FORTUNE BRANDS HOME & SECURITY, INC.

RECONCILIATION OF OPERATING INCOME BEFORE CHARGES/GAINS TO GAAP OPERATING INCOME

(In millions)

(Unaudited)

	For the three months ended				For the twelve months ended			
	December 31, 2017	December 31, 2016	$ change	% change	December 31, 2017	December 31, 2016	$ change	% change
CABINETS								
Operating income before charges/gains [(a)]	$ 67.0	$ 63.8	$ 3.2	5	$ 272.4	$ 259.6	$ 12.8	5
Restructuring charges [(b)]	(1.4)	-	(1.4)	(100)	(1.4)	(1.8)	0.4	22
Other charges [(b)]								
Cost of products sold	(1.6)	-	(1.6)	(100)	(1.6)	-	(1.6)	(100)
Selling, general and administrative expenses	(2.2)	-	(2.2)	(100)	(2.2)	-	(2.2)	(100)
Operating income (GAAP)	$ 61.8	$ 63.8	$ (2.0)	(3)	$ 267.2	$ 257.8	$ 9.4	4
PLUMBING								
Operating income before charges/gains [(a)]	$ 97.5	$ 87.7	$ 9.8	11	$ 370.9	$ 332.2	$ 38.7	12
Restructuring charges [(b)]	(1.2)	(0.5)	(0.7)	(140)	(2.8)	(1.6)	(1.2)	(75)
Other charges [(b)]								
Cost of products sold	(1.1)	(3.3)	2.2	67	(2.1)	(4.1)	2.0	49
Selling, general and administrative expenses	(2.4)	(0.2)	(2.2)	(1,100)	(2.4)	(0.2)	(2.2)	(1,100)
Operating income (GAAP)	$ 92.8	$ 83.7	$ 9.1	11	$ 363.6	$ 326.3	$ 37.3	11
DOORS								
Operating income before charges/gains [(a)]	$ 18.7	$ 16.2	$ 2.5	15	$ 74.5	$ 62.3	$ 12.2	20
Restructuring charges	0.1	(0.4)	0.5	125	0.1	(0.4)	0.5	125
Other charges								
Selling, general and administrative expenses	(0.1)	-	(0.1)	(100)	(0.1)	-	(0.1)	(100)
Operating income (GAAP)	$ 18.7	$ 15.8	$ 2.9	18	$ 74.5	$ 61.9	$ 12.6	20
SECURITY								
Operating income before charges/gains [(a)]	$ 23.8	$ 23.9	$ (0.1)	-	$ 88.5	$ 81.6	$ 6.9	8
Restructuring charges [(b)]	(2.3)	(0.6)	(1.7)	(283)	(4.2)	(10.1)	5.9	58
Other charges [(b)]								
Cost of products sold	(5.4)	(0.7)	(4.7)	(671)	(5.6)	(4.2)	(1.4)	(33)
Selling, general and administrative expenses	(0.1)	(0.7)	0.6	86	(0.7)	(0.7)	-	-
Asset impairment charge	-	-	-	-	(3.2)	-	(3.2)	(100)
Loss on sale of product line	-	-	-	-	(2.4)	-	(2.4)	(100)
Operating income (GAAP)	$ 16.0	$ 21.9	$ (5.9)	(27)	$ 72.4	$ 66.6	$ 5.8	9
CORPORATE								
General and administrative expense before charges/gains	$ (21.4)	$ (19.5)	$ (1.9)	(10)	$ (85.2)	$ (80.8)	$ (4.4)	(5)
Defined benefit plan income before actuarial gains	1.0	0.7	0.3	43	4.2	2.9	1.3	45
Total Corporate expense before charges/gains	$ (20.4)	$ (18.8)	$ (1.6)	(9)	$ (81.0)	$ (77.9)	$ (3.1)	(4)
General and administrative expense before charges/gains	$ (21.4)	$ (19.5)	$ (1.9)	(10)	$ (85.2)	$ (80.8)	$ (4.4)	(5)
Other charges [(b)]								
Selling, general and administrative expenses	-	-	-	-	-	(0.1)	0.1	100
Asset impairment charge	(5.1)	-	(5.1)	(100)	(5.1)	-	(5.1)	(100)
General and administrative expense (GAAP)	(26.5)	(19.5)	(7.0)	(36)	(90.3)	(80.9)	(9.4)	(12)
Defined benefit plan income before actuarial gains	1.0	0.7	0.3	43	4.2	2.9	1.3	45
Defined benefit plan actuarial gains/(losses) [(c)]	(0.8)	-	(0.8)	(100)	0.5	(1.9)	2.4	126
Defined benefit plan income/(expense) (GAAP)	0.2	0.7	(0.5)	(71)	4.7	1.0	3.7	370
Total Corporate expense (GAAP)	$ (26.3)	$ (18.8)	$ (7.5)	(40)	$ (85.6)	$ (79.9)	$ (15.1)	(7)
FORTUNE BRANDS HOME & SECURITY								
Operating income before charges/gains [(a)]	$ 186.6	$ 172.8	$ 13.8	8	$ 725.3	$ 657.8	$ 67.5	10
Restructuring charges [(b)]	(4.8)	(1.5)	(3.3)	(220)	(8.3)	(13.9)	5.6	40
Other charges [(b)]								
Cost of products sold	(8.1)	(4.0)	(4.1)	(103)	(9.3)	(8.3)	(1.0)	(12)
Selling, general and administrative expenses	(4.8)	(0.9)	(3.9)	(433)	(5.4)	(1.0)	(4.4)	(440)
Asset impairment charges	(5.1)	-	(5.1)	(100)	(8.3)	-	(8.3)	(100)
Loss on sale of product line	-	-	-	-	(2.4)	-	(2.4)	(100)
Defined benefit plan actuarial gains/(losses) [(c)]	(0.8)	-	(0.8)	(100)	0.5	(1.9)	2.4	126
Operating income (GAAP)	$ 163.0	$ 166.4	$ (3.4)	(2)	$ 692.1	$ 632.7	$ 59.4	9

