

**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, 2016	March 31, 2015	\$ change	% change
<b>CABINETS</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 37.5	\$ 13.9	\$ 23.6	170
Restructuring charges <sup>(b)</sup>	(1.8)	(0.9)	(0.9)	(100)
<b>Operating income (GAAP)</b>	<b>\$ 35.7</b>	<b>\$ 13.0</b>	<b>\$ 22.7</b>	<b>175</b>
<b>PLUMBING</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 71.9	\$ 64.9	\$ 7.0	11
Restructuring charges <sup>(b)</sup>	(0.4)	(0.9)	0.5	56
Other charges <sup>(b)</sup>	-	(0.2)	0.2	100
Cost of products sold	-	(0.2)	0.2	100
<b>Operating income (GAAP)</b>	<b>\$ 71.5</b>	<b>\$ 63.8</b>	<b>\$ 7.7</b>	<b>12</b>
<b>DOORS</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 4.2	\$ (1.2)	\$ 5.4	450
<b>Operating income (GAAP)</b>	<b>\$ 4.2</b>	<b>\$ (1.2)</b>	<b>\$ 5.4</b>	<b>450</b>
<b>SECURITY</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 11.5	\$ 9.9	\$ 1.6	16
Restructuring charges <sup>(b)</sup>	(3.4)	(1.9)	(1.5)	(79)
Other charges <sup>(b)</sup>	(2.5)	-	(2.5)	(100)
Cost of products sold	(2.5)	-	(2.5)	(100)
<b>Operating income (GAAP)</b>	<b>\$ 5.6</b>	<b>\$ 8.0</b>	<b>\$ (2.4)</b>	<b>(30)</b>
<b>CORPORATE</b>				
General and administrative expense before charges/gains	\$ (21.3)	\$ (15.9)	\$ (5.4)	(34)
Defined benefit plan income before actuarial gains/(losses)	0.8	1.6	(0.8)	(50)
<b>Total Corporate expense before charges/gains</b>	<b>\$ (20.5)</b>	<b>\$ (14.3)</b>	<b>\$ (4.8)</b>	<b>(43)</b>
General and administrative expense before charges/gains	\$ (21.3)	\$ (15.9)	\$ (5.4)	(34)
Restructuring charges <sup>(b)</sup>	-	(0.9)	0.9	100
Other charges <sup>(b)</sup>	(0.1)	(1.1)	-	91
Selling, general and administrative expenses	(0.1)	(1.1)	-	91
<b>General and administrative expense (GAAP)</b>	<b>(21.4)</b>	<b>(17.9)</b>	<b>(3.5)</b>	<b>(20)</b>
Defined benefit plan income before actuarial gains/(losses)	0.8	1.6	-	(50)
Defined benefit plan actuarial gains/(losses) <sup>(c)</sup>	(0.9)	-	(0.9)	(100)
<b>Defined benefit plan income/(expense) (GAAP)</b>	<b>(0.1)</b>	<b>1.6</b>	<b>(1.7)</b>	<b>(106)</b>
<b>Total Corporate expense (GAAP)</b>	<b>\$ (21.5)</b>	<b>\$ (16.3)</b>	<b>\$ (8.9)</b>	<b>(32)</b>
<b>FORTUNE BRANDS HOME &amp; SECURITY</b>				
Operating income before charges/gains <sup>(a)</sup>	\$ 104.6	\$ 73.2	\$ 31.4	43
Restructuring charges <sup>(b)</sup>	(5.6)	(4.6)	(1.0)	(22)
Other charges <sup>(b)</sup>	(2.5)	(0.2)	(2.3)	(1,150)
Cost of products sold	(2.5)	(0.2)	(2.3)	(1,150)
Selling, general and administrative expenses	(0.1)	(1.1)	1.0	91
Defined benefit plan actuarial gains/(losses) <sup>(c)</sup>	(0.9)	-	(0.9)	(100)
<b>Operating income (GAAP)</b>	<b>\$ 95.5</b>	<b>\$ 67.3</b>	<b>\$ 28.2</b>	<b>42</b>

(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 GAAP OPERATING**  
**MARGIN**

