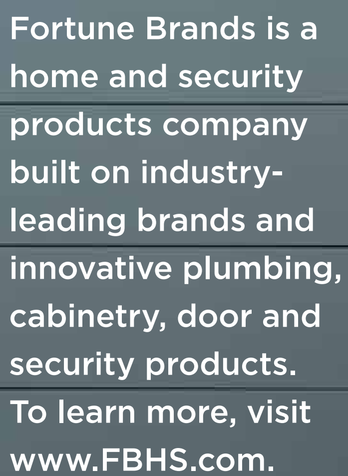
ANNUAL 2017 REPORT

MAXIMIZING LONG-TERM VALUE

A GROWTH STORY

Fortune Brands

A home and security company



Fortune Brands is a home and security products company built on industry-leading brands and innovative plumbing, cabinetry, door and security products. To learn more, visit www.FBHS.com.

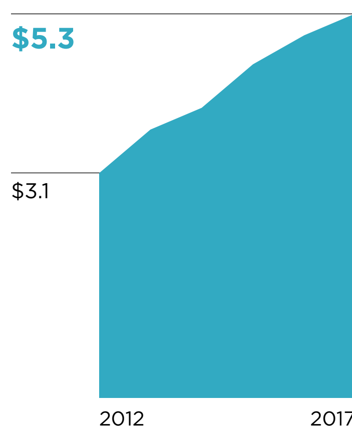
A STORY OF

STRONG RESULTS

Our strategy has focused on driving profitable organic and incremental growth. In doing so, we have strengthened our business and delivered exceptional value to shareholders. The momentum we've built sets us up for continued success.

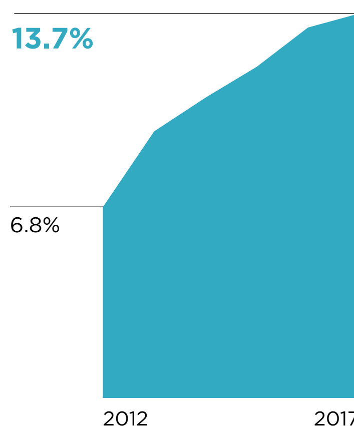
5-YEAR GROWTH HIGHLIGHTS

Total Net Sales
IN BILLIONS



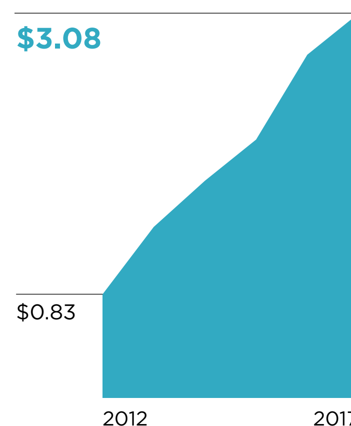
Sales increased more than 70%

Operating Margin
OM%



Operating margin more than doubled

Earnings Per Share
$/SHARE



Earnings per share grew more than 270%

In this Annual Report, all data presented is from continuing operations, and all references to earnings per share, operating income and operating margin are on a before charges/gains basis, unless noted otherwise. Reconciliations of non-GAAP measures are presented on pages 90 – 95.

STRUCTURAL COMPETITIVE ADVANTAGES

Our industry-leading brands in attractive categories, consumer-driven innovation and operational excellence are just a few of the sustainable competitive advantages that set Fortune Brands apart from our competitors.

INDUSTRY-LEADING BRANDS

#1

Kitchen and bath residential cabinet manufacturer in North America

#1

Faucet brand in North America

#1

Entry door brand in the United States among building professionals

#1

Padlock and protective security container brands in North America

ATTRACTIVE CATEGORIES AND MARKETS

With attractive, consumer-focused product categories and 75 percent of sales impacted by the U.S. home products market, we continue to benefit from an elongated housing recovery.

OUR STORY IS GROUNDED IN

CORE GROWTH

The strong foundation to drive profitable future growth

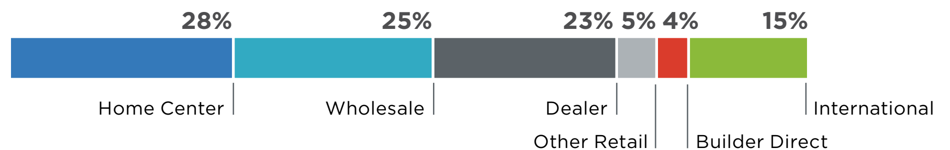
Our business is built on a strong foundation that enables us to deliver profitable growth. The scale we have in our categories generates operating efficiency; our channel leadership gets our innovation to market quickly; and we continue to refine and strengthen our sustainable competitive advantages. Our unique capabilities, coupled with a healthy housing market, position us extremely well for continued growth.

OUR CONTINUED FOCUS

- **New products and programs in the most attractive channels:** We continue to focus on consumer-driven innovation within the most attractive areas of the market.
- **Stronger operating capabilities and platforms:** We are accelerating organic growth through the Global Plumbing Group platform by leveraging our global supply chain and strong distribution channels.
- **Capacity and productivity investments:** We've strategically allocated capital to areas of our business that can produce the best long-term returns.
- **Strong management team and incentives:** We have highly experienced leaders with incentives aligned to focus on driving shareholder value.

