

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 nine months ended			
	September 30, 2016	September 30, 2015	\$ change	% change	September 30, 2016	September 30, 2015	\$ change	% change
CABINETS								
Operating income before charges/gains^(a)	\$ 74.8	\$ 63.7	\$ 11.1	17	\$ 195.8	\$ 134.6	\$ 61.2	45
Restructuring charges ^(b)	-	0.4	(0.4)	(100)	(1.8)	(0.6)	(1.2)	(200)
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	-	0.1	(0.1)	(100)	-	(1.9)	1.9	100
Operating income (GAAP)	\$ 74.8	\$ 64.2	\$ 10.6	17	\$ 194.0	\$ 132.1	\$ 61.9	47
PLUMBING								
Operating income before charges/gains^(a)	\$ 84.9	\$ 81.5	\$ 3.4	4	\$ 244.5	\$ 221.4	\$ 23.1	10
Restructuring charges ^(b)	(0.4)	(0.6)	0.2	33	(1.1)	(6.3)	5.2	83
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(0.6)	-	(0.6)	(100)	(0.8)	(0.1)	(0.7)	(700)
Selling, general and administrative expenses	0.1	-	0.1	100	-	(0.4)	0.4	100
Operating income (GAAP)	\$ 84.0	\$ 80.9	\$ 3.1	4	\$ 242.6	\$ 214.6	\$ 28.0	13
DOORS								
Operating income before charges/gains^(a)	\$ 22.3	\$ 16.7	\$ 5.6	34	\$ 46.1	\$ 30.7	\$ 15.4	50
Operating income (GAAP)	\$ 22.3	\$ 16.7	\$ 5.6	34	\$ 46.1	\$ 30.7	\$ 15.4	50
SECURITY								
Operating income before charges/gains^(a)	\$ 26.6	\$ 20.9	\$ 5.7	27	\$ 57.7	\$ 50.6	\$ 7.1	14
Restructuring charges ^(b)	(2.7)	(1.6)	(1.1)	(69)	(9.5)	(4.8)	(4.7)	(98)
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(1.0)	(2.7)	1.7	63	(3.5)	(2.7)	(0.8)	(30)
Operating income (GAAP)	\$ 22.9	\$ 16.6	\$ 6.3	38	\$ 44.7	\$ 43.1	\$ 1.6	4
CORPORATE								
General and administrative expense before charges/gains	\$ (20.5)	\$ (16.7)	\$ (3.8)	(23)	\$ (61.3)	\$ (50.7)	\$ (10.6)	(21)
Defined benefit plan income before actuarial gains/(losses)	0.6	1.6	(1.0)	(63)	2.2	4.8	(2.6)	(54)
Total Corporate expense before charges/gains	\$ (19.9)	\$ (15.1)	\$ 4.8	(32)	\$ (59.1)	\$ (45.9)	\$ 13.2	(29)
General and administrative expense before charges/gains	\$ (20.5)	\$ (16.7)	\$ (3.8)	(23)	\$ (61.3)	\$ (50.7)	\$ (10.6)	(21)
Restructuring charges ^(b)	-	-	-	-	-	(0.9)	0.9	100
Other charges ^(b)	-	-	-	-	-	-	-	-
Selling, general and administrative expenses	-	(0.2)	-	100	(0.1)	(15.1)	-	99
General and administrative expense (GAAP)	(20.5)	(16.9)	(3.6)	(21)	(61.4)	(66.7)	5.3	8
Defined benefit plan income before actuarial gains/(losses)	0.6	1.6	-	(63)	2.2	4.8	-	(54)
Defined benefit plan actuarial gains/(losses)^(c)	(1.0)	(2.8)	1.8	64	(1.9)	(2.8)	0.9	32
Defined benefit plan income/(expense) (GAAP)	(0.4)	(1.2)	0.8	67	0.3	2.0	(1.7)	(85)
Total Corporate expense (GAAP)	\$ (20.9)	\$ (18.1)	\$ (2.8)	(15)	\$ (61.1)	\$ (64.7)	\$ (3.5)	6
FORTUNE BRANDS HOME & SECURITY								
Operating income before charges/gains^(a)	\$ 188.7	\$ 167.7	\$ 21.0	13	\$ 485.0	\$ 391.4	\$ 93.6	24
Restructuring charges ^(b)	(3.1)	(1.8)	(1.3)	(72)	(12.4)	(12.6)	0.2	2
Other charges ^(b)	-	-	-	-	-	-	-	-
Cost of products sold	(1.6)	(2.6)	1.0	38	(4.3)	(4.7)	0.4	9
Selling, general and administrative expenses	0.1	(0.2)	0.3	150	(0.1)	(15.5)	15.4	99
Defined benefit plan actuarial gains/(losses) ^(c)	(1.0)	(2.8)	1.8	64	(1.9)	(2.8)	0.9	32
Operating income (GAAP)	\$ 183.1	\$ 160.3	\$ 22.8	14	\$ 466.3	\$ 355.8	\$ 110.5	31

