prince, the interior systems company acquired in October 1996. North American seating sales were strong despite a slight decline in industry vehicle production levels in 1997 compared with the prior year. The sales growth reflects the Company's participation with new vehicle models such as Ford's Expedition and F-150 light trucks and General Motors' minivans. Seating sales in Europe were higher, despite the impact of lower currency exchange rates, due to successful new programs with Ford, Chrysler and Volkswagen.



Sales of automotive batteries reached a record level due to higher unit shipments to existing markets and the addition of a new customer, Sears' Western Auto Parts America.

Controls segment sales increased 6% to $3,123 million from $2,960 million in 1996. Integrated facilities management activity in the commercial market worldwide was the source of most of the segment's growth. Sales were also higher in the non-residential building construction markets in the Asia/Pacific region and the United States.

Looking to 1998, management expects consolidated net sales will exceed the 1997 level. Automotive segment sales are expected to increase approximately 8% to 13%, reflecting the launch of new seating business in North America, Europe, and South America; tempered by an expectation for slightly lower vehicle production levels in North America. Sales of automotive batteries are also expected to increase due to growth from existing customers and the Company's new three-year contract to manufacture Sears DieHard Gold brand batteries.

Management expects controls segment sales to increase approximately 5% to 10% in 1998. The expected increase is based on the continued expansion of integrated facilities management activity in the commercial market and higher systems retrofit activity, particularly for U.S. government facilities. At September 30, 1997, the unearned backlog of commercial building systems and services contracts (excluding integrated facilities management) to be executed within the next fiscal year was $760 million. The increase from the prior year amount of $746 million is primarily due to growth in orders in the non-residential building construction market in the Asia/Pacific region.

## OPERATING INCOME

Consolidated operating income for 1997 was $527 million, including a $70 million restructuring charge recorded in the second quarter (see discussion that follows). Operating income before the restructuring charge was $597 million, a 25% increase over the prior year's $479 million.

The automotive segment's operating income, excluding the segment's portion of the restructuring charge, rose to $478 million, a 32% increase from the prior year's $361 million. The inclusion of earnings from Prince and higher seating shipments in North America and Europe contributed to the segment's increased operating income. Higher automotive battery volumes contributed to the segment's operating income growth. Start-up and engineering investments related to new seating programs worldwide, especially in Europe and South America, and strikes at two of the Company's automotive facilities also affected segment operating income.

Operating income for the controls segment, excluding the segment's portion of the restructuring charge, increased 2% to $119 million. The improvement was largely due to increased integrated facilities management activity in the commercial market, both in North America and continental Europe. This improvement was partially offset by lower operating margins in the North American systems and services market as investments outpaced revenues.



In the second quarter of 1997, the Company recorded a restructuring charge, including related asset writedowns, of $70 million involving its automotive and controls segments. The automotive initiatives primarily relate to European operations where certain manufacturing capacity is being realigned with anticipated future customer sourcing requirements, and product development resources are being consolidated. The charge associated with the controls business principally addresses the Company's decision to restructure certain low-margin service activities which are outside its core controls and facilities management businesses. At September 30, 1997, costs of $55 million had been charged against the reserve, comprised of asset writedowns of $43 million, employee severance and termination benefits of $6 million, and other costs relating to the restructuring initiatives of $6 million. Restructuring actions are expected to be completed during 1998.

Consolidated operating income is expected to increase in 1998, based principally on higher sales projections and improved efficiencies. The automotive segment's operating income is anticipated to grow as a result of new seating business worldwide, continued involvement in successful vehicle programs, and reduced start-up and engineering costs in Europe as new programs move from start-up to production. The launch of new seating programs in South America and the Asia/Pacific region, however, is expected to continue to reduce operating income. The automotive segment has supply agreements with certain of its customers that provide for annual productivity price reductions and, in some instances, for the recovery of material and labor cost increases. The segment has been, and anticipates it will continue to be, able to significantly offset any sales price changes with cost reductions from design changes, productivity improvements and similar programs with suppliers. Controls segment operating income is expected to increase due to expansion of integrated facilities management and systems retrofit activity in the commercial market. Performance in the systems and services market is expected to improve as certain initiatives started in 1997, including cost reduction and productivity improvement programs, continue in 1998.

## OTHER INCOME/EXPENSE

Net interest expense (interest expense net of interest income) in 1997 was $113 million, $47 million higher than the prior year. The increase was primarily the result of the financing associated with the acquisition of Prince for approximately $1.3 billion at the beginning of the Company's fiscal year. Net interest expense in 1998 is expected to be slightly lower than in 1997.

Miscellaneous-net income of $11 million increased by $3 million over the prior year. The improvement was primarily due to higher equity income, with strong contributions from the automotive segment's partially-owned affiliates in North America and Europe.

PROVISION FOR INCOME TAXES
--------------------------

The effective income tax rate on continuing operations was 42.5% for 1997 compared with 40.8% for the prior year. The increase primarily reflects the non-deductible goodwill amortization associated with the acquisition of Prince. The effective rate for the fiscal year was higher than the combined federal and state statutory rate of approximately 39%, due mostly to the non-deductible goodwill amortization of Prince and higher foreign effective rates. No significant change in the effective income tax rate is anticipated for 1998.



INCOME FROM CONTINUING OPERATIONS
---------------------------------

The Company's income from continuing operations for 1997 was $221 million or $2.37 per fully diluted share. Before the restructuring charge ($40 million or $.44 per fully diluted share, after-tax), income from continuing operations totaled $261 million, which represents a 17% increase from the prior year's $223 million. The increase was attributable to improvements in operating income, offset in part by higher net interest expense. Fully diluted earnings per share from continuing operations (before the restructuring charge) were $2.81, up from $2.42 in the prior year.

FISCAL 1996 COMPARED TO FISCAL 1995
-----------------------------------

SALES
-----

Consolidated net sales for 1996 were $9,210 million, representing a 24% increase over 1995 sales of $7,401 million. Automotive segment sales rose 31% to $6,250 million in 1996, principally due to the Company's participation in new and successful vehicle seating programs worldwide and the acquisition of Roth Freres (Roth) during the year. New seating programs launched in 1996 included Ford's F-Series light truck in North America and Fiesta in Europe. Some of the more successful vehicle programs in which the Company participates include Ford's Explorer, Chrysler's Jeep Cherokee and General Motors' Jimmy/Blazer. In December 1995, the Company completed the acquisition of approximately 75% of Roth, a major supplier of seating and interior components to the European automotive industry, which added approximately $500 million to 1996 sales. Sales of automotive batteries increased as a result of the higher level of unit shipments to both replacement and original equipment customers. Increased market penetration by aftermarket battery customers and the colder winter weather were key contributors to the increase in replacement battery demand. In addition, higher lead costs, which are passed through to customers in pricing, increased sales.

Controls segment sales for 1996 were $2,960 million, 13% greater than 1995. The increase was primarily generated by a higher level of activity in the existing buildings market. Worldwide commercial integrated facilities management sales improved substantially year-over-year. Sales of retrofit control systems to the non-residential buildings market, primarily in the form of performance contracts, also contributed to the increase. Construction sales in Europe and the Asia/Pacific region were also higher than the year ago period. Facilities management activity in the U.S. government market was lower than the prior year.

OPERATING INCOME
----------------

Consolidated operating income for 1996 was $479 million, an increase of 21% over 1995. The automotive segment's operating income increased 24% to $361 million in 1996. The segment benefited from higher volumes in both North America and Europe. Operating margin improvements in North America and Europe, associated with established vehicle seating program efficiencies, were more than offset by start-up costs in the segment's



emerging South American and Asia/Pacific seating markets. Significant reductions in battery operating costs benefited operating margins.

BUSINESS SEGMENTS(1)

| Year ended September 30, (in millions) | Net Sales | Operating Income Prior to Charge for Restructuring(2) | Operating Income | Assets (Year End) | Depreciation/ Amortization | Capital Expenditures |
|---|---|---|---|---|---|---|
| 1997 | | | | | | |
| Automotive | $ 8,022.1 | $477.6 | $440.6 | $4,456.2 | $295.6 | $309.7 |
| Controls | 3,123.3 | 119.5 | 86.5 | 1,143.4 | 59.3 | 61.2 |
| Unallocated | - | - | - | 449.0 | - | - |
| Consolidated | $11,145.4 | $597.1 | $527.1 | $6,048.6 | $354.9 | $370.9 |
| 1996 | | | | | | |
| Automotive | $ 6,250.2 | $361.2 | $361.2 | $2,970.5 | $209.1 | $260.6 |
| Controls | 2,959.8 | 117.7 | 117.7 | 1,177.1 | 53.4 | 61.7 |
| Unallocated | - | - | - | 402.9 | - | - |
| Net assets of discontinued operations | - | - | - | 440.7 | - | - |
| Consolidated | $ 9,210.0 | $478.9 | $478.9 | $4,991.2 | $262.5 | $322.3 |
| 1995 | | | | | | |
| Automotive | $ 4,770.4 | $291.1 | $291.1 | $2,264.7 | $172.2 | $274.4 |
| Controls | 2,630.3 | 104.0 | 104.0 | 1,071.1 | 46.9 | 56.5 |
| Unallocated | - | - | - | 345.2 | - | - |
| Net assets of discontinued operations | - | - | - | 466.6 | - | - |
| Consolidated | $ 7,400.7 | $395.1 | $395.1 | $4,147.6 | $219.1 | $330.9 |

(1) Prior year segment information has been reclassified to conform to the current year's presentation.

(2) Operating income for 1997 includes a restructuring charge (see Note 2) of $70.0 million, with $37.0 million charged to the automotive segment and $33.0 million charged to the controls segment.

Operating income of the controls segment was $118 million, an increase of 13% over the prior year. Income grew in line with the higher sales and primarily resulted from the increased activity in the worldwide existing commercial buildings market.

OTHER INCOME/EXPENSE

Net interest expense (interest expense net of interest income) in 1996 was $66 million, $19 million higher than the prior year. The increase primarily resulted from the financing associated with the Roth acquisition and the debt assumed with the purchase.

Miscellaneous-net income of $8 million compares to an expense of $10 million in the prior year. The Company recorded $14 million more in equity income in 1996 than in 1995. The majority of this improvement related to the Company's Mexican affiliates, which benefited from both improved operating results and the absence of prior year losses associated with



the Mexican Peso devaluation. Other miscellaneous income items in 1996 included gains associated with the sale of certain assets and foreign currency transactions.

PROVISION FOR INCOME TAXES

The effective income tax rate on continuing operations for 1996 was 40.8%, lower than the 1995 rate of 42.3%. The effective rate declined due to improved performance by certain of the Company's consolidated subsidiaries and

European operations, offset by start-up operations in emerging markets. The effective rate for the fiscal year remained higher than the combined federal and state statutory rate of approximately 39%, principally due to overall higher foreign effective rates.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations rose 33% in 1996 to $223 million as a result of the improvements in operating and equity income, offset by the increase in interest expense. Fully diluted earnings per share from continuing operations were $2.42 for 1996, up from $1.82 in 1995.

CAPITAL EXPENDITURES AND OTHER INVESTMENTS

Capital expenditures associated with continuing operations were $371 million, $322 million and $331 million in 1997, 1996 and 1995, respectively. Capital expenditures for the automotive segment accounted for approximately 80% of the 1997 spending, and were related to the expansion of automotive seating and interior facilities and product lines worldwide and cost reduction projects. Controls segment spending was primarily for information technology and cost reduction projects. Capital expenditures for 1998 are expected to approximate $350-$375 million, with the majority anticipated to again focus on automotive seating and interior systems expansion, with spending by the controls segment on information technology and automated business systems. Cost reduction programs related to both segments are expected to account for the majority of the remainder of the expenditures.

Goodwill increased $1,012 million to $1,560 million at September 30, 1997. The increase is attributable to businesses acquired during 1997, most notably the acquisition of Prince at the beginning of the Company's fiscal year. All acquisitions were accounted for as purchases and, as such, operating results are included from the respective acquisition dates.

Investments in partially-owned affiliates of $145 million were approximately $16 million higher than the prior year. A notable increase during 1997 resulted from the formation of an automotive battery joint venture in Brazil. Additionally, the Company earned approximately $20 million of equity income for the year. The increases were partially offset by the impact of currency translation and dividend distributions.

LIQUIDITY AND CAPITAL RESOURCES



CASH FLOW

Cash of $617 million was provided by operating activities of continuing operations during 1997 compared with $403 million in 1996. This increase was generated by a favorable change in the level of working capital. Total working capital (excluding "Net assets of discontinued operations") decreased to a negative $443 million at September 30, 1997 compared to $226 million at September 30, 1996. The significant decrease in working capital relates to the increase in short-term debt which was used to finance the acquisition of Prince. Working capital, excluding debt and cash, was lower than the prior year largely due to higher accounts payable and accrued liabilities.

CAPITALIZATION

The Company's capitalization of $3,151 million at September 30, 1997 included short-term debt of $538 million; long-term debt, including the current portion, of $925 million; and shareholders' equity of $1,688 million. Total debt as a percentage of total capitalization increased to 46% from 41% at September 30, 1996. The increase is attributable to the issuance of short-term debt to finance the acquisition of Prince. However, this represents a significant decline from the 60% level that existed in the first quarter of fiscal 1997, after Prince was acquired. The reduction is due to the Company's use of the after-tax proceeds from the sale of PCD and strong operating cash flows during the second half of 1997 to reduce short-term debt.

In September 1996, the Company entered into two revolving credit facilities, one for $1.1 billion maturing in September 1997 and the other for $500 million maturing in May 2001. In May 1997, the $500 million credit facility was increased to $600 million, with an option to increase it to $1 billion, and a maturity of May 2002. The Company's other credit facility was renegotiated in September 1997, decreasing the facility to $250 million, with a maturity of September 1998. The credit facilities support the issuance of commercial paper. At September 30, 1997, $538 million of short-term borrowings were outstanding compared with $248 million at 1996 fiscal year-end.

QUARTERLY FINANCIAL DATA

| Year ended September 30, | First Quarter | Second Quarter(1) | Third Quarter | Fourth Quarter | Full Year(1) |
|---|---|---|---|---|---|
| (in millions, except per share data; unaudited) | | | | | |
| 1997 | | | | | |
| Net sales | $2,761.3 | $2,743.6 | $2,879.3 | $2,761.2 | $11,145.4 |
| Gross profit | $ 406.7 | $ 375.3 | $ 433.4 | $ 444.4 | $ 1,659.8 |
| Income (loss) from continuing operations | $ 54.9 | $ (1.6) | $ 74.4 | $ 92.9 | $ 220.6 |
| Discontinued operations, net of tax | $ (1.8) | $ 69.7 | - | - | $ 67.9 |
| Net income | $ 53.1 | $ 68.1 | $ 74.4 | $ 92.9 | $ 288.5 |
| Earnings (loss) per share from continuing operations | | | | | |
| Primary | $ 0.63 | $ (0.06) | $ 0.85 | $ 1.06 | $ 2.48 |
| Fully diluted | $ 0.59 | $ (0.03) | $ 0.81 | $ 1.00 | $ 2.37 |
| Earnings per share | | | | | |
| Primary | $ 0.61 | $ 0.77 | $ 0.85 | $ 1.06 | $ 3.29 |
| Fully diluted | $ 0.57 | $ 0.74 | $ 0.81 | $ 1.00 | $ 3.12 |
| 1996 | | | | | |
| Net sales | $1,997.0 | $2,245.5 | $2,482.0 | $2,485.5 | $ 9,210.0 |
| Gross profit | $ 303.2 | $ 299.3 | $ 349.5 | $ 379.7 | $ 1,331.7 |
| Income from continuing operations | $ 45.3 | $ 36.3 | $ 63.5 | $ 77.6 | $ 222.7 |
| Discontinued operations, net of tax | $ 1.7 | $ 0.1 | $ 5.8 | $ 4.4 | $ 12.0 |
| Net income | $ 47.0 | $ 36.4 | $ 69.3 | $ 82.0 | $ 234.7 |
| Earnings per share from continuing operations | | | | | |
| Primary | $ 0.52 | $ 0.40 | $ 0.73 | $ 0.90 | $ 2.55 |
| Fully diluted | $ 0.49 | $ 0.39 | $ 0.69 | $ 0.85 | $ 2.42 |
| Earnings per share | | | | | |
| Primary | $ 0.54 | $ 0.40 | $ 0.80 | $ 0.95 | $ 2.69 |
| Fully diluted | $ 0.51 | $ 0.39 | $ 0.76 | $ 0.89 | $ 2.55 |

(1)Second quarter earnings include (per fully diluted share) the effects of a restructuring charge equal to $(.44), earnings from discontinued operations of $.01 and a gain on the sale of discontinued operations of $.76; full year earnings include a loss from discontinued operations of $(.01). Excluding these items would result in earnings per fully diluted share of $.41 for the second quarter and $2.81 for the year.

In May 1997, the Company's $1.5 billion universal shelf registration statement, under which the Company can issue a variety of debt and equity instruments, was made effective by the Securities and Exchange Commission. In July 1997, the Company refinanced a portion of its commercial paper borrowings associated with the Prince acquisition by issuing $150 million of 7.125% notes due in 2017. In November 1997, the shelf registration statement was amended to provide the ability to offer a maximum of $500 million of medium term notes.



High credit ratings from Moody's (A2), Fitch (A), and Standard & Poor's (A) have been maintained on the Company's long-term debt.

The Company's capital resources and liquidity position are considered sufficient to meet projected needs. Requirements for working capital, capital expenditures, dividends and debt maturities in fiscal 1998 are expected to be funded from operations, supplemented by short-term or long-term borrowings, if required.