(a) (b) (c) For definitions of Non-GAAP measures, see Definitions of Terms page

FORTUNE BRANDS HOME & SECURITY, INC.

BEFORE CHARGES/GAINS OPERATING MARGIN TO OPERATING MARGIN
(Unaudited)

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2017	2016	Change	2017	2016	Change
CABINETS						
Before Charges/Gains Operating Margin	10.7%	10.6%	10 bps	11.0%	10.8%	20 bps
Restructuring & Other Charges	(0.8%)	-		(0.2%)	-	
Operating Margin	9.9%	10.6%	(70) bps	10.8%	10.8%	0 bps
PLUMBING						
Before Charges/Gains Operating Margin	20.8%	20.6%	20 bps	21.6%	21.7%	(10) bps
Restructuring & Other Charges	(1.0%)	(1.0%)		(0.5%)	(0.4%)	
Operating Margin	19.8%	19.6%	20 bps	21.1%	21.3%	(20) bps
DOORS						
Before Charges/Gains Operating Margin	14.5%	13.3%	120 bps	14.8%	13.2%	160 bps
Restructuring & Other Charges	-	(0.3%)		-	(0.1%)	
Operating Margin	14.5%	13.0%	150 bps	14.8%	13.1%	170 bps
SECURITY						
Before Charges/Gains Operating Margin	15.0%	15.6%	(60) bps	14.9%	14.1%	80 bps
Restructuring & Other Charges	(4.9%)	(1.3%)		(1.8%)	(2.6%)	
Asset Impairment	-	-		(0.5%)	-	
Loss on sale of product line	-	-		(0.4%)	-	
Operating Margin	10.1%	14.3%	(420) bps	12.2%	11.5%	70 bps
Total Company						
Before Charges/Gains Operating Margin	13.5%	13.3%	20 bps	13.7%	13.2%	50 bps
Restructuring & Other Charges	(1.2%)	(0.5%)		(0.4%)	(0.5%)	
Asset Impairments	(0.4%)	-		(0.2%)	-	
Loss on sale of product line	-	-		-	-	
Defined benefit plan actuarial gains/(losses)	(0.1%)	-		-	-	
Operating Margin	11.8%	12.8%	(100) bps	13.1%	12.7%	40 bps

