

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, 2016	December 31, 2015	\$ change	% change	December 31, 2016	December 31, 2015	\$ change	% change
CABINETS								
Operating income before charges/gains ^(a)	\$ 63.8	\$ 61.1	\$ 2.7	4	\$ 259.6	\$ 195.7	\$ 63.9	33
Restructuring charges ^(b)	-	(0.6)	0.6	100	(1.8)	(1.2)	(0.6)	(50)
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	-	(0.2)	0.2	100	-	(2.1)	2.1	100
Operating income (GAAP)	\$ 63.8	\$ 60.3	\$ 3.5	6	\$ 257.8	\$ 192.4	\$ 65.4	34
PLUMBING								
Operating income before charges/gains ^(a)	\$ 87.7	\$ 71.1	\$ 16.6	23	\$ 332.2	\$ 292.5	\$ 39.7	14
Restructuring charges ^(b)	(0.5)	(0.1)	(0.4)	(400)	(1.6)	(6.4)	4.8	75
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(3.3)	-	(3.3)	(100)	(4.1)	(0.1)	(4.0)	(4,000)
Selling, general and administrative expenses	(0.2)	(0.2)	-	-	(0.2)	(0.6)	0.4	67
Operating income (GAAP)	\$ 83.7	\$ 70.8	\$ 12.9	18	\$ 326.3	\$ 285.4	\$ 40.9	14
DOORS								
Operating income before charges/gains ^(a)	\$ 16.2	\$ 13.3	\$ 2.9	22	\$ 62.3	\$ 44.0	\$ 18.3	42
Restructuring charges	(0.4)	-	(0.4)	(100)	(0.4)	-	(0.4)	(100)
Operating income (GAAP)	\$ 15.8	\$ 13.3	\$ 2.5	19	\$ 61.9	\$ 44.0	\$ 17.9	41
SECURITY								
Operating income before charges/gains ^(a)	\$ 23.9	\$ 18.7	\$ 5.2	28	\$ 81.6	\$ 69.3	\$ 12.3	18
Restructuring charges ^(b)	(0.6)	(3.3)	2.7	82	(10.1)	(8.1)	(2.0)	(25)
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(0.7)	(2.6)	1.9	73	(4.2)	(5.3)	1.1	21
Selling, general and administrative expenses	(0.7)	-	(0.7)	(100)	(0.7)	-	(0.7)	(100)
Operating income (GAAP)	\$ 21.9	\$ 12.8	\$ 9.1	71	\$ 66.6	\$ 55.9	\$ 10.7	19
CORPORATE								
General and administrative expense before charges/gains	\$ (19.5)	\$ (18.5)	\$ (1.0)	(5)	\$ (80.8)	\$ (69.2)	\$ (11.6)	(17)
Defined benefit plan income before actuarial gains/(losses)	0.7	1.3	(0.6)	(46)	2.9	6.1	(3.2)	(52)
Total Corporate expense before charges/gains	\$ (18.8)	\$ (17.2)	\$ 16.2	(9)	\$ (77.9)	\$ (63.1)	\$ 21.4	(23)
General and administrative expense before charges/gains	\$ (19.5)	\$ (18.5)	\$ (1.0)	(5)	\$ (80.8)	\$ (69.2)	\$ (11.6)	(17)
Restructuring charges ^(b)	-	-	-	-	-	(0.9)	0.9	100
Other charges ^(b)	-	-	-	-	-	-	-	-
Selling, general and administrative expenses	-	-	-	-	(0.1)	(15.1)	-	99
General and administrative expense (GAAP)	(19.5)	(18.5)	(1.0)	(5)	(80.9)	(85.2)	4.3	5
Defined benefit plan income before actuarial gains/(losses)	0.7	1.3	-	(46)	2.9	6.1	-	(52)
Defined benefit plan actuarial gains/(losses) ^(c)	-	0.3	(0.3)	(100)	(1.9)	(2.5)	0.6	24
Defined benefit plan income/(expense) (GAAP)	0.7	1.6	(0.9)	(56)	1.0	3.6	(2.6)	(72)
Total Corporate expense (GAAP)	\$ (18.8)	\$ (16.9)	\$ (2.3)	(11)	\$ (79.9)	\$ (81.6)	\$ (5.8)	2
FORTUNE BRANDS HOME & SECURITY								
Operating income before charges/gains ^(a)	\$ 172.8	\$ 147.0	\$ 25.8	18	\$ 657.8	\$ 538.4	\$ 122.6	22
Restructuring charges ^(b)	(1.5)	(4.0)	2.5	63	(13.9)	(16.6)	2.7	16
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(4.0)	(2.8)	(1.2)	(43)	(8.3)	(7.5)	(0.8)	(11)
Selling, general and administrative expenses	(0.9)	(0.2)	(0.7)	(350)	(1.0)	(15.7)	14.7	94
Defined benefit plan actuarial gains/(losses) ^(c)	-	0.3	(0.3)	(100)	(1.9)	(2.5)	0.6	24
Operating income (GAAP)	\$ 166.4	\$ 140.3	\$ 26.1	19	\$ 632.7	\$ 496.1	\$ 139.8	28