RISK MANAGEMENT

The Company is exposed to market risk from changes in foreign exchange and interest rates and, to a lesser extent, commodities. To reduce such risks, the Company selectively uses financial instruments. 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. Analytical techniques used to manage and monitor foreign exchange and interest rate risk include market valuation and sensitivity analysis.

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 the Consolidated Financial Statements, and further disclosure relating to financial instruments is included in Note 8 - Financial Instruments.

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 are first centralized and then netted internally so that only the Company's net foreign exchange exposures are hedged with financial instruments. The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables, predominately intercompany transactions. Gains and losses resulting from hedging instruments offset the gains or losses on the underlying assets, liabilities and investments being hedged. The Company's forward exchange contracts generally have maturities which do not exceed 12 months, and the maturities 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 has entered into two cross-currency interest rate swaps to hedge portions of its net investments in Germany and France. The currency effects of these swaps are reflected in the cumulative translation adjustments account within shareholders' equity where they offset gains and losses on the net investments in Germany and France. The currencies that the Company was primarily exposed to on September 30, 1997 were the British Pound, French Franc, German Mark, Italian Lira, Hong Kong Dollar, Spanish Peseta, Portuguese Escudo and Australian Dollar.

SENSITIVITY ANALYSIS: The following table indicates the U.S. dollar equivalents of the net foreign exchange contracts and non-functional currency denominated debt (instruments) outstanding by currency and the corresponding impact on the value of these instruments



assuming both a 10% appreciation and depreciation of the respective currencies. The resulting functional currency gains and losses are translated at the U.S. dollar spot rate on September 30, 1997. As noted above, 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 underlying payables, receivables and net investments in foreign subsidiaries.

<TABLE>
<CAPTION>

| | | Foreign Exchange Gain/(Loss) from: | |
|---|---|---|---|
| Currency | Net Amount of Instruments Long/(Short) | 10% Appreciation of the Functional Currency | 10% Depreciation of the Functional Currency |
| <S> | <C> | <C> | <C> |
| (dollars in millions) | | | |
| British Pounds | $(146) | $15 | $(15) |
| French Francs | (33) | 3 | (3) |
| German Marks | (28) | 3 | (3) |
| Italian Lira | 24 | (2) | 2 |
| Hong Kong Dollars | (21) | 2 | (2) |
| Spanish Pesetas | (20) | 2 | (2) |
| Portuguese Escudos | 15 | (2) | 2 |
| Australian Dollars | (9) | 1 | (1) |
| Other | 37 | (4) | 4 |
| Total | $(181) | $18 | $(18) |

</TABLE>

INTEREST RATES
--------------

The Company uses interest rate swaps to modify the Company's exposure to interest rate movements. Certain cross-currency interest rate swaps are designated as hedges of the Company's related foreign net investment exposures. Net interest payments or receipts from interest rate swaps are recorded as adjustments to interest expense in the consolidated statement of income on a current basis. 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 U.S. short-term money market rates. A 10% increase/ decrease in the average cost of the Company's short-term debt would result in an increase/decrease in pre-tax interest expense of approximately $3 million.

COMMODITIES
-----------

The Company's exposure to commodity price changes relates to certain manufacturing operations that utilize raw commodities. The Company manages its exposure to changes in those prices primarily through its procurement and sales practices. This exposure is not material to the Company.

FUTURE ACCOUNTING CHANGES



In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share." This statement establishes revised standards for computing and presenting earnings per share. The statement is effective for the Company's fiscal 1998 first quarter. All prior periods are required to be restated. The adoption of this standard will not have a material impact on the Company's reported earnings per share.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The Company's U.S. operations are governed by federal environmental laws, principally the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Air Act, and the Clean Water Act, as well as state counterparts ("Environmental Laws"), and by federal and state laws addressing worker safety and health ("Worker Safety Laws"). These laws govern ongoing operations and the remediation of sites associated with past operations. Under certain circumstances these laws provide for civil and criminal penalties and fines, as well as injunctive and remedial relief.

The Company's policy is to comply with applicable Environmental Laws and Worker Safety Laws, and it has expended substantial resources, both financial and managerial, to comply with such laws and for measures designed to protect the environment and maximize worker protection and safety.

The Company believes it is in substantial compliance with such laws, and maintains procedures designed to ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings. Such matters typically are resolved by negotiation with regulatory authorities resulting in commitments to compliance or abatement programs and payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

Environmental Laws require that certain parties fund remedial actions regardless of fault, legality of original disposal or ownership of the site. The Company is currently participating in environmental assessment and remediation at a number of sites under these laws, and it is likely that in the future the Company will be involved in additional environmental assessments and remediations. Such sites include facilities that had been engaged in the recycling of lead batteries.

Future remediation expenses at these and other sites are subject to a number of uncertainties, including the method and extent of remediation (dependent, in part, on existing laws and technology), the percentage and type of material attributable to the Company, the financial viability of site owners and the other parties, and the availability of insurance coverage. A charge to earnings is recorded for sites when it is probable that a liability has been incurred and the cost can be reasonably estimated.

Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in 1997 related solely to environmental compliance were not material. Environmental remediation, compliance and management expenses incurred by the Company in 1997 were approximately $9 million. At September 30, 1997, an accrued liability of approximately $36 million was maintained relating to environmental matters. The Company's environmental liabilities are undiscounted and do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental assessment and remediation activities, future expenses to remediate the currently 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 assessment and 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.

On June 30, 1995, the Company appealed to the Wisconsin Court of Appeals a Milwaukee County Circuit Court order granting summary judgment dismissing Johnson Controls' complaint against Employers Insurance of Wausau and other insurance companies seeking to recover environmental response costs at 21 sites. The Circuit Court based its decision on a 1994 Wisconsin Supreme Court case that held response costs incurred to remedy contamination were not "damages" as that term was used in comprehensive general liability policies. On April 22, 1997, the Wisconsin Supreme Court handed down decisions in two cases that held that certain types of environmental payments may be "damages." Based on these cases, the Company believes that the Court of Appeals will reverse the Circuit Court's decision, at least in part. If so, the Company believes that at least certain of its environmental costs should be reimbursed by the defendant insurance companies. The Company further believes that the insurers will claim that the costs are not recoverable on the theory that the damage was expected and intended. The Company has not recorded any anticipated recoveries of future insurance proceeds, and therefore, the outcome of this case should have no significant adverse impact on the Company's consolidated financial statements.

If future Environmental and Worker Safety Laws contain more stringent requirements than currently anticipated, expenditures could be expected to have a more significant effect on the Company's financial position, results of operations or cash flows. In general, the Company's competitors face the same laws, and, accordingly, the Company should not be placed at a competitive disadvantage.

## CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

The Company has made forward-looking statements in this document that are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future risks in the "Risk Management" section of this document and those preceded by, following or that include the words "believes," "expects," "anticipates" or similar expressions. For those statements, the Company cautions that the numerous important factors discussed elsewhere in this document and in the Company's Form 8-K filing (dated October 30, 1997), 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.



## CONSOLIDATED STATEMENT OF INCOME

<TABLE>
<CAPTION>

| | Year ended September 30, | | |
|---|---|---|---|
| (in millions, except per share data) | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> |
| Net sales | $11,145.4 | $9,210.0 | $7,400.7 |
| Cost of sales | 9,485.6 | 7,878.3 | 6,236.0 |
| Gross profit | 1,659.8 | 1,331.7 | 1,164.7 |
| Selling, general and administrative expenses | 1,062.7 | 852.8 | 769.6 |
| Restructuring charge | 70.0 | - | - |
| Operating income | 527.1 | 478.9 | 395.1 |
| Interest income | 9.9 | 7.9 | 7.1 |
| Interest expense | (122.7) | (73.4) | (53.7) |
| Miscellaneous - net | 11.3 | 8.1 | (10.2) |

| | | | |
|---|---|---|---|
| Other income (expense) | (101.5) | (57.4) | (56.8) |
| Income before income taxes and minority interests | 425.6 | 421.5 | 338.3 |
| Provision for income taxes | 180.9 | 171.8 | 143.0 |
| Minority interests in net earnings of subsidiaries | 24.1 | 27.0 | 27.3 |
| Income from continuing operations | 220.6 | 222.7 | 168.0 |
| Discontinued operations | | | |
| (Loss) income from discontinued operations, adjusted for applicable (benefit) provision for income taxes of $(1.0), $9.8 and $19.9, respectively, and minority interests | (1.1) | 12.0 | 27.8 |
| Gain on sale of discontinued operations, net of $66.0 of income taxes | 69.0 | - | - |
| Net income | $ 288.5 | $ 234.7 | $ 195.8 |
| Earnings available for common shareholders | $ 279.0 | $ 225.2 | $ 186.4 |
| Earnings per share from continuing operations | | | |
| Primary | $ 2.48 | $ 2.55 | $ 1.93 |
| Fully diluted | $ 2.37 | $ 2.42 | $ 1.82 |
| (Loss) earnings per share from discontinued operations | | | |
| Primary | $ (0.01) | $ 0.14 | $ 0.33 |
| Fully diluted | $ (0.01) | $ 0.13 | $ 0.31 |
| Earnings per share from gain on sale of discontinued operations | | | |
| Primary | $ 0.82 | $ - | $ - |
| Fully diluted | $ 0.76 | $ - | $ - |
| Earnings per share | | | |
| Primary | $ 3.29 | $ 2.69 | $ 2.26 |
| Fully diluted | $ 3.12 | $ 2.55 | $ 2.13 |

</TABLE>

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<TABLE>
<CAPTION>

| | September 30, | |
|---|---|---|
| (in millions) | 1997 | 1996 |
| <S> | <C> | <C> |
| ASSETS | | |
| Cash and cash equivalents | $ 111.8 | $ 165.2 |
| Accounts receivable, less allowance for doubtful accounts of $20.8 and $20.9, respectively | 1,467.4 | 1,376.7 |
| Costs and earnings in excess of billings on uncompleted contracts | 217.2 | 212.3 |
| Inventories | 373.4 | 344.7 |
| Net assets of discontinued operations | - | 440.7 |
| Other current assets | 359.5 | 309.5 |
| Current assets | 2,529.3 | 2,849.1 |
| Property, plant and equipment - net | 1,533.0 | 1,320.2 |
| Goodwill, less accumulated amortization of $173.7 and $127.2, respectively | 1,560.3 | 548.2 |
| Investments in partially-owned affiliates | 144.6 | 128.4 |
| Other noncurrent assets | 281.4 | 145.3 |
| Total assets | $6,048.6 | $4,991.2 |
| LIABILITIES AND EQUITY | | |
| Short-term debt | $ 537.8 | $248.1 |
| Current portion of long-term debt | 118.4 | 33.2 |
| Accounts payable | 1,341.9 | 1,178.2 |

| | | |
|---|---|---|
| Accrued compensation and benefits | 303.3 | 238.4 |
| Accrued income taxes | 78.8 | 44.0 |
| Billings in excess of costs and earnings on uncompleted contracts | 107.6 | 83.6 |
| Other current liabilities | 484.9 | 357.1 |
| Current liabilities | 2,972.7 | 2,182.6 |
| Long-term debt | 806.4 | 752.2 |
| Postretirement health and other benefits | 167.2 | 167.9 |
| Other noncurrent liabilities | 414.4 | 380.7 |
| Shareholders' equity | 1,687.9 | 1,507.8 |
| Total liabilities and equity | $6,048.6 | $4,991.2 |

</TABLE>

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



CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

| | Year ended September 30, | | |
|---|---|---|---|
| (in millions) | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> |
| OPERATING ACTIVITIES | | | |
| Income from continuing operations | $ 220.6 | $ 222.7 | $ 168.0 |
| Adjustments to reconcile income from continuing operations to cash provided by operating activities of continuing operations | | | |
| Depreciation | 283.6 | 226.6 | 191.7 |
| Amortization of intangibles | 71.3 | 35.9 | 27.4 |
| Equity in earnings of partially-owned affiliates | (20.4) | (15.9) | (1.6) |
| Deferred income taxes | (45.4) | 34.3 | 1.7 |
| Restructuring charge | 70.0 | - | - |
| Other | 29.4 | 11.1 | (1.3) |
| Changes in working capital, excluding acquisition and divestiture of businesses | | | |
| Receivables | (70.8) | (202.4) | (217.2) |
| Inventories | (41.7) | (43.1) | (19.3) |
| Other current assets | (15.5) | (9.3) | (37.2) |
| Accounts payable and accrued liabilities | 181.1 | 160.6 | 185.7 |
| Accrued income taxes | (70.7) | (14.5) | (11.7) |
| Billings in excess of costs and earnings on uncompleted contracts | 25.8 | (3.5) | 10.8 |
| Cash provided by operating activities of continuing operations | 617.3 | 402.5 | 297.0 |
| Cash (used) provided by operating activities of discontinued operations | (8.4) | 65.1 | 73.2 |
| Cash provided by operating activities | 608.9 | 467.6 | 370.2 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures | (370.9) | (322.3) | (330.9) |
| Sale of property, plant and equipment - net | 14.5 | 12.3 | 8.9 |
| Acquisition of businesses, net of cash acquired | (1,264.5) | (148.3) | (30.6) |
| Divestiture of businesses | 650.7 | - | - |
| Additions of long-term investments | (39.6) | (12.5) | (5.5) |
| Proceeds from long-term investments | 15.7 | 11.9 | 15.2 |
| Investing activities of discontinued operations | (19.5) | (49.1) | (109.4) |
| Other | - | 0.7 | 0.3 |
| Cash used by investing activities | (1,013.6) | (507.3) | (452.0) |
| FINANCING ACTIVITIES | | | |
| Increase in short-term debt | 330.8 | 101.1 | 107.1 |
| Issuance of long-term debt | 164.8 | 155.4 | 218.8 |
| Repayment of long-term debt | (56.7) | (83.7) | (206.8) |
| Payment of cash dividends | (83.4) | (80.0) | (76.3) |
| Net financing activities of discontinued operations | 16.5 | 24.4 | (12.6) |

| | | | |
|---|---|---|---|
| Other | (13.4) | 6.9 | 9.7 |
| Cash provided by financing activities | 358.6 | 124.1 | 39.9 |
| Effect of exchange rate changes on cash and cash equivalents | (7.3) | 0.3 | 0.5 |
| (Decrease) increase in cash and cash equivalents | $ (53.4) | $ 84.7 | $ (41.4) |

</TABLE>

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



CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

| (in millions) | Total | Preferred Stock | Unearned Compensation - ESOP | Common Stock | Capital in Excess of Par Value | Retained Earnings | Treasury Stock, at Cost | Cumulative Translation Adjustments |
|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| AT SEPTEMBER 30, 1994 | $ 1,202.8 | $ 164.1 | $ (146.6) | $ 7.1 | $ 509.9 | $ 730.7 | $ (54.9) | $ (7.5) |
| Net income | 195.8 | - | - | - | - | 195.8 | - | - |
| Reduction of guaranteed ESOP debt | 7.9 | - | 7.9 | - | - | - | - | - |
| Cash dividends | | | | | | | | |
| Series D preferred ($3.97 per one ten-thousandth of a share), net of $3.1 million tax benefit | (9.4) | - | - | - | - | (9.4) | - | - |
| Common ($.78 per share) | (63.8) | - | - | - | - | (63.8) | - | - |
| Translation adjustments | 0.3 | - | - | - | - | - | - | 0.3 |
| Other, including options exercised | 6.6 | (4.0) | - | - | 10.6 | - | - | - |
| AT SEPTEMBER 30, 1995 | 1,340.2 | 160.1 | (138.7) | 7.1 | 520.5 | 853.3 | (54.9) | (7.2) |
| Net income | 234.7 | - | - | - | - | 234.7 | - | - |
| Reduction of guaranteed ESOP debt | 9.0 | - | 9.0 | - | - | - | - | - |
| Cash dividends | | | | | | | | |
| Series D preferred ($3.97 per one ten-thousandth of a share), net of $2.7 million tax benefit | (9.5) | - | - | - | - | (9.5) | - | - |
| Common ($.82 per share) | (67.8) | - | - | - | - | (67.8) | - | - |
| Translation adjustments | (13.8) | - | - | - | - | - | - | (13.8) |
| Other, including options exercised | 15.0 | (5.5) | - | 0.1 | 14.5 | - | 5.9 | - |
| AT SEPTEMBER 30, 1996 | 1,507.8 | 154.6 | (129.7) | 7.2 | 535.0 | 1,010.7 | (49.0) | (21.0) |
| Net income | 288.5 | - | - | - | - | 288.5 | - | - |
| Reduction of guaranteed ESOP debt | 10.3 | - | 10.3 | - | - | - | - | - |
| Cash dividends | | | | | | | | |
| Series D preferred ($3.97 per one ten-thousandth of a share), net of $2.1 million tax benefit | (9.6) | - | - | - | - | (9.6) | - | - |
| Common ($.86 per share) | (71.7) | - | - | - | - | (71.7) | - | - |
| Translation adjustments | (58.2) | - | - | - | - | - | - | (58.2) |
| Two-for-one split of common stock | - | - | - | 7.2 | (7.2) | - | - | - |
| Other, including options exercised | 20.8 | (11.2) | - | - | 24.8 | - | 7.2 | - |
| AT SEPTEMBER 30, 1997 | $ 1,687.9 | $ 143.4 | $ (119.4) | $ 14.4 | $ 552.6 | $1,217.9 | $ (41.8) | $ (79.2) |

</TABLE>

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 majority-owned domestic and foreign subsidiaries. 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%. Gains and losses from the translation of most foreign currency financial statements are accumulated as a separate component of shareholders' equity.

## RECLASSIFICATION

The accompanying consolidated financial statements for 1997, 1996 and 1995 have been reclassified to identify separately the results of operations, financial position and cash flows of the Company's discontinued Plastic Container division, which was sold in February 1997 (see Note 1).

## USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

## 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.

## 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.

## INTANGIBLES

Goodwill arising from business acquisitions is amortized using the straight-line method over periods of 15 to 40 years. Patents and other intangibles are amortized over their estimated lives. The Company reviews the carrying value of goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of estimated



future operating cash flows anticipated to be generated during the remaining life of the goodwill to the net carrying value of goodwill.

## 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 Company has global operations and enters into forward exchange contracts to hedge certain of its foreign currency commitments. Forward points on forward exchange contracts are amortized to income over the life of the contracts. Gains and losses derived from the change in the spot rate on these contracts that hedge assets and liabilities are deferred and recognized when the hedged transaction is settled. Gains and losses on forward contracts that hedge net foreign investments are deferred in the cumulative translation adjustments (CTA) account within shareholders' equity. The Company uses interest rate swap agreements to modify its exposure to interest rate movements and reduce borrowing costs. Cross-currency interest rate swap agreements are also used to hedge a portion of the Company's net investments in foreign subsidiaries. Related foreign exchange gains and losses on the notional principal values of cross-currency swaps are deferred in CTA. Net interest payments or receipts from interest rate swaps and the interest component of cross-currency interest rate swaps are recorded as adjustments to interest expense in the Consolidated Statement of Income on a current basis.

REVENUE RECOGNITION
-------------------

The Company recognizes revenue from long-term contracts of the controls segment 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 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.

EARNINGS PER SHARE
------------------

Primary 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 and common stock equivalents which would arise from the exercise of stock options. Fully diluted earnings are computed by deducting from net income the after-tax compensation expense which would arise from the assumed



conversion of the Series D Convertible Preferred Stock, which was $5.5 million, $5.6 million and $5.8 million in 1997, 1996 and 1995, respectively. Fully diluted weighted average shares assume the conversion of the Series D Convertible Preferred Stock, if dilutive, plus the dilutive effect of the stock options.

The weighted average number of shares used in the primary and fully diluted earnings per share computations were as follows:

<TABLE>
<CAPTION>

| (in millions of shares) | Year ended September 30, 1997 | 1996 | 1995 |
|---|---|---|---|
| Primary | 84.8 | 83.6 | 82.3 |
| Fully diluted | 90.9 | 89.9 | 89.1 |

</TABLE>

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.

FUTURE ACCOUNTING CHANGES
-------------------------

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings per Share." This statement establishes revised standards for computing and presenting earnings per share. The statement is effective for the Company's fiscal 1998 first quarter. All prior periods will be required to be restated. The adoption of this standard will not have a material impact on the Company's reported earnings per share.

NOTE 1 - ACQUISITION AND DIVESTITURE

ACQUISITION OF PRINCE
---------------------

Effective October 1, 1996, the Company completed the acquisition of Prince Holding Corporation (Prince) for approximately $1.3 billion. Prince, based in Holland, Michigan, supplies automotive interior systems and components including overhead systems and consoles, door panels and floor consoles.

The acquisition was accounted for as a purchase. The excess of the purchase price over the fair value of the acquired net assets, which approximated $1.1 billion, was recorded as goodwill. The Company used the after-tax proceeds from the sale of its Plastic Container division (see below) and debt securities to finance the purchase.

DIVESTITURE OF PLASTIC CONTAINER DIVISION
----------------------------------------

On February 28, 1997, the Company completed the sale of its Plastic Container division (PCD) to Schmalbach-Lubeca AG/Continental Can Europe (a member of the VIAG Group) for approximately $650 million, with a portion of the proceeds deferred. The Company recorded a gain on the sale of $135 million ($69 million or $.82 per primary share and $.76 per fully diluted share, after-tax).



The results of PCD have been reported separately as discontinued operations in the Consolidated Statement of Income. The results of the discontinued operations do not reflect any interest expense or management fees allocated by the Company. Prior year consolidated financial statements have been restated to present PCD as a discontinued operation. Revenues of PCD were $242 million for the five months ended February 28, 1997 and $799 million for the year ended September 30, 1996. These amounts are not included in sales as reported in the Consolidated Statement of Income.

PRO FORMA FINANCIAL INFORMATION
-------------------------------

The following pro forma results of operations of the Company give effect to the acquisition of Prince, the divestiture of PCD, and the application of the after-tax proceeds from the PCD sale as though these transactions had occurred on October 1, 1995.

<TABLE>
<CAPTION>

| | Year ended September 30, | |
|---|---|---|
| (in millions, except per share data; unaudited) | 1997(1) | 1996 |
| <S> | <C> | <C> |
| Net sales | $11,145.4 | $10,076.7 |
| Income from continuing operations | $ 226.6 | $ 232.9 |
| Earnings per share from continuing operations | | |
| Primary | $ 2.56 | $ 2.67 |
| Fully diluted | $ 2.43 | $ 2.53 |
| Weighted average shares | | |
| Primary | 84.8 | 83.6 |
| Fully diluted | 90.9 | 89.9 |

</TABLE>

(1) Amounts include a restructuring charge (see Note 2) of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax).

The unaudited pro forma financial information presented is not necessarily indicative of either the results of operations that would have occurred had these transactions taken place on October 1, 1995 or the future results of operations.

NOTE 2 - RESTRUCTURING CHARGE

In the second quarter of 1997, the Company recorded a restructuring charge, including related asset writedowns, of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax). The restructuring initiatives involve the Company's automotive and controls segments and include four plant closings and the elimination of certain underperforming business lines resulting in workforce reductions of approximately 650 employees and the writedown of certain long-lived assets, including goodwill. These actions, taking place in both the United States and Europe, resulted in restructuring charges of $37.0 million and $33.0 million for the automotive and controls segments, respectively. The automotive segment charges primarily relate to its European business where certain manufacturing capacity is being eliminated or realigned with future customer sourcing requirements, and product development resources are being consolidated. Most significantly, the Company has decided to close a complete seat manufacturing facility located in Belgium due to the announcement by Renault of the closure of their automobile manufacturing operations in that country. In addition, the Company is converting a seat cushion facility in Portugal from a specialized rubberized hair to a new foam operation as a



result of the loss of certain General Motors business in Spain. Within the controls segment, the Company is restructuring a business which provides low-end maintenance services as it no longer provides a means of penetrating more lucrative markets. In addition, the Company has exited the domestic cable installation business.

The cash and noncash elements of the restructuring charge approximate $15.6 million and $54.4 million, respectively. Details of the restructuring charge are as follows:

<TABLE>
<CAPTION>

| (in millions) | Original Reserve | Utilized Cash | Utilized Noncash | Balance at September 30, 1997 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Writedown of long-lived assets | $43.6 | $ - | $43.6 | $ - |
| Employee severance and termination benefits | 10.7 | 5.6 | - | 5.1 |
| Other | 15.7 | 3.8 | 2.2 | 9.7 |
| | $70.0 | $9.4 | $45.8 | $14.8 |

</TABLE>

For plants to be closed and business lines eliminated, the tangible assets to be disposed of have been written down to their estimated fair value, less cost of disposal. All intangible asset carrying values associated with the plant closings and elimination of business lines have been eliminated. The write-down of long-lived assets of $43.6 million approximates the carrying value of those assets as fair value of the tangible assets less costs to sell is negligible. Considerable management judgment is necessary to estimate fair value, accordingly, actual results could vary significantly from such estimates. As part of the restructuring initiative, approximately 300 employees have separated from the Company as of September 30, 1997. It is expected that the restructuring actions will be substantially completed by approximately mid-year of fiscal 1998.

NOTE 3 - INVENTORIES

<TABLE>
<CAPTION>

| (in millions) | September 30, 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Raw materials and supplies | $196.8 | $155.8 |
| Work in process | 79.0 | 94.7 |
| Finished goods | 137.3 | 136.3 |
| FIFO inventories | 413.1 | 386.8 |
| LIFO reserve | (39.7) | (42.1) |
| LIFO inventories | $373.4 | $344.7 |

</TABLE>

Inventories valued by the LIFO method of accounting were approximately 53% and 47% of total inventories at September 30, 1997 and 1996, respectively.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

<TABLE>
<CAPTION>

| (in millions) | September 30, 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Buildings and improvements | $ 811.6 | $ 669.9 |
| Machinery and equipment | 2,049.5 | 1,743.4 |
| Construction in progress | 152.6 | 141.7 |
| | 3,013.7 | 2,555.0 |
| Land | 86.4 | 63.5 |

| | | |
|---|---|---|
| | 3,100.1 | 2,618.5 |
| Less accumulated depreciation | (1,567.1) | (1,298.3) |
| Property, plant and equipment - net | $1,533.0 | $1,320.2 |

</TABLE>



Interest costs capitalized during 1997, 1996, and 1995 were $7.5 million, $5.3 million and $7.9 million, respectively.

NOTE 5 - 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 $23 million and $26 million at September 30, 1997 and 1996, respectively.

Other facilities and equipment are leased under arrangements which are accounted for as operating leases. Total rental expense was $97 million in 1997, $83 million in 1996 and $71 million in 1995.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 1997 were as follows:

<TABLE>
<CAPTION>

| (in millions) | Capital Leases | Operating Leases |
|---|---|---|
| <S> | <C> | <C> |
| 1998 | $3.9 | $ 76.2 |
| 1999 | 3.7 | 59.0 |
| 2000 | 3.7 | 42.1 |
| 2001 | 3.7 | 32.0 |
| 2002 | 3.7 | 22.2 |
| After 2002 | 15.1 | 69.8 |
| Total minimum lease payments | 33.8 | $301.3 |
| Interest | 10.3 | |
| Present value of net minimum lease payments | $23.5 | |

</TABLE>

NOTE 6 - SHORT-TERM DEBT AND CREDIT AGREEMENTS

Short-term debt at September 30, 1997 and 1996 consisted entirely of bank borrowings. At September 30, 1997, the Company had unsecured lines of credit available from banks totalling $1,218 million. The lines of credit are subject to the usual terms and conditions applied by banks. Domestic lines of credit available for support of outstanding commercial paper averaged $1,214 million during the year and were $850 million at September 30, 1997. The average short-term debt outstanding during 1997 and 1996 was $1,164 million and $339 million, respectively. The weighted average interest rate on short-term debt outstanding at September 30, 1997 and 1996 was 6.71% and 5.30%, respectively. Total interest paid on both long-term and short-term debt was $130 million, $76 million and $63 million in 1997, 1996 and 1995, respectively.



NOTE 7 - LONG-TERM DEBT

<TABLE>
<CAPTION>

| (in millions) | September 30, 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Unsecured notes | | |
| 6.92% due in 1998 | $ 30.0 | $ 30.0 |

| | | |
|---|---|---|
| 6.06% due in 2002 | 34.3 | - |
| 7.7% due in 2015 | 124.8 | 124.8 |
| 7.125% due in 2017 | 149.1 | - |
| 8.2% due in 2024 | 125.0 | 125.0 |
| 6.95% due in 2045 | 125.0 | 125.0 |
| Industrial revenue bonds due through 2006, net of unamortized discount of $2.3 million in 1997 and $2.6 million in 1996 | 46.2 | 51.0 |
| Medium-term notes due in 1997 and 1999 at an average interest rate of 7.4% | 103.0 | 103.0 |
| Guaranteed ESOP debt due in increasing annual installments through 2004 at an average interest rate of 7.35% (tied in part to LIBOR) | 119.4 | 129.7 |
| Capital lease obligations | 23.5 | 27.1 |
| Other | 44.5 | 69.8 |
| Gross long-term debt | 924.8 | 785.4 |
| Less current portion | 118.4 | 33.2 |
| Net long-term debt | $806.4 | $752.2 |

</TABLE>

In July 1997, the Company issued $150 million of 7.125% notes due in 2017. The proceeds were used to refinance commercial paper borrowings associated with the Prince acquisition.

Industrial revenue bond financed facilities have been accounted for as plant and equipment. The related bonds issued by the government units are recorded as long-term debt. Fixed rate industrial revenue bonds of $23 million at September 30, 1997 and $27 million at September 30, 1996 had weighted average interest rates of 6.0% and 6.3%, respectively. Variable rate bonds of $25 million at September 30, 1997 and $27 million at September 30, 1996 had weighted average interest rates of 4.2% and 4.1%, respectively.

In 1989 the Company established an employee stock ownership plan (ESOP). The ESOP was financed with $175 million of debt issued by the ESOP. The ESOP debt is guaranteed by the Company as to payment of principal and interest and, therefore, the unpaid balance has been recorded as long-term debt. The dividends on the Series D Preferred Stock held by the ESOP plus Company contributions to the ESOP are used by the ESOP to service the debt. Therefore, interest incurred on the ESOP debt of $9 million in 1997 and $10 million in both 1996 and 1995 has not been reflected as interest expense in the Company's Consolidated Statement of Income.

The installments of long-term debt maturing in each of the next five years (including the guaranteed ESOP debt) are: 1998 - $118 million, 1999 - $31 million, 2000 - $92 million, 2001 - $26 million and 2002 - $37 million.

The indentures for the unsecured notes and the guaranteed ESOP debt include various financial covenants, none of which are expected to restrict future operations.



NOTE 8 - FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents and short-term debt approximate their carrying values. The fair value of net long-term debt which was $840 million and $757 million at September 30, 1997 and 1996, respectively, was determined using market interest rates and discounted future cash flows. The fair values of hedging instruments, discussed below, were obtained from dealer quotes and published foreign currency exchange rates.

HEDGING TRANSACTIONS

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in exchange rates. The Company enters into forward exchange contracts to hedge certain of its foreign currency commitments. Realized and unrealized gains and losses on these contracts are recognized in the same period as the hedged commitments. The Company's forward exchange contracts generally have maturities which do not exceed 12 months, and are designed to coincide with settlement dates of the related transactions.

During the year, the Company entered into two $150 million interest rate swap agreements, one for 5 years at 6.87% and the other for 10 years at 6.59%. The ten-year swap agreement is fixed at 6.59% unless the LIBOR rate reaches 9.00%, at which point the interest rate would convert to a floating rate. These interest rate swaps establish fixed interest rates on a total of $300 million of outstanding commercial paper. The fair value of the interest rate swaps is the amount the Company would receive or pay to terminate the outstanding contracts at the reporting date. The Company would have paid approximately $12 million to terminate the contracts at September 30, 1997.

In March 1997, the Company settled its 50 million Deutschemark (DM) forward contract by paying 50 million DM in exchange for $30 million. The Company also renewed its three-year 50 million DM cross-currency interest rate swap agreement in March 1997, which is used to hedge a portion of its net investments in its German subsidiaries. Under the swap, the Company receives interest based on a floating three-month U.S. dollar LIBOR rate on $30 million and pays interest based on a three-month floating DM LIBOR rate plus seven basis points on 50 million DM through March 2000, at which time the Company will receive $30 million in exchange for paying 50 million DM.

In December 1995, the Company entered into a seven-year amortizing French Franc (FRF) cross-currency interest rate swap to hedge a portion of its net investments in its French subsidiaries. Under the swap, the Company receives interest based on a fixed U.S. dollar interest rate of 6.95% and pays a floating rate, indexed to the level of the six-month DM LIBOR rate plus 223 basis points, on the outstanding notional principal amounts in dollars and francs, respectively. The initial notional principal amounts of $80 million and FRF 400 million will remain outstanding until December 1, 1999. Under the terms of the contract, the Company will pay 100 million FRF in exchange for $20 million on the first business day in December 1999 and in each of the subsequent three years through December 2, 2002. On December 2, 2002 the swap will terminate with a final principal settlement of 100 million FRF paid by the Company in exchange for $20 million.



Related foreign exchange gains and losses on the notional principal values of the cross-currency swaps are deferred in the cumulative translation adjustments account (CTA) within shareholders' equity. The net pretax exchange gain deferred in CTA of approximately $10 million at September 30, 1997 was offset by translation gains and losses on the underlying net investments. Net interest payments or receipts from the interest rate swaps and the interest component of the cross-currency swaps are recorded as adjustments to interest expense in the Consolidated Statement of Income on a current basis. The fair value of the cross-currency swaps approximate their carrying value at September 30, 1997 and 1996.

All contracts are executed with major international financial institutions and, as such, the Company does not anticipate that these institutions will fail to perform.

The following additional forward contracts, by which the Company sold or purchased currencies, were outstanding at September 30, 1997:

<TABLE>
<CAPTION>

| Currency Sold | Currency Purchased | Contract Amount |
|---|---|---|
| (in millions) | | |
| <S> | <C> | <C> |
| British Pounds | U.S. Dollars | $163 |
| British Pounds | German DM | 95 |
| German DM | British Pounds | 86 |
| U.S. Dollars | German DM | 64 |
| U.S. Dollars | French Francs | 63 |
| German DM | Belgian Francs | 30 |
| French Francs | U.S. Dollars | 28 |
| U.S. Dollars | British Pounds | 26 |
| German DM | Italian Lira | 23 |
| Hong Kong Dollars | U.S. Dollars | 21 |
| Belgian Francs | German DM | 18 |
| Spanish Pesetas | Portuguese Escudos | 12 |
| Others | | 72 |
| | | $701 |

</TABLE>

The fair value of these forward contracts approximate their carrying value at September 30, 1997 and 1996.

NOTE 9 - SHAREHOLDERS' EQUITY

On January 22, 1997, the Company's Board of Directors authorized a two-for-one stock split to be distributed on March 31, 1997 to shareholders of record on March 7, 1997. Shareholders' equity reflects the stock split by reclassifying from Capital in Excess of Par Value to Common Stock the par value of the additional shares arising from the split. In addition, all share and per share information in the financial statements and notes thereto have been restated.



| (in millions of shares) | September 30, 1997 | 1996 |
|---|---|---|
| Preferred Stock, $1.00 par value | | |
| Authorized | 2.0 | 2.0 |
| Issued and outstanding Series D Convertible | * | * |
| Common Stock, $.16-2/3 par value | | |
| Authorized | 300.0 | 300.0 |
| Issued and outstanding | 84.1 | 82.9 |

*280.2403 and 302.0084 shares of Series D Convertible Preferred Stock were outstanding at September 30, 1997 and 1996, respectively.