*(Unaudited)*

Three Months Ended March 31		
2016	2015	Change

**CABINETS**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

**GAAP Operating Margin**

6.8%	3.4%	340 bps
(0.3%)	(0.2%)	
6.5%	3.2%	330 bps

**PLUMBING**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

**GAAP Operating Margin**

21.2%	19.4%	180 bps
(0.1%)	(0.3%)	
21.1%	19.1%	200 bps

**DOORS**

**Before Charges/Gains Operating Margin**

**GAAP Operating Margin**

4.5%	(1.4%)	590 bps
4.5%	(1.4%)	590 bps

**SECURITY**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

**GAAP Operating Margin**

9.3%	8.1%	120 bps
(4.8%)	(1.6%)	
4.5%	6.5%	(200) bps

**FBHS**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

Defined benefit plan actuarial losses

**GAAP Operating Margin**

9.5%	7.7%	180 bps
(0.7%)	(0.6%)	
(0.2%)	-	
8.6%	7.1%	150 bps

Before charges/gains operating margin is operating margin derived in accordance with GAAP excluding restructuring and other charges and the impact of expense from actuarial losses associated with our defined benefit plans. 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 GAAP**  
**OPERATING MARGIN**

*(Unaudited)*

<b>Twelve Months Ended December 31,</b>
<b>2015</b>

**CABINETS**

**Before Charges/Gains Operating Margin**

Restructuring & Other Charges

**GAAP Operating Margin**

9.0%
(0.1%)
8.9%

Before charges/gains operating margin is operating margin derived in accordance with GAAP excluding restructuring and other charges. 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 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 \$8.2 million (\$5.6 million after tax or \$0.04 per diluted share) of net restructuring and other charges, the impact of expense from actuarial losses associated with our defined benefit plans of \$0.9 million (\$0.6 million after tax) and a tax item of \$0.3 million.

For the first 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 \$5.9 million (\$3.9 million after tax or \$0.02 per diluted share) of net restructuring and other charges and a tax item of \$1.3 million (\$0.01 per diluted share).

#### **Earnings Per Common Share - Diluted**

Diluted EPS Before Charges/Gains - Continuing Operations <sup>(f)</sup>

Restructuring and other charges

Defined benefit plan actuarial gains/(losses)

Tax item

Diluted EPS - Continuing Operations

<b>Three Months Ended March 31,</b>		
<b>2016</b>	<b>2015</b>	<b>% Change</b>

\$ 0.39	\$ 0.28	39
(0.04)	(0.02)	(100)
-	-	-
-	(0.01)	100
\$ 0.35	\$ 0.25	40

### **RECONCILIATION OF FULL YEAR 2016 EARNINGS GUIDANCE TO GAAP**

For the full year, the Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$2.50 to \$2.60 per share. On a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of \$2.39 to \$2.49 per share. The Company's GAAP basis EPS range assumes the Company incurs no actuarial gains or losses associated with its defined benefit plans.

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

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

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

**As of March 31, 2016**

Notes payable to banks *	2.8
Long-term debt *	1,619.2
Total debt	1,622.0
Less:	
Cash and cash equivalents *	253.6
Net debt (1)	1,368.4

**For the twelve months ended March 31, 2016**

EBITDA before charges/gains (2) <sup>(d)</sup>	689.4
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<b>Net debt-to-EBITDA before charges/gains ratio (1/2)</b>	<b>2.0</b>
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\* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of March 31, 2016.

	<b>Nine Months Ended December 31, 2015</b>	<b>Three Months Ended March 31, 2016</b>	<b>Twelve Months Ended March 31, 2016</b>
<b>Income from continuing operations, net of tax</b>	\$ 265.6	\$ 55.7	\$ 321.3
Depreciation	\$ 73.0	\$ 24.3	\$ 97.3
Amortization of intangible assets	18.1	6.5	24.6
Restructuring and other charges	17.9	8.2	26.1
Interest expense	28.5	11.8	40.3
Norcraft transaction costs <sup>(e)</sup>	16.0	-	16.0
Defined benefit plan actuarial losses	2.5	0.9	3.4
Income taxes	132.1	28.3	160.4
<b>EBITDA BEFORE CHARGES/GAINS <sup>(d)</sup></b>	<b>\$ 553.7</b>	<b>\$ 135.7</b>	<b>\$ 689.4</b>

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

## 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.

(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, 2015		Year Ended December 31, 2014	
	%	\$	%	\$
Actual return on plan assets	(2.1)%	(\$18.2)	9.8%	\$52.0
Expected return on plan assets	6.8%	40.2	7.4%	42.2
Discount rate at December 31:				
Pension benefits	4.6%		4.2%	
Postretirement benefits	4.1%		3.5%	

(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, a tax item 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.