

FORTUNE BRANDS HOME & SECURITY, INC.

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

(In millions)

(Unaudited)

	For the twelve months ended		
	December 31, 2017	December 31, 2016	December 31, 2012
CABINETS			
Operating income before charges/gains ⁽¹⁾	\$ 272.4	\$ 259.6	\$ 40.2
Restructuring charges ^(a)	(1.4)	(1.8)	(4.7)
Other charges ^(a)			
Cost of products sold	(1.6)	-	(8.9)
Selling, general and administrative expenses	(2.2)	-	-
Asset impairment charges	-	-	(5.9)
Operating income (GAAP)	\$ 267.2	\$ 257.8	\$ 20.7
PLUMBING			
Operating income before charges/gains ⁽¹⁾	\$ 365.8	\$ 320.9	\$ 169.3
Restructuring charges ^(a)	(2.8)	(1.6)	-
Other charges ^(a)			
Cost of products sold	(2.1)	(4.1)	-
Selling, general and administrative expenses	(2.4)	(0.2)	-
Operating income (GAAP)	\$ 358.5	\$ 315.0	\$ 169.3
DOORS			
Operating income before charges/gains ⁽¹⁾	\$ 74.5	\$ 62.3	\$ 6.0
Restructuring charges ^(a)	0.1	(0.4)	-
Other charges ^(a)			
Selling, general and administrative expenses	(0.1)	-	-
Asset impairment charges	-	-	(7.3)
Operating income (GAAP)	\$ 74.5	\$ 61.9	\$ (1.3)
SECURITY			
Operating income before charges/gains ⁽¹⁾	\$ 88.5	\$ 79.5	\$ 54.6
Restructuring charges ^(a)	(4.2)	(10.1)	-
Other charges ^(a)			
Cost of products sold	(5.6)	(4.2)	-
Selling, general and administrative expenses	(0.7)	(0.7)	-
Asset impairment charges ^(e)	(3.2)	-	-
Loss on sale of product line	(2.4)	-	-
Operating income (GAAP)	\$ 72.4	\$ 64.5	\$ 54.6

(1) Operating income before charges/gains is operating income derived in accordance with U.S. generally accepted accounting principles ("GAAP") excluding restructuring and other charges, asset impairment charges, and loss on the sale of a 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. In addition, we revised the results herein to reflect the adoption of ASU 2017-17, Presentation of Net Periodic Pension and Postretirement Costs, during the first quarter of 2018.

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

FORTUNE BRANDS HOME & SECURITY, INC.**Reconciliation of before charges/gains Operating Margin to Operating Margin***(Unaudited)*

	Twelve Months Ended December 31,						
	2018E	2017	2016	2015	2014	2013	2012
Before charges/gains operating margin	13.9%	13.6%	12.9%	11.4%	10.1%	9.0%	6.7%
Restructuring and other charges ^(a)	(0.7%)	(0.5%)	(0.5%)	(0.9%)	(0.4%)	(0.1%)	(0.4%)
Asset impairment charges ^(e)	-	(0.1%)	-	-	-	(0.5%)	(0.4%)
Loss on sale of product line	-	(0.1%)	-	-	-	-	-
Operating margin	13.2%	12.9%	12.4%	10.5%	9.7%	8.4%	5.9%

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, asset impairment charges, and loss on the sale of a product line 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. In addition, we revised the results herein to reflect the adoption of ASU 2017-17, Presentation of Net Periodic Pension and Postretirement Costs, during the first quarter of 2018.

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FORTUNE BRANDS HOME & SECURITY, INC.
BEFORE CHARGES/GAINS OPERATING MARGIN TO OPERATING MARGIN

(In millions)

(Unaudited)

For the twelve months ended		
December 31, 2017	December 31, 2016	December 31, 2012

CABINETS

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Asset impairment charges

Operating Margin

11.0%	10.8%	3.0%
(0.2%)	-	(1.0%)
-	-	(0.5%)
10.8%	10.8%	1.5%

PLUMBING

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Operating Margin

21.3%	20.9%	15.4%
(0.5%)	(0.4%)	-
20.8%	20.5%	15.4%

DOORS

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Asset impairment charges

Operating Margin

14.8%	13.2%	1.9%
-	(0.1%)	-
-	-	(2.3%)
14.8%	13.1%	(0.4%)

SECURITY

Before Charges/Gains Operating Margin

Restructuring & Other Charges

Asset impairment charges

Loss on sale of product line

Operating Margin

14.9%	13.7%	14.1%
(1.8%)	(2.6%)	-
(0.5%)	-	-
(0.4%)	-	-
12.2%	11.1%	14.1%

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, loss on the sale of product line, and asset impairments charges 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. In addition, we revised the results herein to reflect the adoption of ASU 2017-17, presentation of net periodic pension, and postretirement costs during the first quarter of 2018.