In 1989 the Company issued 341.7969 shares of 7.75% Series D Convertible Preferred Stock to its newly established ESOP for $175 million. 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 in the amount of $175 million. The ESOP debt is guaranteed by the Company and is therefore recorded as long-term debt of the Company. 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, 1997 and 1996 resulting from the above transactions was $24 million and $25 million, respectively.

Preferred Stock units are allocated to participating employees based on the annual ESOP debt service payments and are held in trust for the employees until their retirement, death, or vested termination. Each allocated unit may be converted into two shares of common stock or redeemed for $51.20 in cash, at the election of the employee or beneficiary, upon retirement, death or vested termination. The Company, at its option, may issue shares of its common stock or distribute cash to the ESOP to redeem the Preferred Stock units. As of September 30, 1997, 5.6 million shares of common stock were reserved for the conversion of the Preferred Stock units. Employees may vote allocated units, and the plan trustee is to vote unallocated units in the same proportion as the allocated units are voted.

Dividends on the Preferred Stock are deductible for income tax purposes and enter into the determination of earnings available for common shareholders net of their tax benefit.

The Company held 2.6 million shares of its common stock in treasury at September 30, 1997. These shares may be used for a variety of purposes, including employee benefit and stock option plans.

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 one and ten years after date of grant. Shares available for future grant under stock option plans were 4.0 million at September 30, 1997.



Following is a summary of activity in the stock option plans for 1997, 1996, and 1995:

| | Weighted Average Option Price | Shares Subject to Option | SARs |
|---|---|---|---|
| Outstanding, | | | |
| September 30, 1994 | $21.35 | 3,265,080 | 681,646 |
| Granted | 24.66 | 1,387,400 | 420,116 |
| Exercised | 16.91 | 836,110 | 154,236 |

| | | | |
|---|---|---|---|
| Cancelled | 22.86 | 661,086 | 155,920 |
| Outstanding, September 30, 1995 | 23.66 | 3,155,284 | 791,606 |
| Granted | 31.85 | 1,477,630 | 349,130 |
| Exercised | 21.40 | 452,656 | 82,224 |
| Cancelled | 26.14 | 206,184 | 7,988 |
| Outstanding, September 30, 1996 | 26.83 | 3,974,074 | 1,050,524 |
| Granted | 36.94 | 1,558,420 | 475,350 |
| Exercised | 26.20 | 779,891 | 204,875 |
| Cancelled | 29.69 | 451,981 | 30,770 |
| Outstanding, September 30, 1997 | $30.31 | 4,300,622 | 1,290,229 |

</TABLE>

Options outstanding at September 30, 1997:

<TABLE>
<CAPTION>

| Range of Exercise Prices | Outstanding at September 30, 1997 | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price per Share |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| $16.00 - $25.99 | 1,227,274 | 6.12 | $22.56 |
| $26.00 - $36.99 | 3,073,348 | 8.20 | $33.39 |

</TABLE>

Options exercisable:

<TABLE>
<CAPTION>

| Range of Exercise Prices | Exercisable Shares | Weighted Average Exercise Price per Share |
|---|---|---|
| At September 30, 1997 | | |
| <S> | <C> | <C> |
| $16.00 - $25.99 | 732,000 | $21.14 |
| $26.00 - $26.99 | 470,338 | $26.91 |
| At September 30, 1996 | 951,698 | $22.05 |
| At September 30, 1995 | 952,984 | $18.95 |

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to account for employee stock options. Accordingly, no compensation expense has been recognized for stock option plans.

Pro forma net income and earnings per share information, as required by SFAS No. 123, "Accounting for Stock-Based Compensation," has been determined as if the Company had accounted for employee stock options under the fair value method described by SFAS No. 123. The fair value of these options was estimated at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for both 1997 and 1996: dividend yield of 3.15%, an expected option life of 6 years and the 7-year U.S. Treasury interest rate on the grant dates. The volatility factors of the expected market prices



of the Company's common stock were 19.69% and 20.70%, for 1997 and 1996, respectively. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the three-year vesting period of the options.

The Company's pro forma information follows:

<TABLE>
<CAPTION>

Year ended September 30,

| (in millions, except per share data) | 1997(1) | 1996 |
|---|---|---|
| Net income | $285.8 | $233.6 |
| Earnings per share | | |
| Primary | $ 3.26 | $ 2.68 |
| Fully diluted | $ 3.08 | $ 2.54 |

(1) Amounts include a restructuring charge (see Note 2) of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax).

The weighted average fair value of options granted using the Black-Scholes pricing method described above was $8 and $7 for 1997 and 1996, respectively.

The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts because transition rules require pro forma disclosures only for awards granted after fiscal 1995.

Under the terms of a Rights Agreement, as amended effective November 16, 1994, each share of the Company's common stock entitles its holder to one Right. The Rights Agreement provides that if 20% or more of the Company's common stock is acquired, the Rights become exercisable. Further, upon the occurrence of certain defined events, the Rights entitle the holder to purchase common stock of the Company or common stock of an "acquiring company" having a market value equivalent to two times the Right's exercise price of $87.50. In addition, the Rights Agreement permits the Company's Board of Directors, in certain circumstances, to exchange the Rights for shares of common stock and permits a bidder to call for a shareholders' vote to redeem the Rights. The Rights are subject to redemption by the Board of Directors for $.005 per Right. The Rights have no voting power and expire November 30, 2004.

Approximately $61 million of consolidated retained earnings at September 30, 1997 represents undistributed earnings of the Company's partially-owned affiliates accounted for by the equity method.

## NOTE 10 - RETIREMENT PLANS

### PENSION BENEFITS

The Company has noncontributory defined benefit pension plans covering most domestic and certain foreign employees. The benefits provided are based primarily on years of service and average compensation or a monthly retirement benefit amount. Funding for domestic pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Also, the Company makes contributions to union-trusteed pension funds for construction and service personnel and to defined contribution plans for the majority of Johnson Controls World Services Inc.



employees. Net pension expense for defined benefit plans included the following components:

| | Year ended September 30, | | |
|---|---|---|---|
| (in millions) | 1997 | 1996 | 1995 |
| Service cost | $32.2 | $31.6 | $28.0 |
| Interest cost on projected benefit obligation | 54.2 | 51.7 | 46.5 |
| Actual return on plan assets | (133.5) | (105.9) | (75.6) |
| Net amortization and deferral | 68.0 | 47.6 | 21.6 |
| Net pension expense | $20.9 | $25.0 | $20.5 |

The following schedule details the funded status of the Company's defined benefit pension plans. Plans with assets exceeding the accumulated benefit obligation (ABO) are segregated by column from plans with the ABO exceeding assets. The plans with the ABO exceeding assets were primarily foreign plans which are not subject to ERISA. The projected benefit obligation was determined using an assumed discount rate of 7.75% at September 30, 1997 and 1996. Pension expense was determined using assumed discount rates of 7.75% in 1997 and 1996, and 8.00% in 1995. The assumed long-term rate of return on plan assets was 9.75% in 1997, 1996 and 1995. The average rate of compensation increase assumed was 6.0% in 1997, 1996 and 1995.

<TABLE>
<CAPTION>

| (in millions) | 1997 Assets Exceed ABO | 1997 ABO Exceeds Assets | 1996 Assets Exceed ABO | 1996 ABO Exceeds Assets |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Actuarial present value of benefit obligations | | | | |
| Vested | $510.8 | $ 84.3 | $455.6 | $ 87.0 |
| Nonvested | 29.8 | 2.8 | 28.1 | 3.8 |
| Accumulated benefit obligation | 540.6 | 87.1 | 483.7 | 90.8 |
| Effect of projected salary increases | 119.9 | 11.8 | 118.8 | 15.0 |
| Total projected benefit obligation | 660.5 | 98.9 | 602.5 | 105.8 |
| Plan assets at fair value | 784.1 | 40.3 | 664.0 | 40.7 |
| Excess (deficit) of plan assets over projected benefit obligation | 123.6 | (58.6) | 61.5 | (65.1) |
| Unrecognized transitional asset | (20.7) | (3.0) | (22.9) | (2.7) |
| Unrecognized net (gain) loss | (81.2) | 5.2 | (11.3) | 6.7 |
| Prepaid (accrued) pension expense | $ 21.7 | $(56.4) | $ 27.3 | $(61.1) |

September 30,

</TABLE>

At the measurement dates of June 30, 1997 and 1996, plan assets included approximately 843,000 and 824,000 shares, respectively, of Johnson Controls, Inc. common stock with total market values of $34.6 million and $28.7 million at the respective dates.

During 1989, the Company established an ESOP as part of its existing savings and investment (401K) plan, which is available to eligible domestic employees. The ESOP issued debt to finance its purchase of 3.4 million units (341.7969 shares) of the Company's Series D Convertible Preferred Stock for $175 million. The Preferred Stock units are being allocated to participating employees over the 15-year term of the ESOP debt and held in trust until the employees' retirement, death, or vested termination. As of September 30, 1997, approximately 1,679,000 Preferred Stock units had been allocated to employees.



The Company's annual contributions to the ESOP, when combined with the Preferred Stock dividends, are of an amount which will allow the ESOP to meet its debt service requirements. This contribution amount was $11 million in 1997, $8 million in 1996, and $6 million in 1995. Total compensation expense recorded by the Company was $18 million in 1997 and $17 million in 1996 and 1995.

POSTRETIREMENT HEALTH AND OTHER BENEFITS

The Company provides certain healthcare and life insurance benefits for eligible retirees and their dependents. These benefits are not funded, but are paid as incurred. Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, copayment 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. Most international employees are covered by government sponsored programs, and the cost to the Company is not significant.

Net postretirement benefit expense included the following components:

<TABLE>
<CAPTION>

Year ended September 30,

| (in millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Service cost | $3.7 | $3.7 | $4.3 |
| Interest cost on accumulated benefit obligation | 11.4 | 10.8 | 11.2 |
| Net amortization and deferral | (1.9) | (2.1) | (1.9) |
| Net postretirement benefit expense | $13.2 | $12.4 | $13.6 |

</TABLE>

The status of the Company's postretirement benefit plans is as follows:

| (in millions) | September 30, 1997 | 1996 |
|---|---|---|
| Actuarial present value of accumulated postretirement benefit obligation | | |
| Retirees | $ 96.5 | $ 96.0 |
| Vested active plan participants | 12.9 | 12.4 |
| Other plan participants | 41.1 | 41.1 |
| | 150.5 | 149.5 |
| Unrecognized prior service cost | 24.8 | 28.2 |
| Unrecognized net gain | 6.8 | 3.7 |
| Accrued postretirement benefit obligation | $182.1 | $181.4 |

The accumulated postretirement benefit obligation was determined using an assumed discount rate of 7.75% at September 30, 1997 and 1996. Assumed discount rates of 7.75% in 1997 and 1996, and 8.00% in 1995 were used to determine postretirement benefit expense. The September 30, 1997 accumulated postretirement benefit obligation was determined using assumed healthcare cost trend rates of 10% and 7% for pre-65 and post-65 years of age employees, respectively. The September 30, 1996 accumulated postretirement benefit obligation was determined using assumed healthcare cost trend rates of 11% and 8% for pre-65 and post-65 years of age employees, respectively. These rates decrease 1% per year to an ultimate rate of 6%. The healthcare cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed healthcare cost trend rate would have increased the accumulated



benefit obligation by $9 million at September 30, 1997, and the sum of the service and interest costs in 1997 by $1 million.

No change in the Company's practice of funding these benefits on a pay-as-you-go basis is anticipated.

NOTE 11 - RESEARCH AND DEVELOPMENT

Expenditures for research activities relating to product development and improvement are charged against income as incurred. Such expenditures amounted to $232 million in 1997, $156 million in 1996 and $127 million in 1995.

NOTE 12 - INCOME TAXES

Components of income from continuing operations before income taxes and minority interests included the following:

| (in millions) | Year ended September 30, 1997 | 1996 | 1995 |
|---|---|---|---|
| Domestic | $386.8 | $353.7 | $273.0 |
| Foreign | 38.8 | 67.8 | 65.3 |
| Income before income taxes | $425.6 | $421.5 | $338.3 |

Components of the provision for income taxes on continuing operations were as follows:

| (in millions) | Year ended September 30, 1997 | 1996 | 1995 |
|---|---|---|---|
| Current | | | |

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Federal | $162.8 | $ 92.7 | $ 98.7 |
| State | 32.2 | 19.0 | 21.1 |
| Foreign | 31.3 | 25.8 | 21.5 |
| | 226.3 | 137.5 | 141.3 |
| Deferred | | | |
| Federal | (41.1) | 27.3 | (2.7) |
| State | (5.3) | 3.5 | (0.8) |
| Foreign | 1.0 | 3.5 | 5.2 |
| | (45.4) | 34.3 | 1.7 |
| Provision for income taxes | $180.9 | $171.8 | $143.0 |

</TABLE>

An analysis of effective income tax rates for continuing operations is shown below:

<TABLE>
<CAPTION>

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> |
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal benefit | 3.9 | 4.1 | 4.2 |
| Federal tax expense at different rates and foreign losses without tax benefits | 4.4 | 1.3 | 1.1 |
| Goodwill | 2.8 | 0.6 | 0.7 |
| Other | (3.6) | (0.2) | 1.3 |
| | 42.5% | 40.8% | 42.3% |

</TABLE>

The effective income tax rate for discontinued operations was 49% for 1997, 46% for 1996, and 40% for 1995.



Deferred taxes for continuing operations were classified in the Consolidated Statement of Financial Position as follows:

<TABLE>
<CAPTION>

| | September 30, | |
|---|---|---|
| (in millions) | 1997 | 1996 |
| <S> | <C> | <C> |
| Other current assets | $108.5 | $ 61.1 |
| Other noncurrent assets | 22.3 | 40.9 |
| Accrued income taxes | (2.1) | - |
| Other noncurrent liabilities | (34.5) | - |
| Net deferred tax asset | $ 94.2 | 102.0 |

</TABLE>

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities for continuing operations included:

<TABLE>
<CAPTION>

| | September 30, | |
|---|---|---|
| (in millions) | 1997 | 1996 |
| <S> | <C> | <C> |
| DEFERRED TAX ASSETS | | |
| Accrued expenses and reserves | $182.2 | $121.0 |
| Postretirement and postemployment benefits | 79.7 | 79.3 |
| Operating loss and foreign tax credit carryforwards | 93.1 | 63.5 |
| Other | 2.2 | 25.5 |
| | 357.2 | 289.3 |
| Valuation allowance | (81.3) | (56.6) |

| | | |
|---|---|---|
| | 275.9 | 232.7 |
| DEFERRED TAX LIABILITIES | | |
| Property, plant and equipment | 70.6 | 50.8 |
| Employee benefits | 9.0 | 13.1 |
| Inventories | 7.0 | 5.9 |
| Long-term contracts | 25.1 | 29.7 |
| Joint ventures | 9.7 | 9.3 |
| Intangible assets | 51.2 | 17.2 |
| Other | 9.1 | 4.7 |
| | 181.7 | 130.7 |
| Net deferred tax asset | $ 94.2 | $102.0 |

</TABLE>

The valuation allowance primarily represents foreign loss carryforwards and foreign tax credit carryforwards for which utilization is uncertain. These tax benefits expire at various dates from 1998 to 2006.

Income taxes paid during 1997, 1996 and 1995 were $291 million, $116 million and $164 million, respectively.

Domestic income taxes have not been provided on undistributed earnings of foreign subsidiaries of $269 million which are considered to be permanently invested. If undistributed earnings were remitted, foreign tax credits would substantially offset any resulting domestic tax liability.

NOTE 13 - CONTINGENCIES

The Company is involved in a number of proceedings and potential proceedings relating to environmental matters. At September 30, 1997, the Company had an accrued liability of approximately $36 million relating to environmental matters. The Company's environmental liabilities are undiscounted and do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental assessment and 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.

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.

NOTE 14 - SEGMENT INFORMATION

The Company operates in two business segments, automotive and controls. The automotive segment is primarily engaged in the design and manufacture of complete seat systems, seating components and interior systems for cars, light trucks and vans and the manufacture of automotive batteries for the replacement and original equipment markets. The controls segment is primarily engaged in the installation and service of control systems, the service of mechanical equipment and other systems in non-residential buildings, and for on-site integrated facilities management services. Reference is made to page 20 for business segment financial data.

All operating revenues and expenses are allocated to business segments and geographical areas in determining their operating incomes. Other income (expense), excluded from the determination of segment operating income, includes interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of long-term assets, foreign currency gains and losses and other miscellaneous expenses. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-operating assets.

The Company has sales to the automotive industry. Ford Motor Company accounted for 17% of the Company's net sales in 1997, 14% in 1996 and 8% in 1995. General Motors Corporation accounted for 11%, 8%, and 11% in 1997, 1996 and 1995, respectively. Chrysler Corporation accounted for 11%, 10% and 12% in 1997, 1996 and 1995, respectively. As of September 30, 1997, the Company had accounts receivable totalling $502 million from these manufacturers.

Product transfers from domestic to foreign locations amounted to $94 million in 1997, $72 million in 1996 and $48 million in 1995. Product transfers from foreign to domestic locations were $103 million in 1997, $71 million in 1996 and $107 million in 1995. Interarea transfers of manufactured products are at prices in excess of cost. The resultant income is assigned to the geographic area of manufacture.