(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,		
	2016	2015	Change	2016	2015	Change
CABINETS						
Before Charges/Gains Operating Margin	10.6%	10.0%	60 bps	10.8%	9.0%	180 bps
Restructuring & Other Charges	-	0.1%		-	(0.1%)	
Operating Margin	10.6%	10.1%	50 bps	10.8%	8.9%	190 bps
PLUMBING						
Before Charges/Gains Operating Margin	20.6%	19.8%	80 bps	21.7%	20.7%	100 bps
Restructuring & Other Charges	(1.0%)	(0.1%)		(0.4%)	(0.5%)	
Operating Margin	19.6%	19.7%	(10) bps	21.3%	20.2%	110 bps
DOORS						
Before Charges/Gains Operating Margin	13.3%	11.6%	170 bps	13.2%	10.0%	320 bps
Restructuring & Other Charges	(0.3%)	-		(0.1%)	-	
Operating Margin	13.0%	11.6%	140 bps	13.1%	10.0%	310 bps
SECURITY						
Before Charges/Gains Operating Margin	15.6%	13.0%	260 bps	14.1%	12.5%	160 bps
Restructuring & Other Charges	(1.3%)	(4.1%)		(2.6%)	(2.4%)	
Operating Margin	14.3%	8.9%	540 bps	11.5%	10.1%	140 bps
FBHS						
Before Charges/Gains Operating Margin	13.3%	12.0%	130 bps	13.2%	11.8%	140 bps
Restructuring & Other Charges	(0.5%)	(0.5%)		(0.5%)	(0.5%)	
Norcraft transaction costs	-	-		-	(0.4%)	
Defined benefit plan actuarial losses	-	-		-	(0.1%)	
Operating Margin	12.8%	11.5%	130 bps	12.7%	10.8%	190 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, Norcraft transaction costs and the impact of expense from actuarial losses associated with our defined benefit plans recorded in the Corporate segment and dividing by GAAP nets 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*(Unaudited)*

For the fourth quarter of 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).

For the fourth quarter of 2015, 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 \$7.0 million (\$4.6 million after tax or \$0.03 per diluted share) of net restructuring and other charges, the impact of income from actuarial gains associated with our defined benefit plans of \$0.3 million (\$0.2 million after tax) and a benefit related to a tax item of \$0.9 million (\$0.01 per diluted share).