2011 - 2017 DILUTED EPS BEFORE CHARGES/GAINS RECONCILIATION*(Unaudited)*

	Twelve Months Ended December 31,						
	2017	2016	2015	2014	2013	2012	2011
Earnings Per Common Share - Diluted							
EPS Before Charges/Gains ^(d)	\$ 3.08	\$ 2.75	\$ 2.07	\$ 1.74	\$ 1.37	\$ 0.83	\$ 0.57
Restructuring and other charges	(0.10)	(0.10)	(0.10)	(0.05)	(0.02)	(0.05)	(0.05)
Asset impairment charges ^(e)	(0.07)	-	-	(0.01)	(0.12)	(0.05)	(0.09)
Income Tax gains/(losses)	0.16	(0.02)	-	0.01	-	0.08	-
Loss on sale of product line	(0.02)	-	-	-	-	-	-
Defined benefit plan actuarial gains/(losses) ^(b)	-	(0.01)	(0.01)	(0.05)	(0.02)	(0.16)	(0.31)
Write off of prepaid debt issuance costs	-	(0.01)	-	-	-	-	-
Norcraft transaction costs ^(c)	-	-	(0.08)	-	-	-	-
Adjusted pro forma tax rate adjustment	-	-	-	-	-	-	(0.07)
Capital structure change	-	-	-	-	-	-	(0.06)
Standalone corporate costs	-	-	-	-	-	-	0.05
Business separation costs	-	-	-	-	-	-	(0.01)
Diluted EPS - Continuing Operations	\$ 3.05	\$ 2.61	\$ 1.88	\$ 1.64	\$ 1.21	\$ 0.65	\$ 0.03

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 an income tax gain arising from a net benefit related to the Tax Cuts and Jobs Act of 2017 of \$25.7 million (\$0.16 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 an income tax loss 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 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 an income tax loss of \$0.2 million.

For the twelve months ended December 31, 2014, 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 \$13.5 million (\$8.4 million after tax or \$0.05 per diluted share) of restructuring and other charges, an income tax gain resulting from the write off of our investment in an international subsidiary of \$1.6 million (\$1.6 million after tax or \$0.01 per diluted share), an asset impairment charge of \$1.6 million (\$1.0 million after tax or \$0.01 per diluted share) and the impact of expense from actuarial losses associated with our defined benefit plans of \$13.7 million (\$8.7 million after tax or \$0.05 per diluted share).

For the twelve months ended December 31, 2013, 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 \$3.7 million (\$3.0 million after tax or \$0.02 per diluted share) of restructuring and other charges, asset impairment charges of \$27.4 million (\$20.0 million after tax or \$0.12 per diluted share) and the impact of expense from actuarial losses associated with our defined benefit plan of \$5.1 million (\$3.3 million after tax or \$0.02 per diluted share).

For the twelve months ended December 31, 2012, 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 \$13.6 million (\$8.9 million after tax or \$0.05 per diluted share) of restructuring and other charges, asset impairment charges of \$13.2 million (\$8.1 million after tax or \$0.05 per diluted share) pertaining to the impairment of certain indefinite lived trade names, income tax gains pertaining to the favorable resolution of tax audits of \$12.7 million (\$0.08 per diluted share) and the impact of expense from actuarial losses associated with our defined benefit plans of \$42.2 million (\$26.2 million after tax or \$0.16 per diluted share).

For the twelve months ended December 31, 2011, 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 adjusted to reflect the actual number of diluted shares of the Company as of December 31, 2011 of 160.7 million, estimated incremental standalone corporate costs of \$13.8 million (\$8.6 million after tax or \$0.05 per diluted share), an adjusted pro forma effective tax rate adjustment of \$12.0 million (\$0.07 per share) to reflect an effective tax rate of 35%, capital structure changes that reflect the borrowing arrangements and debt level of the Company as of October 4, 2011 of \$14.4 million (\$8.9 million after tax or \$0.06 per diluted share), and excludes restructuring and other charges of \$13.4 million (\$8.4 million after tax or \$0.05 per diluted share), business separation costs of \$2.4 million (\$1.7 million after tax or \$0.01 per diluted share), asset impairment charges of \$24.0 million (\$14.6 million after tax or \$0.09 per diluted share) pertaining to the impairment of certain indefinite lived trade names and the impact of expense from actuarial losses associated with our defined benefit plans of \$80.0 million (\$49.9 million after tax or \$0.31 per diluted share).