<TABLE>
<CAPTION>

| Geographic Areas | Year ended September 30, | | |
|---|---|---|---|
| (in millions) | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> |
| NET SALES | | | |
| Domestic | $ 7,330.7 | $5,967.0 | $5,246.9 |
| European | 3,024.7 | 2,709.0 | 1,667.1 |
| Other foreign | 790.0 | 534.0 | 486.7 |
| Consolidated | $11,145.4 | $9,210.0 | $7,400.7 |
| OPERATING INCOME(1) | | | |
| Domestic | $ 496.9 | $ 409.0 | $ 325.7 |
| European | 1.8 | 49.7 | 31.4 |
| Other foreign | 29.2 | 20.9 | 39.3 |
| Eliminations | (0.8) | (0.7) | (1.3) |
| Consolidated | 527.1 | 478.9 | 395.1 |
| Other income (expense) | (101.5) | (57.4) | (56.8) |
| Income before income taxes and minority interests | $ 425.6 | $ 421.5 | $ 338.3 |
| ASSETS (YEAR END) | | | |
| Domestic | $ 3,922.4 | $2,268.4 | $2,037.9 |
| European | 1,236.7 | 1,550.2 | 1,081.5 |
| Other foreign | 440.5 | 329.0 | 216.4 |
| Unallocated | 449.0 | 402.9 | 345.2 |
| | 6,048.6 | 4,550.5 | 3,681.0 |
| Net assets of discontinued operations | - | 440.7 | 466.6 |
| Consolidated | $ 6,048.6 | $4,991.2 | $4,147.6 |

</TABLE>

(1)1997 operating income includes a restructuring charge (see Note 2) of $70.0 million, with $25.0 million of the charge associated with domestic operations and $45.0 million associated with European operations.



REPORT OF MANAGEMENT

Johnson Controls management has primary responsibility for the consolidated financial statements and other information included in this annual report and for ascertaining that the data fairly reflect the Company's financial position and results of operations. The Company prepared the consolidated financial statements in accordance with generally accepted accounting principles appropriate in the circumstances, and such statements necessarily include amounts that are based on best estimates and judgements with appropriate consideration given to materiality.

The Company's system of internal control is designed to provide reasonable assurance that Company assets are safeguarded from loss or unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. This system is augmented by a careful selection and training of qualified personnel, a proper division of responsibilities, and dissemination of written policies and procedures. An internal audit program monitors the effectiveness of this control system.

The Audit Committee of the Board of Directors consists entirely of directors who are not employees of the Company. The Audit Committee reviews audit plans, internal controls, financial reports and related matters and meets regularly with the internal auditors and independent accountants, both of whom have open access to the Committee.

Price Waterhouse LLP, independent accountants, audited the Company's consolidated financial statements and issued the opinion below.

James H. Keyes
Chairman and Chief Executive Officer

Stephen A. Roell
Vice President and Chief Financial Officer



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Johnson Controls, Inc.

In our opinion, the statements appearing on pages 26 through 38 of this report present fairly, in all material respects, the financial position of Johnson Controls, Inc. and its subsidiaries at September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the opinion expressed above.

Price Waterhouse LLP
Milwaukee, Wisconsin
October 20, 1997



Five Year Summary

<TABLE>
<CAPTION>

| (dollars in millions, except per share data) | 1997(3) | 1996 | 1995 | 1994 | 1993(4) |
|---|---|---|---|---|---|
| | Year ended September 30,(1, 2) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| OPERATING RESULTS | | | | | |
| Net sales | $11,145.4 | $9,210.0 | $ 7,400.7 | $6,111.7 | $5,496.6 |
| Operating income | $ 527.1 | $ 478.9 | $ 395.1 | $ 311.4 | $ 268.5 |
| Income from continuing operations before cumulative effect of accounting changes | | | | | |
| Before 1997 restructuring charge | $ 260.9 | $ 222.7 | $ 168.0 | $ 134.8 | $ 113.6 |
| After 1997 restructuring charge | $ 220.6 | $ 222.7 | $ 168.0 | $ 134.8 | $ 113.6 |
| Net income | $ 288.5 | $ 234.7 | $ 195.8 | $ 165.2 | $ 15.9 |
| Earnings per share from continuing operations before cumulative effect of accounting changes | | | | | |
| Before 1997 restructuring charge | | | | | |
| Primary | $ 2.96 | $ 2.55 | $ 1.93 | $ 1.53 | $ 1.28 |
| Fully diluted | $ 2.81 | $ 2.42 | $ 1.82 | $ 1.46 | $ 1.21 |
| After 1997 restructuring charge | | | | | |
| Primary | $ 2.48 | $ 2.55 | $ 1.93 | $ 1.53 | $ 1.28 |
| Fully diluted | $ 2.37 | $ 2.42 | $ 1.82 | $ 1.46 | $ 1.21 |
| Earnings per share | | | | | |
| Primary | $ 3.29 | $ 2.69 | $ 2.26 | $ 1.90 | $ 0.08 |
| Fully diluted | $ 3.12 | $ 2.55 | $ 2.13 | $ 1.80 | $ 0.08(6) |
| Return on average shareholders' equity(5) | 16% | 16% | 13% | 12% | 11% |
| Capital expenditures | $ 370.9 | $ 322.3 | $ 330.9 | $ 261.7 | $ 239.4 |
| Depreciation | $ 283.6 | $ 226.6 | $ 191.7 | $ 169.3 | $ 161.5 |
| Number of employees | 72,300 | 65,800 | 59,200 | 54,800 | 50,100 |
| FINANCIAL POSITION | | | | | |
| Working capital (excluding | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| "Net assets of discontinued operations") | $ (443.4) | $ 225.8 | $ 81.1 | $ 226.9 | $ 213.8 |
| Total assets | $ 6,048.6 | $4,991.2 | $ 4,147.6 | $3,633.9 | $3,062.7 |
| Long-term debt | $ 806.4 | $ 752.2 | $ 619.3 | $ 661.6 | $ 487.7 |
| Total debt | $ 1,462.6 | $1,033.5 | $ 814.8 | $ 702.3 | $ 527.6 |
| Shareholders' equity | $ 1,687.9 | $1,507.8 | $ 1,340.2 | $1,202.8 | $1,079.0 |
| Total debt to total capitalization | 46% | 41% | 38% | 37% | 33% |
| Book value per share | $ 19.80 | $ 17.88 | $ 16.05 | $ 14.55 | $ 13.15 |
| COMMON SHARE INFORMATION | | | | | |
| Dividends per share | $ 0.86 | $ 0.82 | $ 0.78 | $ 0.72 | $ 0.68 |
| Market prices | | | | | |
| High | $49-13/16 | $ 38-1/4 | $ 33 | $ 30-5/8 | $ 29-9/16 |
| Low | $ 35-3/8 | $ 28-7/8 | $ 22-7/8 | $22-7/16 | $ 19-5/16 |
| Number of shareholders | 57,824 | 44,636 | 37,971 | 33,227 | 30,483 |
| Weighted average shares (in millions) | | | | | |
| Primary | 84.8 | 83.6 | 82.3 | 82.1 | 81.5 |
| Fully diluted | 90.9 | 89.9 | 89.1 | 88.5 | 88.5 |

</TABLE>

(1) Share and per share information has been restated to reflect a two-for-one split of the Company's common stock effective March 7, 1997.

(2) Historical amounts have been restated to reflect the reclassification of the Plastic Container division as a discontinued operation.



(3) Results include a restructuring charge of $70.0 million ($40.3 million or $.48 per primary share and $.44 per fully diluted share, after-tax).

(4) Results include the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," No. 109, "Accounting for Income Taxes," and No. 112, "Employers' Accounting for Postemployment Benefits." The combined cumulative effect of the accounting changes was a one-time charge of $122 million or $1.50 per share on a primary basis and $1.41 per share fully diluted, after taxes.

(5) Return on average shareholders' equity represents income from continuing operations before the cumulative effect of accounting changes divided by average equity. Income from continuing operations for 1997 excludes the restructuring charge. Average equity for 1993 includes the cumulative effect of accounting changes.

(6) Calculation is anti-dilutive.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

Below is a list of all direct and indirect subsidiaries of the company, including all wholly-owned and partially-owned subsidiaries, in alphabetical order.

<TABLE>
<CAPTION>

| NAME | JURISDICTION WHERE SUBSIDIARY IS INCORPORATED |
|---|---|
| <S> | <C> |
| 3-A Johnson Controls Andina, C. A. | Venezuela |
| ABC Plastic Containers Limited | Cayman Islands |
| Academy Mechanical Services Ltd. | Canada |
| Acropol-Johnson Controls (S) Pte. Ltd. | Singapore |
| AJC Johnson Controls, Ltd. | U.K. |
| Apple Container Corp. | Delaware |
| B+W Kunststoffmaschinenbau Handelsgesellschaft | Germany |
| Beijing Johnson Controls Automotive Trim Co., Ltd. | China |
| Beijing Johnson Controls Co., Ltd | China |
| Canadian Fabricated Products Ltd. | Canada |
| CEMIS S.A. | France |
| CESA S.A. | France |
| Controles de Presion de Ciudad Juarez | Mexico |
| Controles Reynosa SA de CV | Mexico |
| Desarrollo y Pl. SA | Mexico |
| Ensamble de Interiores Automotrices, S.A. de C.V. | Mexico |

</TABLE>





<TABLE>

| | |
|---|---|
| <S> | <C> |
| Eurosit SA | Spain |
| Factory for Thread and Synthetic Manufacturing Johnson Controls - NTU GmbH | Slovakia |
| G-U Export, Inc. | Wisconsin |
| Gaz Grunder u. Anwendungszentrum f.F.&A. GmbH | Germany |
| Global Energy Systems, S.A. de C.V. | Mexico |

| | |
|---|---|
| Globe International Delaware, Inc. | Delaware |
| Globe-Union, Inc. (DE) | Delaware |
| Haydon & Company Limited | U.K. |
| Haydon Distribution Limited | U.K. |
| Haydon Group Limited | U.K. |
| Haydon Management Services Limited | U.K. |
| Hoover Universal, Inc. | Michigan |
| Hyperion Corp. | Michigan |
| Ikeda-Hoover Co. Ltd. | U.K. |
| IKIN L.L.C. | Pennsylvania |
| INDU TECNO spol s.r.o. | Czech Republic |
| Industrialesud SpA | Italy |
| Industrias IAMSA SA de CV | Mexico |
| Interior Product Services, Inc. | Delaware |
| Interiores Prince SA de CV | Mexico |
| Interstate Battery System International, Inc. | Delaware |
| Intertec Systems L.L.C. | Michigan |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| J.C. Capital Corporation | Minnesota |
| J.R.I. Technologies Ltd. | U.K. |
| JC Beteiligungs GmbH | Germany |
| JC Export Inc. | Barbados |
| JC S.A.R.L. Luxembourg | Luxembourg |
| JCI Beteiligungs GmbH | Germany |
| JCI Canfab Ltd. | Canada |
| JCI Regelungstechnik GmbH (A) | Austria |
| JCI Regelungstechnik GmbH (G) | Germany |
| JKL Plastic Corp. | Delaware |
| Johnson Control International Sp. z.o.o. | Poland |
| Johnson Control Products, Ltd. | Nevada |
| Johnson Control SpA | Italy |
| Johnson Control Systems Ltd. | U.K. |

| | |
|---|---|
| Johnson Control Systems Pensions Ltd. | U.K. |
| Johnson Controles de Engenharia Ltda. | Brazil |
| Johnson Controles Ltda. | Brazil |
| Johnson Controls (Barbados) Inc. | Barbados |
| Johnson Controls (India) Pvt. Ltd. | India |
| Johnson Controls (M) SDN BHD | Malaysia |
| Johnson Controls (Mauritius) Private Limited | Mauritius |
| Johnson Controls (Portugal) Componentes de Automoveis Lda. | Portugal |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Johnson Controls (Proprietary) Limited | South Africa |
| Johnson Controls (s) Pte. Ltd. | Singapore |
| Johnson Controls (Suisse) S.A. | Delaware |
| Johnson Controls (Thailand) Co., Ltd. | Thailand |
| Johnson Controls (UK) Ltd. | U.K. |
| Johnson Controls - Roth S.A. | France |
| Johnson Controls / ACCS | Illinois |
| Johnson Controls Alagon, S.A. | Spain |
| Johnson Controls Australia Pty. Ltd. | Australia |
| Johnson Controls Austria Gesellschaft m.b.H | Austria |
| Johnson Controls Automation Systems BV | Netherlands |
| Johnson Controls Automobilovy Soucastky s.r.o. | Czech Republic |
| Johnson Controls Automotive (PTY) Ltd. | South Africa |
| Johnson Controls Automotive (UK) Ltd. | U.K. |
| Johnson Controls Automotive Assemblies Pty. Ltd. | South Africa |
| Johnson Controls Automotive Components Group Ltd. | U.K. |
| Johnson Controls Automotive Components Ltd | U.K. |
| Johnson Controls Automotive Foam Ltd. | U.K. |
| Johnson Controls Automotive France S.A. | France |
| Johnson Controls Automotive Mexico SA de CV | Mexico |
| Johnson Controls Automotive NV | Belgium |
| Johnson Controls Automotive South Africa (Pty) Ltd. | South Africa |

</TABLE>

5

<TABLE>

| <S> | <C> |
|---|---|
| Johnson Controls Automotive Spain S.A. | Spain |
| Johnson Controls Automotive Systems S.A. | Argentina |
| Johnson Controls Automotive Trim (Pty) Ltd. | South Africa |
| Johnson Controls Battery (U.K.) Ltd. | U.K. |
| Johnson Controls Battery de Mexico, SA de CV | Mexico |
| Johnson Controls Battery Group, Inc. | Wisconsin |
| Johnson Controls Capital (U.K.) Ltd. | U.K. |
| Johnson Controls de Mexico SA de CV | Mexico |
| Johnson Controls DISC, Inc. | Delaware |
| Johnson Controls do Brasil Automotive Ltda. | Brazil |
| Johnson Controls Engineering, Inc. | Wisconsin |
| Johnson Controls Espana | Spain |
| Johnson Controls Facilities, Inc. | Wisconsin |
| Johnson Controls France S.A. | France |
| Johnson Controls GmbH | Germany |
| Johnson Controls GmbH & Co. KG | Germany |
| Johnson Controls Holding Company de Mexico, S.A. de C.V | Mexico |
| Johnson Controls Holding Company, Inc. | Delaware |
| Johnson Controls Holding Limited | Canada |
| Johnson Controls Hong Kong Ltd. | Hong Kong |
| Johnson Controls I.F.M. GmbH & Co. KG | Germany |
| Johnson Controls Integrated Facility Management, S.A. | Spain |
| Johnson Controls Integrated Facility Management | |

</TABLE>



6

<TABLE>

| <S> | <C> |
|---|---|
| Catering GmbH | Germany |
| Johnson Controls Integrated Facility Management Nordic AB | Sweden |
| Johnson Controls Integrated Facility Management Reinigung GmbH | Germany |
| Johnson Controls Integrated Facility Management | |

| | |
|---|---|
| Sicherheit GmbH | Germany |
| Johnson Controls Integrated Facilty Management Verwaltungs GmbH | Germany |
| Johnson Controls II Assentos de Espuma Lda. | Portugal |
| Johnson Controls Integrated Facility Management, B.V. | Netherlands |
| Johnson Controls International B.V. | Netherlands |
| Johnson Controls International Kft | Hungary |
| Johnson Controls International NV/SA | Belgium |
| Johnson Controls International, Inc. | Delaware |
| Johnson Controls International spol s.r.o. | Czech Republic |
| Johnson Controls International spol s.r.o. | Slovakia |
| Johnson Controls Investment Company, Inc. | Delaware |
| Johnson Controls Jersey Limited | Jersey, Channel Islands |
| Johnson Controls Lahnwerk Beteiligungs GmbH | Germany |
| Johnson Controls Lahnwerk GmbH & Co. KG | Germany |
| Johnson Controls Limited | U.K. |
| Johnson Controls Ltd. | Canada |
| Johnson Controls Management Company | Minnesota |
| Johnson Controls Managment Systems, Inc. | Florida |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Johnson Controls Martorell, S.A. | Spain |
| Johnson Controls Nederland BV | Netherlands |
| Johnson Controls Nederland Holding BV | Netherlands |
| Johnson Controls Network Integration Services, Inc | Delaware |
| Johnson Controls Nevada, Inc. | Nevada |
| Johnson Controls Norden A/S | Norway |
| Johnson Controls Northern New Mexico L.L.C. | New Mexico |
| Johnson Controls Novel SL | Spain |
| Johnson Controls Objekt Bochum GmbH & Co. KG | Germany |
| Johnson Controls Objekt Bochum Verwaltungs GmbH | Germany |
| Johnson Controls Objekt Zwickau GmbH & Co. KG | Germany |
| Johnson Controls Objekt Zwickau Verwaltungs GmbH | Germany |
| Johnson Controls Plastics-Holding NV/SA | Belgium |

| | |
|---|---|
| Johnson Controls Richland, Inc. | Washington |
| Johnson Controls Roth Freres Insitu-Technologie GmbH | Germany |
| Johnson Controls SA/NV | Belgium |
| Johnson Controls Schwalbach GmbH | Germany |
| Johnson Controls Services Company | Minnesota |
| Johnson Controls Services Ltd. | Cayman Islands |
| Johnson Controls Services Mexico S.A. de C.V. | Mexico |
| Johnson Controls Software (Asia) Pvt. Ltd. | India |
| Johnson Controls SpA | Italy |