(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 September 30,		
	2016	2015	Change
CABINETS			
Before Charges/Gains Operating Margin	12.4%	10.6%	180 bps
Restructuring & Other Charges	-	0.1%	
GAAP Operating Margin	12.4%	10.7%	170 bps
PLUMBING			
Before Charges/Gains Operating Margin	21.7%	22.4%	(70) bps
Restructuring & Other Charges	(0.2%)	(0.2%)	
GAAP Operating Margin	21.5%	22.2%	(70) bps
DOORS			
Before Charges/Gains Operating Margin	17.3%	13.5%	380 bps
GAAP Operating Margin	17.3%	13.5%	380 bps
SECURITY			
Before Charges/Gains Operating Margin	17.0%	14.2%	280 bps
Restructuring & Other Charges	(2.4%)	(3.0%)	
GAAP Operating Margin	14.6%	11.3%	330 bps
FBHS			
Before Charges/Gains Operating Margin	14.8%	13.5%	130 bps
Restructuring & Other Charges	(0.4%)	(0.4%)	
Defined benefit plan actuarial losses	(0.1%)	(0.2%)	
GAAP Operating Margin	14.3%	12.9%	140 bps

Before charges/gains operating margin is operating margin 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. 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)

	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
CABINETS		
Before Charges/Gains Operating Margin	11%	9%
Restructuring & Other Charges	(0%)	(0%)
GAAP Operating Margin	11%	9%
PLUMBING		
Before Charges/Gains Operating Margin	21%	
Restructuring & Other Charges	(0%)	
GAAP Operating Margin	21%	
DOORS		
Before Charges/Gains Operating Margin	12.5%	
GAAP Operating Margin	12.5%	
SECURITY		
Before Charges/Gains Operating Margin	14%	
Restructuring & Other Charges	(2%)	
GAAP Operating Margin	12%	
SECURITY		
Before Charges/Gains Operating Margin	15%	
Restructuring & Other Charges	(1%)	
GAAP Operating Margin	14%	

Before charges/gains operating margin is operating margin 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. 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 third 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 \$4.6 million (\$3.3 million after tax or \$0.03 per diluted share) of net restructuring and other charges, the impact of expense from actuarial losses associated with our defined benefit plans of \$1.0 million (\$0.7 million after tax) and expense related to a tax item of \$0.5 million.

For the nine months ended September 30, 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 \$16.8 million (\$11.7 million after tax or \$0.08 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), expense related to tax items of \$1.6 million (\$0.01 per diluted share), and actuarial losses of \$1.9 million (\$1.3 million after tax or \$0.01 per diluted share).

For the third 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 \$4.4 million (\$3.0 million after tax or \$0.02 per diluted share) of net restructuring and other charges, transaction costs related to the acquisition of Norcraft of \$0.2 million (\$0.1 million after tax), the impact of expense from actuarial losses associated with our defined benefit plans of \$2.8 million (\$1.8 million after tax or \$0.01 per diluted share) and a benefit related to a tax item of \$0.5 million.

For the nine months ended September 30, 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 \$15.7 million (\$11.7 million after tax or \$0.07 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 \$2.8 million (\$1.8 million after tax or \$0.01 per diluted share) and a charge related to a tax item of \$1.1 million (\$0.01 per diluted share).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Earnings Per Common Share - Diluted						
Diluted EPS Before Charges/Gains - Continuing Operations ^(c)	\$ 0.80	\$ 0.64	25	\$ 2.05	\$ 1.51	36
Restructuring and other charges	(0.03)	(0.02)	(50)	(0.08)	(0.07)	(14)
Norcraft transaction costs ^(e)	-	-	-	-	(0.08)	100
Defined benefit plan actuarial losses	-	(0.01)	100	(0.01)	(0.01)	-
Tax item	-	-	-	(0.01)	(0.01)	-
Diluted EPS - Continuing Operations	\$ 0.77	\$ 0.61	26	\$ 1.95	\$ 1.34	46

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

EARNINGS PER COMMON SHARE-DILUTED**As Reported (GAAP)**Diluted EPS Before Charges/Gains - Continuing Operations ^(c)Restructuring and other charges
Defined benefit plan actuarial losses
Tax item

Diluted EPS - Continuing Operations

	Q1 2016	Q2 2016	Q3 2016	Q3 YTD 2016 ⁽¹⁾
Diluted EPS Before Charges/Gains - Continuing Operations ^(c)	\$ 0.39	\$ 0.82	\$ 0.80	\$ 2.05
Restructuring and other charges	(0.04)	(0.02)	(0.03)	(0.08)
Defined benefit plan actuarial losses	-	-	-	(0.01)
Tax item	-	-	-	(0.01)
Diluted EPS - Continuing Operations	\$ 0.35	\$ 0.80	\$ 0.77	\$ 1.95

As Revised⁽²⁾Diluted EPS Before Charges/Gains - Continuing Operations ^(c)Restructuring and other charges
Defined benefit plan actuarial losses
Tax item