Operating margin is calculated as operating income derived in accordance with GAAP divided by GAAP Net Sales. Before charges/gains operating margin is operating income derived in accordance with GAAP excluding restructuring and other charges, loss on the sale of product line and asset impairments, and for the total Company, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans recorded in the Corporate segment, divided by GAAP net sales. Before charges/gains operating margin is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the returns generated by FBHS and its business segments. Management believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

FORTUNE BRANDS HOME & SECURITY, INC.
FREE CASH FLOW TO GAAP CASH FLOW FROM OPERATIONS
(In millions)
(Unaudited)

	Twelve Months Ended December 31, 2017
Free Cash Flow*	$ 464.2
Add:	
Capital Expenditures	165.0
Less:	
Proceeds from the sale of assets	0.4
Proceeds from the exercise of stock options	28.5
Cash Flow From Operations (GAAP)	$ 600.3

* Free cash flow is cash flow from operations calculated in accordance with U.S. generally accepted accounting principles ("GAAP") less net capital expenditures (capital expenditures less proceeds from the sale of assets including property, plant and equipment, and the proceeds from the exercise of stock options). Free cash flow does not include adjustments for certain non-discretionary cash flows such as mandatory debt repayments. Free cash flow is a measure not derived in accordance with GAAP. Management believes that free cash flow provides investors with helpful supplemental information about the Company's ability to fund internal growth, make acquisitions, repay debt and related interest, pay dividends and repurchase common stock. This measure may be inconsistent with similar measures presented by other companies.

FORTUNE BRANDS HOME & SECURITY, INC.
(In millions)
(Unaudited)

RECONCILIATION OF EBITDA BEFORE CHARGES/GAINS TO INCOME FROM CONTINUING OPERATIONS

	Twelve Months Ended December 31, 2017
EBITDA BEFORE CHARGES/GAINS [(d)]	$ 854.7
Depreciation	$ (98.6)
Amortization of intangible assets	(31.7)
Restructuring and other charges	(23.0)
Interest expense	(49.4)
Loss on sale of product line	(2.4)
Asset impairments	(15.3)
Defined benefit plan actuarial gains/(losses)	0.5
Income taxes	(159.5)
Income from continuing operations, net of tax	$ 475.3

CALCULATION OF NET DEBT-TO-EBITDA BEFORE CHARGES/GAINS RATIO

As of December 31, 2017	
Long-term debt *	1,507.6
Total debt	1,507.6
Less:	
Cash and cash equivalents *	323.0
Net debt (1)	1,184.6
For the twelve months ended December 31, 2017	
EBITDA before charges/gains (2) [(d)]	854.7
Net debt-to-EBITDA before charges/gains ratio (1/2)	1.4

* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of December 31, 2017.

(d) For definitions of Non-GAAP measures, see Definitions of Terms page

DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION

For the three months ended December 31, 2017, diluted EPS before charges/gains is net income from continuing operations, net of tax including the impact from noncontrolling interests calculated on a diluted per-share basis excluding $17.7 million ($12.5 million after tax or $0.08 per diluted share) of restructuring and other charges, actuarial losses associated with our defined benefit plans of $0.8 million ($0.6 million after tax or $0.01 per diluted share), asset impairments of $12.1 million ($7.9 million after tax or $0.05 per diluted share) and a net benefit related to the Tax Cuts and Jobs Act of 2017 of $25.7 million ($0.17 per diluted share).

For the twelve months ended December 31, 2017, diluted EPS before charges/gains is net income from continuing operations, net of tax including the impact from noncontrolling interests calculated on a diluted per-share basis excluding $23.0 million ($16.3 million after tax or $0.10 per diluted share) of restructuring and other charges, asset impairments of $15.3 million ($11.1 million after tax or $0.07 per diluted share), the loss on sale of product line of $2.4 million ($2.5 million after tax or $0.02 per diluted share), the impact of income from actuarial gains associated with our defined benefit plans of $0.5 million ($0.3 million after tax) and a net benefit related to the Tax Cuts and Jobs Act of 2017 of $25.7 million ($0.16 per diluted share).

For the three months ended December 31, 2016, diluted EPS before charges/gains is income from continuing operations, net of tax and including the impact from noncontrolling interests calculated on a diluted per-share basis excluding $6.4 million ($4.8 million after tax or $0.03 per diluted share) of restructuring and other charges and expense related to a tax item of $1.5 million ($0.01 per diluted share).