</TABLE>



8

<TABLE>

| <S> | <C> |
|---|---|
| Johnson Controls Systems A.G. | Switzerland |
| Johnson Controls Technology Company | Michigan |
| Johnson Controls Uniloy Machinery - Mexico SA de CV | Mexico |
| Johnson Controls V.I., Inc. | Virgin Islands |
| Johnson Controls World Services Inc. | Florida |
| Johnson Controls World Services Ltd. | Canada |
| Johnson Controls World Services (Thailand) Co., Ltd. | Thailand |
| Johnson Controls, SA de CV | Mexico |
| Johnson Controls - RMS, Inc. | Florida |
| Johnson Controls/ Naue Engineering GmbH & Co. KG | Germany |
| Johnson Controls/Naue Engineering Verwaltungs GmbH | Germany |
| Johnson International Trade Co. | Michigan |
| Johnson Service Co. (DE) | Delaware |
| Johnson Service Co. (NV) | Nevada |
| JOROCA, NV | Belgium |
| Joventa AG | Switzerland |
| Joventa USA Inc. | Nevada |
| Kentair (Wholesale) Limited | U.K. |
| Komplettsitzwerk Schwalbach GmbH | Germany |
| Maintenance Automation Corporation | Florida |
| MAJOR, SA | France |
| Major SKT A.S. | Turkey |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Naue de Mexico SA de CV | Mexico |
| Naue - JCA Marketing GmbH & Co. KG | Germany |
| NAV L.L.C. | Pennsylvania |
| Nicco Corporation Ltd. | India |
| NYLLE L.L.C. | Pennsylvania |
| P & ET Container, Inc. | Delaware |
| Paul Carter (Environmental) Services Limited | U.K. |
| Perfekta Algemeine Industrie - und Handels GmbH | Germany |
| Plastics USA Corporation | Michigan |
| Price Johnson Controls (Hong Kong) Limited | Hong Kong |
| Price Johnson Controls (M) Sdn Bhd | Malaysia |
| Price Johnson Controls Pte. Ltd. | Singapore |
| Prince APG GmbH | Germany |
| Prince APG Ltd. | U.K. |
| Prince APG, Inc. | Michigan |
| Prince Corporation | Michigan |
| Prince Holding Corporation | Delaware |
| Prince Transportation, Inc. | Michigan |
| Procord Limited | U.K. |
| Propel-Johnson Controls (M) Sdn. Bhd. | Malaysia |
| PT Johnson Columbus Mabua | Indonesia |
| Readiness Management Support L.C. | Florida |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Recticel JCI Formschaum GmbH | Germany |
| Roth Johnson Technologie | France |
| Royal LePage Facility Management Services Ltd | Canada |
| SAVID L.L.C. | Pennsylvania |
| SECH L.L.C. | Pennsylvania |

| | |
|---|---|
| Semco-Johnson Controls Gerenciamento de Ativos Ltda. | Brazil |
| Setex, Inc. | Ohio |
| Shanghai Johnson Battery Company Limited | China |
| Shanghai Johnson Controls Co. Ltd. | China |
| Shanghai Johnson Controls Factory Ltd. | China |
| Sicar B.V. | Netherlands |
| Sistemas Automotrice Summa SA de CV ("SAS") | Mexico |
| St. Thomas Energy Exports, Inc. | Virgin Islands |
| Syncro Partners N.V. | Belgium |
| Tata Johnson Controls Automotive Pvt. Ltd. | India |
| Techmix, S. de R.L. de C.V. | Mexico |
| TechnoTrim de Mexico, S. de R.L. de C.V. | Mexico |
| TechnoTrim, Inc. | Michigan |
| Tecnoconfort S.A. | Spain |
| Tolena S.A. | Spain |
| Trim Masters Inc. | Kentucky |
| Trimco spol s.r.o. | Czech Republic |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Uniloy S.r.L. | Italy |
| Uniloy (U.K.) Ltd. | U.K. |
| Uniloy France S.A. | France |
| Vanpro Assentos Lda. | Portugal |
| Vanpro GmbH Entwicklungsges.f.Autositze | Germany |
| Vintec Co. | Michigan |
| XYZ Container Corporation | Delaware |
| YJC Engineering Chiba Company | Japan |
| Yokogawa Johnson Controls Corporation | Japan |

</TABLE>

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 and in the Registration Statements on Form S-8 listed below of Johnson Controls, Inc. of our report dated October 20, 1997 appearing on page 39 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 24 of this Form 10-K.

1. Post-Effective Amendment No. 6 to Form S-16 on Form S-3 (Registration No. 2-64288)
2. Registration Statement on Form S-8 (Registration No. 33-30309)
3. Registration Statement on Form S-8 (Registration No. 33-31271)
4. Registration Statement on Form S-3 (Registration No. 33-50110)
5. Registration Statement on Form S-8 (Registration No. 33-58092)
6. Registration Statement on Form S-8 (Registration No. 33-58094)
7. Registration Statement on Form S-8 (Registration No. 33-49862)
8. Registration Statement on Form S-3 (Registration No. 33-57685)
9. Registration Statement on Form S-3 (Registration No. 33-64703)
10. Registration Statement on Form S-8 (Registration No. 333-10707)
11. Registration Statement on Form S-3 (Registration No. 333-13525)
12. Registration Statement on Form S-8 (Registration No. 333-36311)

PRICE WATERHOUSE LLP

Milwaukee, Wisconsin
December 18, 1997

<TABLE> <S> <C>

<ARTICLE> 5

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| <PERIOD-TYPE> | YEAR |
| <FISCAL-YEAR-END> | SEP-30-1997 |
| <PERIOD-START> | OCT-01-1996 |
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| <ALLOWANCES> | 20,800 |
| <INVENTORY> | 373,400 |
| <CURRENT-ASSETS> | 2,529,300 |
| <PP&E> | 3,100,100 |
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| <OTHER-SE> | 1,530,100 |
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| <TOTAL-COSTS> | 9,485,600 |
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| <EPS-PRIMARY> | 3.29 |
| <EPS-DILUTED> | 3.12 |

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Johnson Controls, Inc. LOGO

JOHNSON CONTROLS, INC.
POST OFFICE BOX 591
MILWAUKEE, WISCONSIN 53201

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
WEDNESDAY, JANUARY 28, 1998

To the Shareholders of Johnson Controls, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of Johnson Controls, Inc., a Wisconsin corporation, will be held in the Superior Room, Milwaukee Athletic Club, 758 North Broadway Street, Milwaukee, Wisconsin, on Wednesday, January 28, 1998, at 2:00 o'clock P.M. (Central Standard Time), for the following purposes:

(1) To elect four directors of the class to serve for a term of three years expiring at the annual meeting to be held in 2001 or until the director's earlier retirement;

(2) To consider and act upon a proposal to ratify the appointment of Price Waterhouse as auditors for 1998; and

(3) To consider and act upon any other matters which may properly come before the meeting or any adjournments thereof.

Holders of Common Stock and Preferred Stock units of record at the close of business on November 20, 1997, will be entitled to vote at the meeting and any adjournments thereof.

BY ORDER OF THE BOARD OF DIRECTORS,

John P. Kennedy
John P. Kennedy, Secretary
Milwaukee, Wisconsin
December 5, 1997

A PROXY FOR THE MEETING AND A PROXY STATEMENT ARE ENCLOSED HEREWITH. YOU ARE REQUESTED TO FILL IN AND SIGN THE ENCLOSED FORM OF PROXY, WHICH IS SOLICITED BY THE COMPANY'S BOARD OF DIRECTORS, AND TO MAIL IT PROMPTLY. SHAREHOLDERS WHO EXECUTE PROXIES RETAIN THE RIGHT TO REVOKE THEM AT ANY TIME BEFORE THEY ARE VOTED.



JOHNSON CONTROLS, INC.
5757 NORTH GREEN BAY AVENUE
P.O. BOX 591
MILWAUKEE, WISCONSIN 53201

DECEMBER 5, 1997

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JANUARY 28, 1998

This proxy statement is furnished to the shareholders of Johnson Controls, Inc. (the Company), in connection with the solicitation by the Board of Directors of the Company of proxies for use at the annual meeting of shareholders to be held at the Milwaukee Athletic Club at 758 North Broadway Street, Milwaukee, Wisconsin, on January 28, 1998, at 2:00 o'clock P.M., Central Standard Time, and any adjournments of such meeting.

Execution of a proxy given in response to this solicitation will not affect a shareholder's right to attend the meeting and to vote in person. Presence at the meeting of a shareholder who has signed a proxy does not alone revoke a proxy. Any shareholder giving a proxy may revoke it at any time before it is exercised by giving notice thereof to the Company in writing. Unless so revoked, the shares represented by proxies will be voted at the meeting and at any adjournments thereof. Where a shareholder specifies a choice by means of a ballot provided in the proxy, the shares will be voted in accordance with such specification.

Only owners of the Company's Common Stock and Preferred Stock units of record on November 20, 1997, will be entitled to vote at the meeting. As of November 20, 1997, there were 84,101,403 shares of the Company's Common Stock outstanding, each share having one vote. As of November 20, 1997, there were also 279.649 shares of the Company's Preferred Stock outstanding. Each share of Preferred Stock consists of 10,000 units, each unit having two votes. On October 31, 1997, the directors, nominees for directors, and officers of the Company as a group were beneficial owners of 1,601,334 shares of the Company's Common Stock (including 963,860 shares subject to options exercisable within 60 days) constituting approximately 1.9% of the outstanding shares of Common Stock, and 11,097 units of the Company's Preferred Stock, constituting less than 1% of the outstanding units.

Set forth below is a tabulation indicating those persons whom the management of the Company believes to be beneficial owners of more than 5% of any class of the Company's securities. The following information is based on reports on Schedules 13G filed with the Securities and Exchange Commission or other information believed to be reliable.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Ownership | Percent of Class |
|---|---|---|---|
| Common Stock<br>$0.16 2/3 Par Value | FMR Corporation<br>82 Devonshire Street<br>Boston, MA 02109 | 4,575,704(1) | 5.5% |
| Common Stock<br>$0.16 2/3 Par Value | J.P. Morgan & Co. Incorporated<br>60 Wall Street<br>New York, N.Y. 10260 | 5,595,080(2) | 6.7% |





| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Ownership | Percent of Class |
|---|---|---|---|
| Series D Convertible<br>Preferred Stock<br>$1.00 Par Value | Fidelity Management Trust Company<br>82 Devonshire Street<br>Boston, MA 02109 | 279.970(3) | 100% |

----------------------------

(1) FMR Corporation's most recent report as of October 31, 1997 showed sole voting power with respect to 270,464 shares, and sole dispositive power with respect to 4,575,704 shares. The report includes shares beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corp.

(2) J. P. Morgan & Co. Incorporated's most recent report as of October 31, 1997 showed sole voting power with respect to 3,612,240 shares, sole dispositive power with respect to 5,340,580 shares, shared voting power with respect to 120,500 shares and shared power to dispose with respect to 174,900 shares. (These numbers reflect the post March 31, 1997 stock split equivalents of the Schedule 13G report.) The report includes shares beneficially owned by Morgan Guaranty Trust Company of New York, J.P. Morgan Investment Management, Inc. and J.P. Morgan Florida Federal Savings Bank.

(3) Fidelity Management Trust Company reported that as of October 31, 1997 it held shared voting power and sole dispositive power with respect to the shares indicated above in its capacity as trustee of the Johnson Controls, Inc. Employee Stock Ownership Trust.

ELECTION OF DIRECTORS

The Board of Directors consists of 12 members of whom approximately one-third are elected each year to serve for terms of three years or until the director's earlier retirement pursuant to the Board of Directors Retirement Policy(1). It is intended that the enclosed form of proxy will be voted for the election of Messrs. William F. Andrews, Robert L. Barnett, Willie D. Davis and Richard F. Teerlink, all of whom are now members of the Board, for three year terms or until the director's earlier retirement.

Directors are elected by a plurality of the votes cast by the holders of the Company's Common Stock and Preferred Stock units at a meeting at which a quorum is present. "Plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Consequently, any shares not voted (whether by abstention, broker nonvote or otherwise) have no impact in the election of directors except to the extent the failure to vote for an individual results in another individual receiving a larger number of votes.

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(1) The Board of Directors has adopted a Retirement Policy that requires a director to retire as of the last regular Board of Directors' meeting held in the year of his or her 70th birthday or, in the event a shareholders' meeting is held on that date, then such retirement shall be effective the next day. The Retirement Policy does not apply to Mr. Brengel.





The Directors Committee of the Board of Directors has no reason to believe that any of such nominees will be unable or unwilling to serve as a director if elected, but if any nominee should be unable or for good cause unwilling to serve, the shares represented by proxies solicited by the Board of Directors will be voted for the election of such other person for the office of director as the Board of Directors may recommend in place of such nominee. Set forth below is information with respect to the nominees and the other directors on the Board.

<TABLE>

| <S> | <C> | |
|---|---|---|
| CLASS OF 2001 (ALL OF WHOM ARE NOMINEES) | | |
| ------------------ | WILLIAM F. ANDREWS | Director since 1991 Age 66 |
| | Chairman of Schrader-Bridgeport International, Inc. and Chairman of Scovill Fasteners Inc., since 1995. Chairman, President and Chief Executive Officer, Amdura Corporation from 1993-1995. President and Chief Executive Officer, UNR Industries, Inc., Chicago, Illinois (diversified manufacturer) from 1991 to 1993, President of Massey Investment Company, Nashville, Tennessee (private investment company) from 1989 to 1990, and Chairman, CEO and President of Singer Sewing Machine Company (SSMC) Inc., Shelton, Connecticut (diversified manufacturer) from 1986 to 1989. Mr. Andrews is a director of Black Box Corp., Corrections Corporation of America, Katy Industries, Navistar International Corporation, Northwestern Steel & Wire Co., and Southern New England Telecommunications Corporation. Member of Compensation and Directors Committees. | |
| ------------------ | ROBERT L. BARNETT | Director since 1986 Age 57 |
| | Executive Vice President, Motorola Inc. and President, Land Mobile Products Sector since April 1997. Corporate Vice President, iDen Group, Motorola Inc., Schaumburg, Illinois, 1995 to 1997. Consultant in the field of international communications from 1992 to 1995. Vice-Chairman, Ameritech and President, Ameritech Bell Group, American Information Technologies Corporation, Chicago, Illinois (telecommunications) from 1989 to 1993 and President, Ameritech Enterprise Group, from 1987 to 1989. Mr. Barnett is a director of USG Corp. Member of Executive Committee and Chairman of Directors Committee. | |
| ------------------ | WILLIE D. DAVIS | Director since 1991 Age 63 |
| | President of All Pro Broadcasting Incorporated, Los Angeles, California (radio broadcasting) since 1977. Mr. Davis is a director of Alliance Bank Co., Dow Chemical Company, Kmart Corporation, MGM Grand, Inc., Sara Lee Corporation, and WICOR, Inc. Mr. Davis is also a director of 42 funds for which Strong Capital Management, Inc. is the investment adviser. Member of Audit Committee. | |

</TABLE>





<TABLE>
<CAPTION>

| <S> | <C> | <C> |
|---|---|---|
| ------------------ | RICHARD F. TEERLINK | Director since 1994 Age 61 |
| | Chairman of the Board of Harley-Davidson, Inc., Milwaukee, Wisconsin, since May 1997, President and Chief Executive Officer of Harley from May 1989 to June 1997, and Chairman since May, 1996. Mr. Teerlink is a director of Firstar Bank Milwaukee, and Snap On Inc.. Member of Audit Committee and | |

member of Executive Committee.

CLASS OF 2000

------------------ JOHN M. BARTH — Director since 1997, Age 51

Executive Vice President, Johnson Controls, Inc., Milwaukee, Wisconsin since 1991. In 1987, Mr. Barth was named Vice President and General Manager of the Plastics Technology Group. In 1990, he became Vice President and General Manager of the Plastics Technology Group and the Automotive Systems Group. Mr. Barth is a director of Handleman Company and Edwards Brothers.

------------------ PAUL A. BRUNNER — Director since 1983, Age 62

President and Chief Executive Officer, Spring Capital, Inc., Stamford, Connecticut (international investment management) since 1985. President and Chief Executive Officer, ASEA, Inc., 1982-1984. President and Chief Executive Officer, Crouse Hinds Co., 1967-1982. Chairman of Audit Committee and member of Compensation Committee.

------------------ SOUTHWOOD J. MORCOTT — Director since 1993, Age 59

Chairman since 1990, President since 1986 to 1996, and Chief Executive Officer since 1989 of Dana Corporation, Toledo, Ohio (vehicular and industrial component manufacturer). Mr. Morcott is a director of CSX Corporation, Dana Corporation, and Phelps-Dodge Corporation. Chairman of Compensation Committee and member of Directors Committee.

</TABLE>





<TABLE>
<CAPTION>

<S> <C> <C>

------------------ GILBERT R. WHITAKER, JR. — Director since 1986, Age 66

Dean and H. J. Nelson Professor of Business Economics, Jesse Jones Graduate School of Administration, Rice University since July of 1997. Professor of Business Economics, University of Michigan, 1979 through June 1997. Provost and Executive Vice-President for Academic Affairs, University of Michigan, 1990-1995. Mr. Whitaker served as Dean, School of Business Administration, University of Michigan, from 1979 to 1990. Mr. Whitaker is a director of Handleman Company, Lincoln National Corporation, and Structural Dynamics Research Corp. Chairman of Pension and Benefits Committee.

CLASS OF 1999

------------------ FRED L. BRENGEL — Director since 1964, Age 74

Chairman of the Board, Johnson Controls, Inc., Milwaukee, Wisconsin, from 1985 to 1993. Mr. Brengel served as the Chief Executive Officer of Johnson Controls, Inc., from 1967 to 1988. Mr. Brengel is a director of Rexworks, Inc. Member of Executive Committee.

------------------ ROBERT A. CORNOG — Director since 1992, Age 57

President, Chief Executive Officer and Chairman of the Board of Directors of Snap-on Incorporated (tool manufacturer) since 1991. Mr. Cornog is a director of Snap-on Incorporated, Wisconsin Electric Power Company, and Wisconsin Energy Corporation. Member of Audit Committee and Executive Committee.

