

FORTUNE BRANDS HOME & SECURITY, INC.

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

(In millions)

(Unaudited)

	For the three months ended			
	March 31, 2017	March 31, 2016	\$ change	% change
CABINETS				
Operating income before charges/gains ^(a)	\$ 47.0	\$ 37.5	\$ 9.5	25
Restructuring charges ^(b)	-	(1.8)	1.8	100
Operating income (GAAP)	\$ 47.0	\$ 35.7	\$ 11.3	32
PLUMBING				
Operating income before charges/gains ^(a)	\$ 72.6	\$ 71.9	\$ 0.7	1
Restructuring charges ^(b)	(1.4)	(0.4)	(1.0)	(250)
Other charges ^(b)				
Cost of products sold	(1.0)	-	(1.0)	(100)
Operating income (GAAP)	\$ 70.2	\$ 71.5	\$ (1.3)	(2)
DOORS				
Operating income before charges/gains ^(a)	\$ 8.0	\$ 4.2	\$ 3.8	90
Restructuring charges	0.2	-	0.2	100
Operating income (GAAP)	\$ 8.2	\$ 4.2	\$ 4.0	95
SECURITY				
Operating income before charges/gains ^(a)	\$ 15.0	\$ 11.5	\$ 3.5	30
Restructuring charges ^(b)	(1.0)	(3.4)	2.4	71
Other charges ^(b)				
Cost of products sold	-	(2.5)	2.5	100
Selling, general and administrative expenses	(0.7)	-	(0.7)	(100)
Asset impairment charge	(3.2)	-	(3.2)	(100)
Operating income (GAAP)	\$ 10.1	\$ 5.6	\$ 4.5	80
CORPORATE				
General and administrative expense before charges/gains	\$ (21.6)	\$ (21.3)	\$ (0.3)	(1)
Defined benefit plan income before actuarial gains	1.0	0.8	0.2	25
Total Corporate expense before charges/gains	\$ (20.6)	\$ (20.5)	\$ (0.1)	-
General and administrative expense before charges/gains	\$ (21.6)	\$ (21.3)	\$ (0.3)	(1)
Restructuring charges ^(b)	-	-	-	-
Other charges ^(b)				
Selling, general and administrative expenses	-	(0.1)	0.1	100
General and administrative expense (GAAP)	(21.6)	(21.4)	(0.2)	(1)
Defined benefit plan income before actuarial gains	1.0	0.8	0.2	25
Defined benefit plan actuarial gains/(losses) ^(c)	-	(0.9)	0.9	100
Defined benefit plan income/(expense) (GAAP)	1.0	(0.1)	1.1	1,100
Total Corporate expense (GAAP)	\$ (20.6)	\$ (21.5)	\$ 0.9	4
FORTUNE BRANDS HOME & SECURITY				
Operating income before charges/gains ^(a)	\$ 122.0	\$ 104.6	\$ 17.4	17
Restructuring charges ^(b)	(2.2)	(5.6)	3.4	61
Other charges ^(b)				
Cost of products sold	(1.0)	(2.5)	1.5	60
Selling, general and administrative expenses	(0.7)	(0.1)	(0.6)	(600)
Asset impairment charge	(3.2)	-	(3.2)	(100)
Defined benefit plan actuarial gains/(losses) ^(c)	-	(0.9)	0.9	100
Operating income (GAAP)	\$ 114.9	\$ 95.5	\$ 19.4	20

(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 March 31,		
	2017	2016	Change
CABINETS			
Before Charges/Gains Operating Margin	8.2%	6.8%	140 bps
Restructuring & Other Charges	-	(0.3%)	
Operating Margin	8.2%	6.5%	170 bps
PLUMBING			
Before Charges/Gains Operating Margin	19.2%	21.2%	(200) bps
Restructuring & Other Charges	(0.6%)	(0.1%)	
Operating Margin	18.6%	21.1%	(250) bps
DOORS			
Before Charges/Gains Operating Margin	7.8%	4.5%	330 bps
Restructuring & Other Charges	0.2%	-	
Operating Margin	8.0%	4.5%	350 bps
SECURITY			
Before Charges/Gains Operating Margin	11.3%	9.3%	200 bps
Restructuring & Other Charges	(1.3%)	(4.8%)	
Asset Impairment	(2.4%)		
Operating Margin	7.6%	4.5%	310 bps
FBHS			
Before Charges/Gains Operating Margin	10.3%	9.5%	80 bps
Restructuring & Other Charges	(0.3%)	(0.7%)	
Asset Impairment	(0.3%)	-	
Defined benefit plan actuarial losses	-	(0.2%)	
Operating Margin	9.7%	8.6%	110 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, and for FBHS, the impact of expense from actuarial losses associated with our defined benefit plans recorded in the Corporate segment and dividing 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.
BEFORE CHARGES/GAINS OPERATING MARGIN TO OPERATING
MARGIN**

(Unaudited)

CABINETS

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Operating Margin

Twelve Months Ended December 31, 2016
10.8%
-
10.8%

DOORS

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Operating Margin

Twelve Months Ended December 31, 2016
13.2%
(0.1%)
13.1%

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, and for FBHS, the impact of expense from actuarial losses associated with our defined benefit plans recorded in the Corporate segment and dividing 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.

DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION

For the first quarter of 2017, diluted EPS before charges/gains is net income including the impact from noncontrolling interests calculated on a diluted per-share basis excluding \$3.9 million (\$2.9 million after tax or \$0.01 per diluted share) of restructuring and other charges and asset impairment charges of \$3.2 million (\$3.2 million after tax or \$0.02 per diluted share).

For the first quarter of 2016, diluted EPS before charges/gains is net income including the impact from noncontrolling interests calculated on a diluted per-share basis excluding \$8.2 million (\$5.6 million after tax or \$0.04 per diluted share) of net restructuring and other charges, the impact of income from actuarial gains associated with our defined benefit plans of \$0.9 million (\$0.6 million after tax) and expense related to a tax item of \$0.3 million.

Earnings Per Common Share - Diluted

Diluted EPS Before Charges/Gains ^(e)

Restructuring and other charges

Asset impairment charges

Defined benefit plan actuarial losses

Tax item

Diluted EPS (GAAP)

Three Months Ended March 31,		
2017	2016	% Change
\$ 0.53	\$ 0.42	26
(0.01)	(0.04)	75
(0.02)	-	-
-	-	-
-	-	-
\$ 0.50	\$ 0.38	32

RECONCILIATION OF FULL YEAR 2017 EARNINGS GUIDANCE TO GAAP

The Company is targeting diluted EPS before charges/gains to be in the range of \$3.00 to \$3.12 per share. For the full year, on a GAAP basis, the Company is targeting diluted EPS to be in the range of \$2.96 to \$3.08 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 Companies GAAP EPS range assumes the Company incurs no additional gains or losses associated with its defined benefit plans.

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

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

RECONCILIATION OF EBITDA BEFORE CHARGES/GAINS NET INCOME

	Three Months Ended March 31,			Twelve Months Ended March 31,		
	2017	2016	% Change	2017	2016	% Change
EBITDA BEFORE CHARGES/GAINS ^(d)	\$ 154.6	\$ 133.2	16	\$ 154.6	\$ 133.2	16
Depreciation *	(23.7)	(21.8)	(9)	(23.7)	(21.8)	(9)
Amortization of intangible assets	(8.1)	(6.5)	(25)	(8.1)	(6.5)	(25)
Restructuring and other charges	(3.9)	(8.2)	52	(3.9)	(8.2)	52
Interest expense	(11.9)	(11.8)	(1)	(11.9)	(11.8)	(1)
Asset impairment charges	(3.2)	-	(100)	(3.2)	-	(100)
Defined benefit plan actuarial losses	-	(0.9)	100	-	(0.9)	100
Income taxes	(26.4)	(23.0)	(15)	(26.4)	(23.0)	(15)
Net Income (GAAP)	\$ 77.4	\$ 61.0	27	\$ 77.4	\$ 61.0	27

* Depreciation excludes accelerated depreciation of (\$2.5) million for the three months ended March 31, 2016. Accelerated depreciation is included in restructuring and other charges.

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

As of March 31, 2017		
Long-term debt *		1,491.5
Total debt		1,491.5
Less:		
Cash and cash equivalents *		210.8
Net debt (1)		1,280.7
For the twelve months ended March 31, 2017		
EBITDA before charges/gains (2) ^(d)		797.9
Net debt-to-EBITDA before charges/gains ratio (1/2)		1.6

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

	Nine Months Ended December 31,	Three Months Ended March 31,	Twelve Months Ended March 31,
	2016	2017	2017
EBITDA BEFORE CHARGES/GAINS ^(d)	\$ 643.3	\$ 154.6	\$ 797.9
Depreciation	(70.3)	(23.7)	(94.0)
Amortization of intangible assets	(21.6)	(8.1)	(29.7)
Restructuring and other charges	(15.0)	(3.9)	(18.9)
Interest expense	(37.3)	(11.9)	(49.2)
Asset impairment charges	-	(3.2)	(3.2)
Defined benefit plan actuarial losses	(1.0)	-	(1.0)
Income taxes	(146.7)	(26.4)	(173.1)
Income from continuing operations, net of tax	\$ 351.4	\$ 77.4	\$ 428.8

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

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

Free Cash Flow*

Add:

Capital Expenditures

Less:

Proceeds from the exercise of stock options

Cash Flow From Operations (GAAP)

Twelve Months Ended December 31, 2017	
\$	450.0
	135.0 - 140.0
	20.0 - 25.0
\$	565.0

* 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.

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 and asset impairment charges. 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 losses on disposal of inventories, 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 in our Plumbing segment includes estimated acquisition related inventory step-up expense of \$1.0 million for the three months ended March 31, 2017.

(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, 2016		Year Ended December 31, 2015	
	%	\$	%	\$
Actual return on plan assets	10.0%	\$46.6	(2.1)%	(\$18.2)
Expected return on plan assets	6.6%	37.2	6.8%	40.2
Discount rate at December 31:				
Pension benefits	4.3%		4.6%	
Postretirement benefits	3.4%		4.1%	

(d) EBITDA before charges/gains is net 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, depreciation, asset impairment charges, 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 net income less noncontrolling interests calculated on a diluted per-share basis excluding restructuring and other charges, the impact of an income tax item, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans and asset impairment charges. In addition, the previously reported first quarter 2016 net income and diluted EPS on an as reported and before charges/gains basis have been revised to reflect the first quarter 2016 impact from the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payments." 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.