For the twelve months ended December 31, 2016, diluted EPS before charges/gains is income from continuing operations, net of tax and including the impact from noncontrolling interests calculated on a diluted per-share basis excluding $23.2 million ($16.5 million after tax or $0.10 per diluted share) of restructuring and other charges, the impact of the write-off of prepaid debt issuance cost of $1.3 million ($0.8 million after tax or $0.01 per diluted share), expense related to tax items of $3.1 million ($0.02 per diluted share), and actuarial losses of $1.9 million ($1.3 million after tax or $0.01 per diluted share).

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2017	2016	% Change	2017	2016	% Change
Earnings Per Common Share - Diluted						
Diluted EPS Before Charges/Gains - Continuing Operations (e)	$ 0.80	$ 0.71	13	$ 3.08	$ 2.75	12
Restructuring and other charges	(0.08)	(0.03)	(167)	(0.10)	(0.10)	-
Asset impairment charges (f)	(0.05)	-	-	(0.07)	-	-
Loss on sale of product line	-	-	-	(0.02)	-	-
Defined benefit plan actuarial gains/(losses)	(0.01)	-	-	-	(0.01)	100
Write-off of prepaid debt issuance costs	-	-	-	-	(0.01)	100
Tax items	0.17	(0.01)	-	0.16	(0.02)	900
Diluted EPS - Continuing Operations	$ 0.83	$ 0.67	24	$ 3.05	$ 2.61	17

RECONCILIATION OF FULL YEAR 2018 EARNINGS GUIDANCE TO GAAP

The Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of $3.54 to $3.66 per share. For the full year, on a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of $3.44 to $3.56 per share. Reconciliation of non-GAAP diluted EPS guidance to GAAP diluted EPS guidance cannot be provided without unreasonable efforts on a forward-looking basis due to the high variability and low visibility with respect to gains and losses associated with our defined benefit plans and restructuring and other charges, which are excluded from the diluted EPS before charges/gains. In addition, the Company's GAAP EPS range assumes the Company incurs no gains or losses associated with its defined benefit plans during 2018.

(e) (f) For definitions of Non-GAAP measures, see Definitions of Terms page

FORTUNE BRANDS HOME & SECURITY, INC.
RECONCILIATION OF PERCENTAGE CHANGE IN PLUMBING NET SALES EXCLUDING GPG ACQUISITIONS TO PERCENTAGE CHANGE IN NET SALES (GAAP)
(Unaudited)

	Three Months Ended December 31, 2017
PLUMBING	
Percentage change in Net Sales excluding acquisitions (organic)	**9%**
Acquisitions Net Sales	1%
Percentage change in Net Sales (GAAP)	**10%**

Plumbing net sales excluding acquisitions is net sales derived in accordance with GAAP excluding the Shaws and Vicotoria + Albert. Management uses this measure to evaluate the overall performance of the Plumbing segment and believes this measure provides investors with helpful supplemental information regarding the underlying performance of the segment from period to period. This measure may be inconsistent with similar measures presented by other companies.

FORTUNE BRANDS HOME & SECURITY, INC.
RECONCILIATION OF PERCENTAGE CHANGE IN HOME PRODUCTS SEGMENT NET SALES EXCLUDING GPG ACQUISITIONS TO PERCENTAGE CHANGE IN NET SALES (GAAP)
(Unaudited)

	Three Months Ended December 31, 2017
HOME PRODUCTS SEGMENTS (CABINETS, PLUMBING & DOORS)	
Percentage change in Home Products Segments Net Sales excluding acquisitions (organic)	**6%**
Acquisitions Net Sales	1%
Percentage change in Home Products Segments Net Sales (GAAP)	**7%**

Home Products Segments net sales excluding acquisitions is net sales derived in accordance with GAAP excluding the Security segment of FBHS, Shaws and Victoria + Albert. Management uses this measure to evaluate the overall performance of the Home Products businesses and believes this measure provides investors with helpful supplemental information regarding the underlying performance of the segment from period to period. This measure may be inconsistent with similar measures presented by other companies.