For the twelve months ended December 31, 2015, 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 \$22.7 million (\$16.3 million after tax or \$0.10 per diluted share) of restructuring and other charges, transaction costs related to the acquisition of Norcraft of \$17.1 million (\$13.4 million after tax or \$0.08 per diluted share), the impact of expense from actuarial losses associated with our defined benefit plans of \$2.5 million (\$1.6 million after tax or \$0.01 per diluted share) and a charge related to a tax item of \$0.2 million.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Earnings Per Common Share - Diluted						
Diluted EPS Before Charges/Gains - Continuing Operations ^(f)	\$ 0.71	\$ 0.56	27	\$ 2.75	\$ 2.07	33
Restructuring and other charges	(0.03)	(0.03)	-	(0.10)	(0.10)	-
Norcraft transaction costs ^(e)	-	-	-	-	(0.08)	100
Defined benefit plan actuarial losses	-	-	-	(0.01)	(0.01)	-
Write off of prepaid debt issuance costs	-	-	-	(0.01)	-	-
Tax item	(0.01)	0.01	(200)	(0.02)	-	-
Diluted EPS - Continuing Operations	\$ 0.67	\$ 0.54	24	\$ 2.61	\$ 1.88	39

RECONCILIATION OF FULL YEAR 2017 EARNINGS GUIDANCE TO GAAP

For the full year, on a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of \$2.93 to \$3.03 per share. The Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$2.95 to \$3.05 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.

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

EARNINGS PER COMMON SHARE-DILUTED*(Unaudited)***As Reported (GAAP)**Diluted EPS Before Charges/Gains - Continuing Operations ^(f)

Restructuring and other charges
 Defined benefit plan actuarial losses
 Writeoff of prepaid debt issuance costs
 Tax item

Diluted EPS - Continuing Operations

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016 ⁽¹⁾
Diluted EPS Before Charges/Gains - Continuing Operations ^(f)	\$ 0.39	\$ 0.82	\$ 0.80	\$ 0.71	\$ 2.75
Restructuring and other charges	(0.04)	(0.01)	(0.02)	(0.03)	(0.10)
Defined benefit plan actuarial losses	-	-	(0.01)	-	(0.01)
Writeoff of prepaid debt issuance costs	-	(0.01)	-	-	(0.01)
Tax item	-	-	-	(0.01)	(0.02)
Diluted EPS - Continuing Operations	\$ 0.35	\$ 0.80	\$ 0.77	\$ 0.67	\$ 2.61

As Revised⁽²⁾Diluted EPS Before Charges/Gains - Continuing Operations ^(f)

Restructuring and other charges
 Defined benefit plan actuarial losses
 Writeoff of prepaid debt issuance costs
 Tax item

Diluted EPS - Continuing Operations

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
Diluted EPS Before Charges/Gains - Continuing Operations ^(f)	\$ 0.42	\$ 0.82	\$ 0.80	\$ 0.71	\$ 2.75
Restructuring and other charges	(0.04)	(0.01)	(0.02)	(0.03)	(0.10)
Defined benefit plan actuarial losses	-	-	(0.01)	-	(0.01)
Writeoff of prepaid debt issuance costs	-	(0.01)	-	-	(0.01)
Tax item	-	-	-	(0.01)	(0.02)
Diluted EPS - Continuing Operations	\$ 0.38	\$ 0.80	\$ 0.77	\$ 0.67	\$ 2.61

(1) Q1 2016 impact from the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payments," is included in our YTD full year 2016 GAAP results.

(2) Quarterly Income Statement revised to reflect adoption in 2016 of ASU 2016-09. We will revise our quarterly year-over-year earnings and EPS comparisons when we report our Q1 2017 results to reflect the three cents per share impact resulting from the adoption of ASU 2016-09.

(f) 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 TO INCOME FROM CONTINUING OPERATIONS

	Twelve Months Ended December 31,		
	2016	2015	% Change
EBITDA BEFORE CHARGES/GAINS ^(d)	\$ 776.5	\$ 649.2	20
Depreciation*	\$ (92.1)	\$ (93.5)	1
Amortization of intangible assets	(28.1)	(21.6)	(30)
Restructuring and other charges	(23.2)	(22.7)	(2)
Interest expense	(49.1)	(31.9)	(54)
Norcraft transaction costs ^(e)	-	(17.1)	100
Defined benefit plan actuarial losses	(1.9)	(2.5)	24
Income taxes	(169.7)	(153.4)	(11)
Income from continuing operations, net of tax	\$ 412.4	\$ 306.5	35

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

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

As of December 31, 2016

Long-term debt *	1,431.1
Total debt	1,431.1
Less:	
Cash and cash equivalents *	251.5
Net debt (1)	1,179.6

For the twelve months ended December 31, 2016

EBITDA before charges/gains (2) ^(d)	776.5
Net debt-to-EBITDA before charges/gains ratio (1/2)	1.5

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

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

FORTUNE BRANDS HOME & SECURITY, INC.