RECONCILIATION OF FULL YEAR 2018 EARNINGS GUIDANCE TO GAAP

For the twelve months ended December 31, 2018 the Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$3.62 to \$3.72 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 \$3.34 to \$3.44 per share and including the full year impact of previously announced restructuring actions. 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 additional gains or losses associated with its defined benefit plans.

(b) (c) (d) (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 TO INCOME FROM CONTINUING OPERATIONS

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

As of June 30, 2018

Short-term debt *	350.0
Long-term debt *	1,793.3
Total debt	2,143.3
Less:	
Cash and cash equivalents *	345.5
Net debt (1)	1,797.8

For the twelve months ended June 30, 2018

EBITDA before charges/gains (2) ^(f)	864.3
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Net debt-to-EBITDA before charges/gains ratio (1/2)	2.1
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* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of June 30, 2018.

	Six Months Ended December 31, 2017	Six Months Ended June 30, 2018	Twelve Months Ended June 30, 2018
EBITDA BEFORE CHARGES/GAINS ^(f)	\$ 453.2	\$ 411.1	\$ 864.3
Depreciation	\$ (50.7)	\$ (55.0)	\$ (105.7)
Amortization of intangible assets	(15.6)	(16.4)	(32.0)
Restructuring and other charges	(18.3)	(25.5)	(43.8)
Interest expense	(25.2)	(32.1)	(57.3)
Asset impairment charges ^(e)	(12.1)	-	(12.1)
Defined benefit plan actuarial gains	0.5	-	0.5
Income taxes	(74.2)	(77.3)	(151.5)
Income from continuing operations, net of tax	\$ 257.6	\$ 204.8	\$ 462.4

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

Definitions of Terms: Non-GAAP Measures

(a) 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 and 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 twelve months ended December 31, 2015 other charges include Corporate expenses of \$15.1 million for external banking, legal, accounting and other similar services directly related to the acquisition of Norcraft, and which are classified in selling, general and administrative expenses and in our Cabinets segment, \$2.1 million of inventory step-up expense related to the acquisition of Norcraft, which are classified in cost of products sold. In addition, other charges include estimated 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; these charges are classified in cost of products sold. For the twelve months ended December 31, 2017, other charges also include \$1.6 million of compensation expense in our Plumbing segment, which is classified as selling and general and administrative expense and relates 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 which is classified as selling and general and administrative expense resulting from our acquisition of Victoria + Albert.

(b) 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 other income (expense) 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 other income (expense) 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 diluted EPS 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 diluted EPS as measured on a GAAP basis. We present this supplemental information because such actuarial gains or losses may create volatility in our diluted EPS 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		Year Ended December 31, 2015		Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Actual return on plan assets	16.3%	\$83.2	10.0%	\$46.6	(2.1)%	(\$18.2)	9.8%	\$52.0	15.2%	\$74.6	14.5%	\$63.7	(0.6)%	(\$2.7)
Expected return on plan assets	6.4%	37.3	6.6%	37.2	6.8%	40.2	7.4%	42.2	7.8%	41.8	7.8%	36.8	8.5%	41.3
Discount rate at December 31:														
Pension benefits	3.8%		4.3%		4.6%		4.2%		5.0%		4.2%		4.9%	
Postretirement benefits	3.4%		3.4%		4.1%		3.5%		4.3%		3.7%		4.6%	

(c) 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.

(d) 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, asset impairment charges, Norcraft transaction related expenses, income tax gains and losses, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans, the loss on the sale of product line and the write-off of prepaid debt issuance costs. Diluted EPS before charges/gains is a measure not derived in accordance with GAAP. Diluted EPS before charges/gains for the twelve months ended December 31, 2011 have also been adjusted to reflect an adjusted pro forma effective tax rate of 35%, capital structure changes that reflect the borrowing arrangements and debt level of the Company as of October 4, 2011, the 1:1 share distribution resulting from the spin-off of the Company from Fortune Brands, Inc. (the "Separation"), estimated incremental standalone corporate expenses for the 2011 periods prior to the Separation, and business costs. 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.

(e) Asset impairment charges for the twelve 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 and include impairments related to our decision during the first quarter of 2017 to sell the Field ID product line.

(f) 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.