------------------ JAMES H. KEYES — Director since 1985, Age 57

Chairman and Chief Executive Officer, Johnson Controls, Inc., Milwaukee, Wisconsin. In 1985 Mr. Keyes was named Executive Vice President and subsequently became Chief

Operating Officer and a member of the Board of Directors. He became President of Johnson Controls, Inc., in 1986, its Chief Executive Officer in 1988, and Chairman in 1993. Mr. Keyes is a director of Firstar Corp., LSI Logic Corporation, and Universal Foods Corporation. Chairman of Executive Committee.

------------------ WILLIAM H. LACY Director since 1997 Age 52

Chairman and Chief Executive Officer of Mortgage Guaranty Insurance Corporation (MGIC), and President and Chief Executive Officer of its parent company, MGIC Investment Corporation, since 1987. Mr. Lacy is a Director of Firstar Bank Milwaukee, Columbia Health System, Inc. and MGIC Investment Corporation.

</TABLE>





Each of the directors or nominees for director has had the principal occupation indicated or in certain instances has served in another executive position with the employer indicated or an affiliate thereof during the last five years.

The Audit Committee of the Board of Directors met three times during fiscal 1997. Its functions include, but are not necessarily limited to, the following: (1) to review the adequacy of internal controls established by management; (2) to assess the adequacy of the financial reporting process and selection of accounting policies; (3) to review management's evaluation and proposed selection of independent accountants, including the appropriateness of fees, and to recommend to the Board of Directors the appointment of independent accountants subject to the ratification by the shareholders; (4) to review the adequacy of audit plans prepared by internal audit and independent accountants; (5) to review periodically the status of significant issues and internal control recommendations; (6) to meet and to consult with the Company's internal auditors and accounting and financial personnel and with independent public accountants concerning the foregoing matters; (7) to report on the results of these activities periodically to the Board of Directors; (8) to review significant issues concerning litigation, contingent liabilities, and tax and insurance; (9) to review management information systems of the Company; and (10) to monitor compliance procedures of the Company and their implementation.

The Compensation Committee of the Board of Directors met five times during fiscal 1997. Its functions include, but are not necessarily limited to, the following: (1) to consider and make recommendations to the Board of Directors regarding the selection and retention of elected officers and certain other principal officers and key employees of the Company and its subsidiaries; (2) to consider and make recommendations regarding salary structure, officer gradings, and salaries for elected officers; (3) to administer, make grants and awards, make rules, and recommend amendments to the Company's executive compensation plans; (4) to consider and make recommendations to the Board concerning bonus awards, perquisites, and other remuneration to executive officers; (5) to consider and make recommendations concerning the total compensation package for all elected officers and to approve the disclosure of such information in the Company's proxy statement; (6) to oversee the selection of, and to meet with, outside consultants to review the Company's executive compensation programs as appropriate; (7) to review and make recommendations concerning management succession; (8) to recommend to the Board of Directors the selection of the Chief Executive Officer of the Company; and (9) in the case of the Chairman of the Board of Directors being precluded from fulfilling his/her duties by death, disability or other debilitating circumstances, the Chair of the Committee is to call a Special Board Meeting, as provided in the By-Laws, and chair the Board Meeting until the Board elects a new Chairman of the Board.

The Directors Committee of the Board of Directors met three times during fiscal 1997. Its function includes, but is not necessarily limited to, the following: (1) to review the qualifications of, and to make recommendations to the Board of Directors concerning, nominees for directors; (2) to review and consider candidates for election as directors submitted by the shareholders; (3) to consider and make recommendations concerning the size and composition of the Board of Directors; (4) to develop and recommend guidelines and criteria to determine the qualifications of directors; (5) to recommend an overall compensation program for directors; (6) to review and recommend committees and committee structure for the Board; (7) to recommend performance criteria for the Board of Directors and to review its performance; and (8) to review conflicts of interest that may affect directors. Shareholders wishing to propose director candidates for consideration by the Directors Committee may do so by writing to the Secretary of the Company, giving the candidate's name, biographical data and qualifications. Further, the Company's By-Laws set forth certain requirements for shareholders wishing to nominate director candidates for consideration by shareholders. With respect to elections of directors to be held at an annual meeting, among other things, a shareholder must give written notice of an intent to make such a nomination complying with the By-Laws to the





Secretary of the Company not less than 60 days nor more than 90 days prior to the fourth Tuesday in the month of January.

The Executive Committee of the Board of Directors did not meet during fiscal 1997. Its functions include the exercise of certain powers of the Board of Directors in the general supervision and control of the business and affairs of the Company during intervals between meetings of the Board of Directors.

The Pension and Benefits Committee of the Board of Directors met four times during fiscal 1997. Its functions include, but are not necessarily limited to, the following: (1) to review annually actuarial assumptions and actuarial valuation of the pension plans of the Company; (2) to review investment policy of the funds of the employee benefit plans of the Company; (3) to select and to terminate investment managers as appropriate; (4) to review with investment advisors past performance and current investment strategy; (5) to review and approve the adoption of any new trust agreements or master trusts implementing the plans; (6) to monitor and oversee Company policies affecting employee benefit plans; and (7) to oversee administration of plans, to review annually plan provisions, and to recommend amendments to the plans as appropriate.

During fiscal 1997, the Board of Directors met seven times. Each director attended 80% or more of the total number of meetings held during fiscal 1997 while he or she was a member of the Board, including meetings of committees of which the director is a member.

Directors who are not employees receive a $36,000 annual retainer, plus $1,200 for each Board meeting they attend, $1,200 for each meeting they attend of Board committees of which they are members, $1,500 for each meeting they attend of Board committees of which they are chairmen, plus expenses.

Directors, who are not covered by other insurance and who are under 65 years of age, may purchase medical coverage on the same basis as Company employees. A director who retires after attaining the age of 65 and 6 years of service as a director will be paid the annual retainer in effect upon his or her retirement for life. The value of this retirement plan per annum depends on life expectancy at retirement, the retainer at retirement and the number of years of Board Service. The annual value for current directors ranges from $8,549 to $24,808.

Under the Stock Plan for Outside Directors adopted on January 27, 1993, up to 50% of the retainer fee will be paid in Common Stock each year. The remainder will be paid in cash at the same time. The stock will be priced as of the date of the Annual Meeting. In addition, new directors receive an initial grant of 400 shares of Common Stock upon election or appointment. New directors also receive a pro rata share of the annual retainer for the remainder of that year, and the stock provided as part of the annual retainer will be priced as of the date of the first meeting of the Board at which the new director participates.





EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The Summary Compensation Table below shows the compensation for the past three fiscal years of each of the Company's five most highly compensated executive officers, including the Chief Executive Officer (the named executive officers).

STOCK OPTION/STOCK APPRECIATION RIGHT GRANTS

The Company has in effect employee stock option plans pursuant to which options to purchase Common Stock of the Company and stock appreciation rights (SARs), which are rights, granted in tandem with an option, to receive cash payments equal to any appreciation in value of the shares subject to option from the date of the option grant to the date of exercise in lieu of exercise of the option, are granted to officers and other key employees of the Company and its subsidiaries. The table on page 9 shows Options/SAR grants in fiscal 1997 to the named executive officers. Of the stock options shown in the Summary Compensation Table below and the Option/SAR Grant Table on page 9, 50% of the options were options with tandem SARs.

AGGREGATED OPTION/SAR EXERCISES IN FISCAL YEAR AND OPTION/SAR VALUE TABLE

The table on page 9 shows information concerning the exercise of stock options or tandem SARs during fiscal 1997 by each of the named executive officers and the fiscal year-end value of unexercised options and SARs.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

| Name and Principal Position | Fiscal Year | Annual Compensation: Salary ($) | Annual Compensation: Bonus ($) | Annual Compensation: Other Annual Compensation ($)(1) | Long-Term Compensation: Options/ SARs (#)(2) | Long-Term Compensation: Long-Term Incentive Payout ($) | All Other Compensation ($)(3) |
|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| James H. Keyes | 1997 | 875,001 | 689,000 | -- | 120,000 | 730,000 | 67,714 |
| Chairman and Chief Executive | 1996 | 787,503 | 575,000 | -- | 80,000 | 450,000 | 62,925 |
| Officer | 1995 | 731,250 | 599,400 | -- | 60,000 | 363,000 | 54,858 |
| John M. Barth | 1997 | 487,503 | 371,000 | -- | 48,000 | 277,000 | 34,966 |
| Executive Vice-President | 1996 | 441,249 | 260,000 | -- | 48,000 | 204,000 | 31,693 |
| | 1995 | 407,496 | 264,649 | -- | 40,000 | 165,000 | 27,230 |
| Joseph W. Lewis | 1997 | 384,999 | 229,000 | -- | 34,000 | 239,000 | 26,643 |
| Executive Vice-President | 1996 | 365,247 | 171,000 | -- | 34,000 | 188,000 | 24,550 |
| | 1995 | 346,000 | 175,463 | -- | 30,000 | 156,200 | 22,791 |
| Stephen A. Roell | 1997 | 348,747 | 246,000 | -- | 34,000 | 202,000 | 25,510 |
| Vice-President and | 1996 | 324,999 | 188,000 | -- | 34,000 | 101,000 | 23,789 |
| Chief Financial Officer | 1995 | 302,496 | 200,136 | -- | 30,000 | 79,200 | 19,123 |
| John P. Kennedy | 1997 | 304,998 | 194,000 | -- | 24,000 | 157,000 | 22,752 |
| Vice-President, Secretary, | 1996 | 280,503 | 172,000 | -- | 24,000 | 91,000 | 18,492 |
| and General Counsel | 1995 | 248,500 | 144,547 | -- | 14,000 | 78,100 | 15,241 |

</TABLE>

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(1) The aggregate amount of "Other Annual Compensation," which includes perquisites and personal benefits was less than the required reporting threshold (the lesser of $50,000 or 10% of the officer's annual salary and bonus for the year).

(2) The Options/SAR's reflect the effects of the 2 for 1 stock split which took place on March 31, 1997.

(3) "All Other Compensation" consists of contributions by the Company on behalf of the named individuals to the Company's savings and investment plans.





OPTIONS/SAR GRANTS IN FISCAL 1997(1)

<TABLE>
<CAPTION>

| Name | Individual Grants: Options/SARs Granted(2) | Individual Grants: % of Total Options/SARs Granted to Employees in Fiscal 1997 | Individual Grants: Exercise or Base Price ($/Share)(2) | Individual Grants: Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Full Option Term: 5% | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Full Option Term: 10% |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| OPTIONS/SARs GRANTED November 20, 1996 | | | | | | |
| James H. Keyes | 120,000 | 7.75% | $36.9375 | 11/20/06 | $2,787,575 | $7,064,263 |
| John M. Barth | 48,000 | 3.10% | $36.9375 | 11/20/06 | $1,115,030 | $2,825,705 |
| Joseph W. Lewis | 34,000 | 2.19% | $36.9375 | 11/20/06 | $ 789,813 | $2,001,541 |
| Stephen A. Roell | 34,000 | 2.19% | $36.9375 | 11/20/06 | $ 789,813 | $2,001,541 |
| John P. Kennedy | 24,000 | 1.55% | $36.9375 | 11/20/06 | $ 557,515 | $1,412,853 |

</TABLE>

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(1) The Stock Option/SAR plans are administered by the Compensation Committee of the Board of Directors, which has authority to determine the individuals to whom and the terms at which option and SAR grants shall be made, certain terms of the options, and the number of shares to be subject to each option. The per share option/SAR prices are the fair market value of the Company's Common Stock on the date of the grant, and the term of the options is 10 years. Fifty percent of each award is exercisable two years after the grant, and the remainder is exercisable three years after the grant.

(2) Options/SAR's granted are stated to reflect the effects of the 2 for 1 stock split that took place on March 31, 1997.

AGGREGATED OPTIONS/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES

<TABLE>
<CAPTION>

Value of Unexercised

| Name | Number of Shares/SARs Acquired on Exercise(1) | Value Realized | Number of Unexercised Options/SARs at FY-End Exercisable/Unexercisable(1) | In-the-Money Options/SARs at FY-End Exercisable/Unexercisable |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| James H. Keyes | 0 | 0 | 274,000 / 230,000 | $7,186,319 / $3,500,006 |
| John M. Barth | 68,000 | $1,079,870 | 0 / 116,000 | 0 / $1,864,002 |
| Joseph W. Lewis | 0 | 0 | 110,200 / 83,000 | $2,905,415 / $1,340,439 |
| Stephen A. Roell | 40,000 | $ 691,247 | 15,000 / 83,000 | $361,875 / $1,340,439 |
| John P. Kennedy | 0 | 0 | 54,400 / 55,000 | $1,465,201 / $859,626 |

</TABLE>

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(1) These are stated to reflect the effects of the 2 for 1 stock split which took place on March 31, 1997.

LONG-TERM INCENTIVE PLAN AWARDS

The following table shows each Contingent Performance Award made to any named executive officer for the 1998 fiscal year under the Company's Long-Term Performance Plan (LTPP). Payouts of awards are tied to the Company's weighted average return on shareholder's equity for fiscal years 1998, 1999 and 2000 compared to the median return on shareholder's equity of the Standard & Poor's Manufacturers (Diversified Industrial) Index (S&P index) during the same three-year period. Performance in the third year of the award is multiplied by 3/6, performance in the second year is multiplied by 2/6, and performance in the first year is multiplied by 1/6 to establish a weighted average. If the Company's average level of return is: (1) Less than the 45th percentile of the return for companies in the S&P index, no award is earned; (2) equal to or greater than the 45th





percentile, the threshold amount is earned; (3) equal to or greater than the 50th percentile, the target amount is earned; (4) equal to or greater than the 55th percentile, 110% of the target amount is earned; and (5) equal to or greater than the 60th percentile, the maximum amount is earned.

In fiscal 1997, based upon the data available at the time of this proxy, LTPP participants were paid 100% of the maximum amount available under the criteria established by the Compensation Committee. When the remaining comparison companies have reported, these awards could [increase, decrease or vary].

<TABLE>
<CAPTION>

| Name | Amount of Contingent Performance Award($) | Performance Period Until Maturation or Payout | Threshold ($) | Target ($) | Maximum ($) |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| James H. Keyes................ | 810,000 | 1998-2000 | 648,000 | 810,000 | 972,000 |
| John M. Barth................. | 350,000 | Fiscal Years | 280,000 | 350,000 | 420,000 |
| Joseph W. Lewis............... | 234,000 | | 157,000 | 234,000 | 281,000 |
| Stephen A. Roell.............. | 213,000 | | 170,000 | 213,000 | 256,000 |
| John P. Kennedy............... | 171,000 | | 137,000 | 171,000 | 205,000 |

</TABLE>

EMPLOYMENT CONTRACTS

The Company has employment agreements with each of the executive officers of the Company including the named executive officers. These agreements provide that employment shall continue for continuous terms, unless terminated by either the Company or the employee as provided therein; the term of the agreements, however, does not extend automatically after the employee reaches age 65. These agreements provide for termination by the Company for cause, for death or disability and under certain circumstances without cause. In the event of termination without cause the employees under any of the contracts will be entitled to receive benefits in an amount equal to the greater of two times the Company's termination allowance policy for administrative employees or an amount equal to 52 weeks' earnings of the employee. In the event of termination by the Company for cause, the employee's compensation is terminated immediately. Change of control agreements have also been entered into by the Company with these executives. In the event of a change of control, these agreements provide for a severance payment equal to three times the executive's annual compensation at the time plus a lump sum payment for the actuarial equivalent of lost benefits under the applicable retirement plan if the executive is terminated other than for cause or has good reason to terminate his or her employment. If the amount to be paid upon termination exceeds certain amounts established under the Internal Revenue Code, so as to require the payment of additional federal taxes, the executive receives an additional payment such that, after payment by the executive of all taxes payable in connection with the agreement, the executive will retain the full amount of the payments to which he is entitled under the agreement. The executive has a 30-day period at the end of the first year after a change of control to terminate his or her employment for any reason and receive this benefit.

The Company has in effect an Executive Survivor Benefits Plan for certain executives. Coverage under this plan is in lieu of the Company's regular group life insurance coverage. In the event of the death of a participating executive while he is employed by the Company, his beneficiary is entitled to payments of between 90% and 100% (depending on the executive's age) of the executive's final base annual salary for a period of 10 years.

The Executive Incentive Compensation Plan (EICP) provides that, in the event of a change of control of the Company, certain participants, including the named executive officers, may re-elect to receive early payment of deferred amounts, and a participant may direct the Company to cause a letter of credit be issued in an amount sufficient to provide for all payments due to such participant under the Plan. The Long-Term Performance Plan also provides that, in the event of a change of





control of the Company, certain participants, including the named executive officers, shall be entitled to receive early payment of deferred amounts.

SECURITY OWNERSHIP OF MANAGEMENT

Set forth below is the tabulation indicating as of October 31, 1997, the shares of the Company's Common Stock and equivalents beneficially owned by each director and nominee, each of the named executive officers, and directors and executive officers of the Company as a group. No executive officer or director owns more than 1% of the outstanding shares of Common Stock.