Diluted EPS - Continuing Operations

	Q1 2016	Q2 2016	Q3 2016	Q3 YTD 2016
Diluted EPS Before Charges/Gains - Continuing Operations ^(c)	\$ 0.43	\$ 0.82	\$ 0.80	\$ 2.05
Restructuring and other charges	(0.04)	(0.02)	(0.03)	(0.08)
Defined benefit plan actuarial losses	-	-	-	(0.01)
Tax item	-	-	-	(0.01)
Diluted EPS - Continuing Operations	\$ 0.39	\$ 0.80	\$ 0.77	\$ 1.95

⁽¹⁾ Q1 2016 impact from the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payments", is included in our Q3 YTD 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 four cents per share impact resulting from the adoption of ASU 2016-09.

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

FORTUNE BRANDS HOME & SECURITY, INC.**RECONCILIATION OF FULL YEAR 2016 DILUTED EPS BEFORE CHARGES/GAINS TO GAAP DILUTED EPS FROM CONTINUING OPERATIONS (unaudited)**Diluted EPS Before Charges/Gains* ^(c)Restructuring and other charges
Defined benefit plan actuarial losses
Tax item

Diluted EPS - Continuing Operations

For the twelve months December 31, 2016	
\$	2.74
	(0.08)
	(0.01)
	(0.01)
\$	2.64

*For the full year, on a GAAP basis, the Company is targeting diluted EPS from continuing operations to be in the range of \$2.62 to \$2.66 per share. The Company is targeting diluted EPS before charges/gains from continuing operations to be in the range of \$2.72 to \$2.76 per share. In addition, on a GAAP basis based on current relevant interest rate benchmarks and year-to-date pension asset returns, the Company may incur additional defined benefit plan actuarial losses in the range of \$0.15 to \$0.25 per share in the fourth quarter of 2016 due to declining discount rates since December 31, 2015, the last remeasurement date. Any actuarial loss incurred in the fourth quarter will be based upon spot discount rates as of December 31, 2016 and our full year 2016 pension asset returns and may differ materially from this estimate. A 25 basis point change in our discount rate impacts our defined benefit plan liabilities by approximately \$25 million. 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.

(c) 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 September 30, 2016

Long-term debt *	1,585.8
Total debt	1,585.8
Less:	
Cash and cash equivalents *	278.6
Net debt (1)	1,307.2

For the twelve months ended September 30, 2016

EBITDA before charges/gains (2) ^(d)	752.0
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Net debt-to-EBITDA before charges/gains ratio (1/2)

	1.7
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* Amounts are per the unaudited Condensed Consolidated Balance Sheet as of September 30, 2016.

	Three Months Ended December 31, 2015	Nine Months Ended September 30, 2016	Twelve Months Ended September 30, 2016
EBITDA BEFORE CHARGES/GAINS ^(d)	\$ 179.7	\$ 572.3	\$ 752.0
Depreciation*	\$ (27.0)	\$ (66.8)	\$ (93.8)
Amortization of intangible assets	(6.3)	(20.4)	(26.7)
Restructuring and other charges	(8.1)	(16.8)	(24.9)
Interest expense	(11.4)	(37.5)	(48.9)
Norcraft transaction costs ^(e)	1.1	-	1.1
Defined benefit plan actuarial losses	0.3	(1.9)	(1.6)
Income taxes	(40.7)	(120.9)	(161.6)
Income from continuing operations, net of tax	\$ 87.6	\$ 308.0	\$ 395.6

* Depreciation excludes accelerated depreciation of (\$2.5) million for the nine months ended September 30, 2016. Accelerated depreciation is included in restructuring and other charges.

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

FORTUNE BRANDS HOME & SECURITY, INC.

RECONCILIATION OF PERCENTAGE CHANGE IN NET SALES EXCLUDING THE IMPACT OF EXITING PRODUCT LINES AND ACQUISITION SALES TO PERCENTAGE CHANGE IN NET SALES (GAAP)

(Unaudited)

Three months ended September 30, 2016
% change

PLUMBING

Percentage change in Net Sales excluding select channel inventory reductions and acquisition sales in Q3 2016

Impact of Inventory reductions and acquisition sales

Percentage change in Net Sales (GAAP)

6%
1%
7%

SECURITY

Percentage change in Net Sales excluding the impact of exiting product lines

Impact of exit of product lines

Percentage change in Net Sales (GAAP)

8%
(2%)
6%

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Percentage change in Net Sales excluding the impact of Cabinets program launch and promo event

Impact of Cabinets program launch and promo event

Percentage change in Net Sales (GAAP)

5%
(2%)
3%

Net sales excluding impact of exiting product lines and acquisition sales is net sales derived in accordance with GAAP excluding exiting product lines and acquisition sales in the third quarter of 2016. Management uses this measure to evaluate the overall performance of 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 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)

2016 Full Year	
Target	
\$	400.0
	140.0 - 150.0
	2.5
	27.5
\$	510.0 - 520.0

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 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.