Definitions of Terms: Non-GAAP Measures

(a) Operating income before charges/gains is operating income derived in accordance with GAAP excluding restructuring and other charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, asset impairment charges and the loss on the sale of product line. Operating income before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the returns generated by FBHS and its business segments. Management believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

(b) Restructuring charges are costs incurred to implement significant cost reduction initiatives and include workforce reduction costs. "Other charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such costs may include inventory obsolescence provisions, trade receivables allowances from exiting product lines, accelerated depreciation resulting from the closure of facilities, and gains or losses on the sale of previously closed facilities. In addition, other charges include acquisition related inventory step-up expense of $2.0 million for the twelve months ended December 31, 2017 and $3.8 million for the twelve months ended December 31, 2016 in our Plumbing Segment, $1.6 million of compensation expense related to deferred purchase price consideration payable to certain former Victoria + Albert shareholders contingent on their employment through October 2018 and $0.7 million of transaction related U.K. stamp duty resulting from our acquisition of Victoria + Albert.

(c) Represents actuarial gains or losses associated with our defined benefit plans. Actuarial gains or losses in a period represent the difference between actual and actuarially assumed experience, principally related to liability discount rates and plan asset returns, as well as other actuarial assumptions including compensation rates, turnover rates, and health care cost trend rates. The Company recognizes actuarial gains or losses immediately in operating income to the extent they cumulatively exceed a “corridor.” The corridor is equal to the greater of 10% of the fair value of plan assets or 10% of a plan’s projected benefit obligation. Actuarial gains or losses are determined at required remeasurement dates which occur at least annually in the fourth quarter. Remeasurements due to plan amendments and settlements may also occur in interim periods during the year. Our operating income before charges/gains reflects our expected rate of return on pension plan assets which in a given period may materially differ from our actual return on plan assets. Our liability discount rates and plan asset returns are based upon difficult to predict fluctuations in global bond and equity markets that are not directly related to the Company’s business. We believe that the exclusion of actuarial gains or losses from operating income before charges/gains provides investors with useful supplemental information regarding the underlying performance of the business from period to period that may be considered in conjunction with our operating income as measured on a GAAP basis. We present this supplemental information because such actuarial gains or losses may create volatility in our operating income that does not necessarily have an immediate corresponding impact on operating cash flow or the actual compensation and benefits provided to our employees. The table below sets forth additional supplemental information on the Company’s historical actual and expected rate of return on plan assets, as well as discount rates used to value its defined benefit obligations:

($ In millions)	*Year Ended December 31, 2017*		*Year Ended December 31, 2016*	
	%	*$*	*%*	*$*
Actual return on plan assets	*16.3%*	*$83.2*	*10.0%*	*$46.6*
Expected return on plan assets	*6.4%*	*37.3*	*6.6%*	*37.2*
Discount rate at December 31:				
Pension benefits	*3.8%*		*4.3%*	
Postretirement benefits	*3.4%*		*3.4%*	

(d) EBITDA before charges/gains is income from continuing operations, net of tax, derived in accordance with GAAP excluding restructuring and other charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, depreciation, asset impairment charges, the loss on sale of product line, amortization of intangible assets, interest expense, and income taxes. EBITDA before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to assess returns generated by FBHS. Management believes this measure provides investors with helpful supplemental information about the Company's ability to fund internal growth, make acquisitions and repay debt and related interest. This measure may be inconsistent with similar measures presented by other companies.

(e) Diluted EPS before charges/gains is income from continuing operations, net of tax, less noncontrolling interests calculated on a diluted per-share basis excluding restructuring and other charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, asset impairment charges, the loss on the sale of product line, write-off of prepaid debt issuance costs and tax items. Diluted EPS before charges/gains is a measure not derived in accordance with GAAP. Management uses this measure to evaluate the overall performance of the Company and believes this measure provides investors with helpful supplemental information regarding the underlying performance of the Company from period to period. This measure may be inconsistent with similar measures presented by other companies.

(f) Asset impairment charges for the three months ended December 31, 2017, represent an impairment of a cost investment in a developmental stage home security company classified in other expense and an impairment of a long-lived Corporate asset classified in selling, general and administrative expenses. In addition, asset impairments for the twelve months ended December 31, 2017, include impairments related to our decision during the first quarter of 2017 to sell the Field ID product line.