SECURITY OWNERSHIP OF MANAGEMENT

| Name of Beneficial Owner | Amount and Nature(1) of Stock Ownership | Units Representing Deferred Compensation(3) |
|---|---|---|
| James H. Keyes | 408,709(2) | 97,968 units |
| John M. Barth | 94,697(2) | 16,726 units |
| Joseph W. Lewis | 264,291(2) | 52,540 units |
| Stephen A. Roell | 78,641(2) | 2,176 units |
| John P. Kennedy | 79,620(2) | 12,018 units |
| William F. Andrews | 5,410 | 0 units |
| Robert Barnett | 2,956 | 16,418 units |
| Fred L. Brengel | 219,054 | 12,068 units |
| Paul A. Brunner | 12,600 | 0 units |
| Robert A. Cornog | 4,651 | 3,751 units |
| Willie D. Davis | 3,000 | 0 units |
| Southwood J. Morcott | 2,188 | 2,948 units |
| Martha R. Seger | 2,678 | 1,541 units |
| Donald Taylor | 6,614 | 2,113 units |
| Richard F. Teerlink | 3,056 | 0 units |
| Gilbert R. Whitaker, Jr. | 5,140 | 5,749 units |
| R. Douglas Ziegler | 26,200 | 0 units |

All directors and executive officers as a group (not including deferred shares referred to in footnote (3)) TOTAL 1,623,528(2)
TOTAL PERCENT OF CLASS OF COMMON STOCK AND EQUIVALENTS 1.91%

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(1) Includes all shares with respect to which each officer or director directly, through any contract, arrangement, understanding, relationship or otherwise, has or shares the power to vote or to direct voting of such shares or to dispose or to direct the disposition of such shares.

(2) Includes shares of Common Stock which, as of October 31, 1997, were subject to outstanding stock options exercisable within 60 days as follows: Mr. Keyes, 344,000; Mr. Barth, 44,000; Mr. Lewis, 142,200; Mr. Roell, 47,000; and Mr. Kennedy, 73,400. Also reflects common stock equivalents of preferred units that are owned by these officers.

(3) Includes deferred shares under the EICP, LTPP, and Deferred Compensation Plan for Certain Directors, or other deferred compensation plans. Units will not be distributed in the form of Common Stock.

COMPENSATION COMMITTEE REPORT

EXECUTIVE COMPENSATION PRINCIPLES

The Company's Executive Compensation Program is based on guiding principles designed to align executive compensation with Company values and objectives, business strategy, management initiatives, and business financial performance. The Johnson Controls Vision, approved by the Board of Directors, identifies customer satisfaction, technology, growth, market leadership, and shareholder value as the Company's primary objectives. In applying these principles the Compensation Committee (the Committee) has established a program to:

- Attract and retain key executives critical to the long-term success of the Company and each of its business groups.

- Reward executives for long-term strategic management and the enhancement of shareholder value.

- Integrate compensation programs with both the Company's annual and long-term strategic planning and measuring processes, which focus on after-tax return on shareholder equity, return on investment, growth, market share, and cost reduction.

- Support a performance-oriented environment that rewards performance not only with respect to Company goals but also Company performance as compared to that of industry performance levels.

- The Company's policy is generally to preserve the federal income tax deductibility of compensation paid. Accordingly, the company has taken appropriate actions, to the extent it believes feasible, to preserve the deductibility of annual incentives, long-term performance plan payments, and stock option awards. However, notwithstanding the Company's general policy, the Committee may authorize payments that may not be deductible, if it believes that this is in the best interests of the Company and its shareholders.

EXECUTIVE COMPENSATION PROGRAM

The total compensation program involves a market comparison of total compensation, based on surveys provided to the Company by an independent compensation consultant. A survey of 22 companies with annual sales between $1 billion and $12.3 billion comparing all elements of executive officer compensation was provided by an independent compensation consultant with respect to compensation for officers and senior managers. Average sales of these 22 companies was $6.3 billion; adjustments were made to account for differences in annual sales between the Company and those companies in the survey. The level of comparison is the 50th percentile for total compensation.

The program consists of both cash and equity-based compensation. The annual compensation consists of a base salary and an annual bonus under the Executive Incentive Compensation Plan (EICP). The Committee determines the level of salary for key executive officers and a salary range for other executive officers. Factors considered in determining salary amounts or ranges include prior year salary, changes in individual job responsibilities, past performance of individuals, and, most importantly, achievement or trends toward achievement of specified Company goals and the salary comparison survey results. Generally, all executive officers participate in the EICP. For each fiscal year, the Committee determines in advance and communicates to the executive the formula for the award, which is based on specified benchmarks for return on shareholders' equity, or return on group or division assets, increase in market share, or cost reduction. These benchmarks are consistent with the Company's annual and long-term strategic planning objectives based on achievement of business plans approved by the Board of Directors that include goals of improved performance over the previous year and take into account industry growth and cycles. At the end of the fiscal year, the Committee applies the formula to objective performance results to determine an





executive's award for the year. Except under the EICP Qualified Plan, where discretionary increases to the bonus amount may no longer be made, adjustments may then be made by the Committee, within specified ranges, for the executive's achievement of specified objectives and individual job performance.

Long-term incentives are provided through both the Long Term Performance Plan (LTPP) and stock options. The Committee reviews and approves the participation of executive officers of the Company and its subsidiaries under the LTPP. Generally, all named executive officers participate in the LTPP, which is intended to motivate executives to achieve longer-term objectives by providing incentive compensation based on Company performance over a three-year period. For each award under the LTPP, the Committee assigns an executive a contingent performance award, which the executive has the opportunity to earn based upon the Company's return on equity during the specified three-year period. Currently, LTPP awards are based upon a specified level of return on shareholders' equity relative to the Standard & Poor's Manufacturers (Diversified Industrial) Index median return on shareholders' equity. The specified level of return is consistent with the Company's strategic planning objectives. At the end of the period, the Committee applies the specified goal to objective performance results to determine the executive's LTPP award.

The Committee grants stock options and stock appreciation rights (SARs) under the 1992 Stock Option Plan. The Committee has the authority to determine the individuals to whom stock options and SARs are awarded, the terms at which option grants shall be made, the terms of the options, and the number of shares subject to each option. Compensation to executives through stock options and SARs and the LTPP, taken together, is targeted at the 50th percentile of such compensation granted by similar companies as identified in the survey. Current stock ownership by executives, the number of unexercised options that may be outstanding for an executive or executives as a whole, and other factors may be considered only for new or promoted officers. Through the award of stock option grants, the objective of aligning executive officers' long-range interests with those of the shareholders is met by providing the executive officers with the opportunity to build a meaningful stake in the Company.

Executive officers may also participate in the Company's Savings and Investment Plan (401k Plan), which includes Company contributions to the Plan, an Equalization Benefit Plan under which certain executives, including the named executive officers, are entitled to additional benefits that cannot be paid under qualified plans due to Internal Revenue Code limitations and in addition other benefit plans generally available to all levels of salaried employees. Also, certain executive officers may elect to defer certain awards or compensation under plans. Deferred awards are accounted for as if invested in various accounts.

The Board of Directors has adopted an Executive Stock Ownership Policy, which requires that all officers and senior managers in each business group, within five years of becoming subject to the Policy, hold common stock of the Company in an amount, depending upon the officer or manager, of one to three times their annual salary. Total compensation to be received by these individuals is not affected by the policy. The 1995 Common Stock Purchase Plan for Executives (CSPPE) facilitates the acquisition of common stock by executives subject to the Executive Stock Ownership Policy. All officers and key executives may participate in the CSPPE. Participants in the CSPPE may deduct from their pay up to a maximum of $2,500 per month to purchase shares of the Company's common stock. The price of each share of such stock will be 100% of the average price of shares purchased by Firstar Trust Company as agent for the participants. No brokerage fees or commissions will be charged, and the Company bears the expenses of administering the CSPPE.

Approximately 75% of the total compensation paid to the executive officer group is performance related, which is comparable to the average of the companies identified in the executive compensation survey.





CHIEF EXECUTIVE OFFICER COMPENSATION

The Committee relied on the same approach in determining the Chief Executive Officer's compensation as it used for compensation of other executive officers. The Chief Executive Officer of the Company received a base salary in fiscal 1997 of $900,000, which represented an increase of 12.5% over the previous year. The Chief Executive Officer's base salary remained below the average base salary for chief executive officers for the 22 companies reviewed. His fiscal 1997 EICP award of $689,000 was based upon the return on shareholder's equity for the Company for fiscal 1997 and represented 56% of the maximum amount available under the criteria established by the Committee. In fiscal 1997, the Chief Executive Officer received payments under the LTPP of $730,000, based upon the Company's return on shareholder's equity over the past three fiscal years, and it represented 100% of the maximum amount available under the criteria established by the Committee based upon the data available on the date of this proxy. When the remaining comparison companies have reported, this award could subsequently increase to 100% of the maximum amount. Stock options were awarded in November 1996, when the Chief Executive Officer received an option award of 60,000 shares (120,000 shares if restated to reflect the 3/31/97 stock split).

Approximately 65% of the total compensation paid to the Chief Executive Officer is performance related, which is comparable to the historical average for the companies identified in the survey.

COMPENSATION COMMITTEE
Southwood Morcott, Chairman
William F. Andrews
Paul A. Brunner
Donald Taylor

PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total shareholder return on the Company's Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the cumulative total return of companies on the Standard & Poor's 500 Stock Index and the S&P Manufacturers (Diversified Industrial) Index.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
AMONG S&P 500 INDEX, S&P MANUFACTURERS (DIVERSIFIED INDUSTRIAL) INDEX AND JOHNSON CONTROLS, INC.

| MEASUREMENT PERIOD (FISCAL YEAR COVERED) | S&P 500 | MANUFACTURERS (DIVERSIFIED INDUSTRIAL) | JCI |
|---|---|---|---|
| 1992 | 100 | 100 | 100 |
| 1993 | 113.00 | 118.55 | 140.21 |
| 1994 | 117.17 | 131.73 | 131.84 |
| 1995 | 152.02 | 175.45 | 172.51 |
| 1996 | 182.93 | 226.03 | 209.31 |
| 1997 | 256.92 | 314.65 | 282.23 |

ASSUMES $100 INVESTED ON SEPTEMBER 30, 1992, IN S&P 500 INDEX, S&P MANUFACTURERS (DIVERSIFIED INDUSTRIAL) INDEX AND JOHNSON CONTROLS, INC., AND THAT DIVIDENDS ARE REINVESTED AT THE END OF MONTH IN WHICH THEY ARE PAID.





PENSION PLANS

PENSION PLAN TABLE

The following table shows the maximum annual retirement benefits payable in dollars under the Company's plans (including amounts attributable to the Company's Equalization Benefit Plan) at the normal retirement age for specified remunerations and years of service under provisions in effect on September 30, 1997, and assuming retirement on that date. Compensation for purposes of the plans for the named executive officers generally corresponds with the aggregate of the earned salary, plus bonus or Executive Incentive Compensation Plan awards for each such person.

| Average Annual Compensation in Highest 5 Consecutive Years of Last 10 Years Before Retirement | Maximum Annual Pension at Normal Retirement Age After Years of Participating Service (Prior to Adjustment for Social Security Covered Compensation) | | | |
|---|---|---|---|---|
| | 25 Years | 30 Years | 35 Years | 40 Years |
| 100,000 | 42,500 | 51,000 | 56,750 | 62,500 |
| 200,000 | 85,000 | 102,000 | 113,500 | 125,000 |
| 250,000 | 106,250 | 127,500 | 141,875 | 156,250 |
| 300,000 | 127,500 | 153,000 | 170,250 | 187,500 |
| 400,000 | 170,000 | 204,000 | 227,000 | 250,000 |
| 500,000 | 212,500 | 255,000 | 283,750 | 312,500 |
| 600,000 | 255,000 | 306,000 | 340,500 | 375,000 |
| 700,000 | 297,500 | 357,000 | 397,250 | 437,500 |
| 800,000 | 340,000 | 408,000 | 454,000 | 500,000 |
| 900,000 | 382,500 | 459,000 | 510,750 | 562,500 |
| 1,000,000 | 425,000 | 510,000 | 567,500 | 625,000 |
| 1,100,000 | 467,500 | 561,000 | 624,250 | 687,500 |
| 1,200,000 | 510,000 | 612,000 | 681,000 | 750,000 |
| 1,300,000 | 552,500 | 663,000 | 737,750 | 812,500 |
| 1,400,000 | 595,000 | 714,000 | 794,500 | 875,000 |
| 1,500,000 | 637,500 | 765,000 | 851,250 | 937,500 |
| 1,600,000 | 680,000 | 816,000 | 908,000 | 1,000,000 |

As of September 30, 1997, the persons named in the Summary Compensation Table were credited with the following years of service under the Company's pension plan: Mr. Keyes, 28 years; Mr. Barth, 27 years; Mr. Lewis, 36 years; Mr. Roell, 14 years; and Mr. Kennedy, 12 years.

Pension plans of the Company generally apply to all regular employees, including officers of the Company. The Johnson Controls Pension Plan (the Plan), effective January 1, 1989, generally covers all salaried and non-union hourly employees of the Company. The Plan has been amended from time to time. Under the Plan, benefits are accrued according to the following formula: 1.15% of Participant's Average Monthly Compensation multiplied by the Participant's years of Benefit Service plus 0.55% of Average Monthly Compensation in excess of the Participant's Covered Compensation multiplied by the Participant's years of Benefit Service. The amounts actually payable may be actuarially adjusted to reflect the Participant's marital status, early retirement or termination, and, in some circumstances, age. "Average Monthly Compensation" is defined as the average monthly compensation for the highest five consecutive years in the last 10 years. "Benefit Service" generally means the number of years worked for the Company. "Covered Compensation" means the average of compensation subject to Social Security taxes for the 35-year period ending in the year the Participant attains Social Security Retirement Age; i.e. the age at which the Participant will be entitled to full Social Security payments.

Participants become entitled to benefits under the Plan after five years of service with the Company or any of its subsidiaries, and the normal retirement date is a Participant's 65th birthday.





The Internal Revenue Code places maximum limitations on the amount of benefits that may be paid under the Plan. The Company has adopted an Equalization Benefit Plan under which certain executives, including the named executive officers, are entitled to the additional pension benefits that cannot be paid under the qualified plan due to these limitations and because they have elected to defer a portion of their award under an incentive compensation plan.

## COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by the Company, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that, since October 1, 1996, all filing requirements applicable to its officers, directors, and greater than ten percent beneficial owners were complied with.

## SELECTION OF AUDITORS

Management will propose the adoption of a resolution ratifying the Board of Directors' decision to appoint Price Waterhouse as auditors. If the shareholders fail to ratify such selection, the Board will reconsider it. Representatives of Price Waterhouse are expected to be present at the shareholders' meeting with the opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions.

## SHAREHOLDERS' PROPOSALS

Proposals of shareholders which are intended to be presented at the 1999 annual meeting must be received by the Company no later than August 6, 1998 to be included in the Company's proxy materials for that meeting. Further, a shareholder who otherwise intends to present business at the 1999 annual meeting must comply with the requirements set forth in the Company's By-Laws. Among other things, to bring business before an annual meeting, a shareholder must give written notice thereof, complying with the By-Laws, to the Secretary of the Company not less than 60 days and not more than 90 days prior to the fourth Tuesday of the month of January. The 1999 annual meeting will be held on January 27, 1999, or on such other date designated by the Board of Directors.





## OTHER MATTERS

The matters referred to in the notice of meeting and in the proxy statement are, as far as management now knows, the only matters which will be presented for consideration at the meeting. If any other matters properly come before the meeting, the persons named in the accompanying form of proxy will vote on them in accordance with their best judgment.

The cost of soliciting proxies will be borne by the Company. The Company expects to solicit proxies primarily by mail. Proxies also may be solicited personally and by telephone by certain officers and regular employees of the Company. D.F. King & Co., Inc., has been retained for solicitation of all brokers and nominees at a cost of approximately $11,000 plus customary out-of-pocket expenses. The Company may reimburse brokers and other nominees for their expenses in communicating with the persons for whom they hold stock of the Company.

The Company's 1997 Annual Report is being mailed to the shareholders with this proxy statement.

JOHNSON CONTROLS, INC.

JOHN P. KENNEDY
John P. Kennedy, Secretary
December 5, 1997





JOHNSON CONTROLS, INC.
P.O. BOX 591
MILWAUKEE, WI 53201

SHAREHOLDER'S PROXY ANNUAL MEETING-JANUARY 28, 1998

The undersigned, having received the Notice of Meeting and Proxy Statement dated December 5, 1997, and Annual Report for 1997, hereby appoints J.P. Kennedy and J.H. Keyes, and each of them, proxies with power of substitution to vote for the undersigned at the annual shareholders' meeting of Johnson Controls, Inc., on January 28, 1998, and at any adjournments thereof.

This proxy when properly executed will be voted in the manner directed therein by the undersigned. If no direction is made, this proxy will be voted for all nominees listed and for Proposal 2.

-- DETACH BELOW AND RETURN USING THE ENVELOPE PROVIDED --

<TABLE>
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JOHNSON CONTROLS, INC. 1998 ANNUAL MEETING

The Board of Directors recommends a vote FOR items 1 and 2. If no direction is made, this proxy will be voted FOR all nominees listed and FOR item 2.

1. ELECTION OF DIRECTORS: 1 - William F. Andrews 2 - Robert L. Barnett 3 - Willie D. Davis 4 - Richard F. Teerlink

/ / FOR all nominees listed to the left (except as specified below).

/ / WITHHOLD AUTHORITY to vote for all nominees listed to the left.

(Instructions: To withhold authority to vote for any indicated nominee, write number(s) of nominee(s) in the box provided to the right.) ------->

2. Ratification of the appointment of Price Waterhouse as auditors. / / FOR / / AGAINST / / ABSTAIN

3. In their discretion, upon any other matters which may properly come before the meeting or any adjournments thereof, hereby revoking any proxy heretofore given by the undersigned for such meting.

Check appropriate box
Indicate changes below:
Address Change? / / Name Change? / /

Date________________________

SIGNATURE(S) IN BOX

Please sign name exactly as it appears hereon. When signed as attorney, executor, trustee or guardian, please add title. For joint accounts, each owner should sign.

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