**RECONCILIATION OF PERCENTAGE CHANGE IN ORGANIC OPERATING
LEVERAGE TO OPERATING LEVERAGE
(Unaudited)**

FBHS

**Three Months Ended
December 31, 2016**

Percentage Change in Organic Operating Leverage

45%

Excluding Acquisitions

(11%)

Percentage change in Operating Leverage

34%

Operating leverage is calculated as the year over year change in operating income before charges and gains divided by the year over year change in GAAP net sales. Organic operating leverage is calculated as operating income before charges and gains excluding 2016 acquisitions divided by net sales excluding 2016 acquisitions. Management uses this measure to evaluate the overall performance and believes this measure provides investors with helpful supplemental information regarding the underlying performance 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 GAAP NET SALES TO NET SALES
EXCLUDING 53rd WEEK IN 2015
(unaudited)

Three Months Ended December 31, 2016

CABINETS

Net Sales (GAAP)
 53rd week impact in 2015
 Net Sales excluding 53rd week impact in 2015

	December 31, 2016	December 31, 2015	% change
Net Sales (GAAP)	\$ 600.6	\$ 608.1	(1%)
53rd week impact in 2015	-	45.0	8%
Net Sales excluding 53rd week impact in 2015	\$ 600.6	\$ 563.1	7%

FBHS

Net Sales (GAAP)
 53rd week impact in 2015
 Net Sales excluding 53rd week impact in 2015

Net Sales (GAAP)	\$ 1,301.6	\$ 1,224.7	6%
53rd week impact in 2015	-	45.0	4%
Net Sales excluding 53rd week impact in 2015	\$ 1,301.6	\$ 1,179.7	10%

Net sales excluding the 53rd week in sales is net sales derived in accordance with GAAP excluding an additional 53rd week of sales in 2015. Management uses this measure to evaluate the overall performance of the Cabinets 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.
FREE CASH FLOW GUIDANCE TO GAAP CASH FLOW FROM OPERATIONS
(In millions)
(Unaudited)

Free Cash Flow*

Add:

Capital Expenditures

Less:

Proceeds from the sale of assets

Proceeds from the exercise of stock options

Cash Flow From Operations (GAAP)

Twelve Months Ended December 31,	
2016	
\$	530.6
	149.3
	3.9
	25.5
\$	650.5

* 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). In 2015, it additionally excludes payments of transaction costs related to the Norcraft acquisition. 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 U.S. generally accepted accounting principles ("GAAP") excluding restructuring and other charges, Norcraft transaction related expenses and the impact of income and expense from actuarial gains or losses associated with our defined benefit plans. 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. For the Cabinets segment, other charges represent the Norcraft purchase accounting impact of expense related to our estimated inventory step up. For Corporate, other charges incurred represent external costs directly related to the acquisition of Norcraft and primarily include expenditures for banking, legal, accounting and other similar services. In addition, other charges in our Plumbing segment includes estimated acquisition related inventory step-up expense of \$3.3 million and \$3.8 million for the three and twelve months ended December 31, 2016.

(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 income from continuing operations, net of tax, derived in accordance with GAAP excluding the following impacts on income from continuing operations, net of tax: restructuring and other charges, Norcraft transaction related expenses, asset impairment charges, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, depreciation, 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) Represents external costs directly related to the acquisition of Norcraft and primarily includes expenditures for banking, legal, accounting and other similar services. In addition, it includes the impact of expense related to our estimated purchase accounting inventory step up.

(f) 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, tax items and expense from actuarial gains or losses associated with our defined benefit plans. 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.