Business Mix by End Market*

Business Mix by Channel*



*Company data for the year ended December 31, 2017.

EIGHT STRATEGIC ACQUISITIONS SINCE 2012

Wood Crafters

SentrySafe

NORCRAFT COMPANIES

ROHL

Riobel

PERRIN & ROWE MAYFAIR LONDON

1897 SHAWS ENGLAND

victoria + albert

PROVING OUR GLOBAL PLUMBING GROUP (GPG) STRATEGY

The GPG has demonstrated early success in accelerating growth. Its portfolio of products and brands has expanded due to the 2016 additions of Riobel, ROHL and Perrin & Rowe, and the 2017 acquisitions of Shaws and Victoria + Albert.

SHAWS

Shaws joined the GPG in 2017, adding a premium sink brand to the platform's product portfolio.

VICTORIA + ALBERT

Victoria + Albert joined the GPG in 2017, adding a premium free-standing tub brand to the platform's product portfolio.

OPPORTUNITIES TO DRIVE

INCREMENTAL GROWTH

The flexibility and commitment to create additional shareholder value

Our strong cash flow and balance sheet provide maximum flexibility to continue to drive incremental growth. We remain focused on maximizing long-term shareholder value by using our cash flow and leveraging our strong balance sheet for strategic acquisitions, share repurchases and dividends.

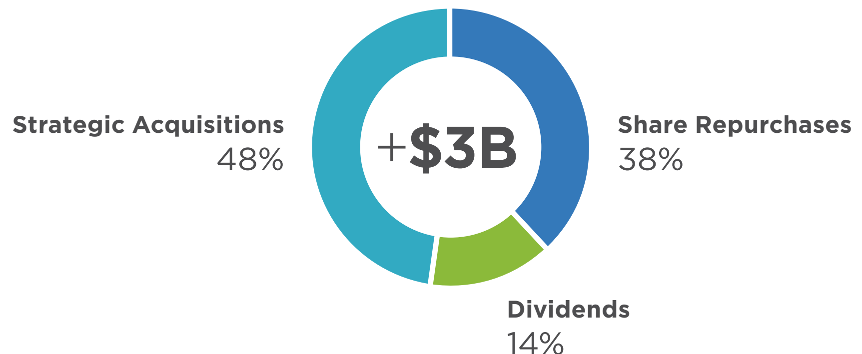
OUR CONTINUED FOCUS

- **Strategic acquisitions:** Since 2012, we have deployed approximately $1.5 billion on eight strategic acquisitions. We continue to look for long-term, value-creating strategic opportunities.
- **Global Plumbing Group:** The Global Plumbing Group structure paves the way for further acquisitions, joint ventures and supply agreements, which promote seamless integration and continued growth.
- **Share repurchases:** We continue our strategy of opportunistically repurchasing our shares.
- **Increased dividend:** We increased our quarterly dividend for the fifth consecutive year. Now at $0.20, our dividend reflects the Board's confidence in our operating performance and long term cash flow.

Capital Allocation for Incremental Growth

2012 – 2017

More than $3 billion deployed through strategic acquisitions, share repurchases and dividends



LETTER TO SHAREHOLDERS

Dear Shareholders:

I'm incredibly pleased that our teams once again delivered strong results in 2017. We continued to execute on our strategy of disciplined, profitable growth as we increased earnings per share by double digits, and grew sales and operating margin simultaneously. We continued to see healthy consumer demand for our products. The results we achieved in 2017 position us well to continue to increase shareholder value — as we've consistently done since becoming a stand-alone company.

Christopher J. Klein
CHIEF EXECUTIVE OFFICER

Our teams are executing at a high level against our strategy and performing well in a housing market that continues to recover. Our product and brand positioning remains strong, and the momentum we have built sets us up for continued success in 2018.

2017 FINANCIAL HIGHLIGHTS

Full-year 2017 sales were $5.3 billion, an increase of 6 percent, and our operating margin increased to 13.7 percent. Importantly, we increased earnings per share by 12 percent to $3.08.

Additionally, we spent approximately $140 million on two plumbing acquisitions: Shaws and Victoria + Albert. We also repurchased $215 million of our shares and increased our quarterly dividend for the fifth consecutive year, demonstrating once again our commitment to delivering shareholder value through incremental growth.

Overall, we are driving profitable growth across a great portfolio of businesses.

Plumbing

We proved the strength of our Global Plumbing Group (GPG) strategy to drive accelerated organic and incremental growth, while maintaining strong operating margins. The GPG now offers a broader product and brand portfolio combined with expanded channel penetration and a well-established distribution network. Looking ahead, we will continue to enhance our capabilities, products and talent while seeking incremental acquisition and partnership opportunities.

2017 Financial Highlights:

- Sales increased 12 percent to $1.7 billion.
- Operating income grew 12 percent to $371 million.
- Operating margin was 21.6 percent.

Cabinets

We grew sales and profit while remaining committed to leveraging our industry leadership. Looking ahead, margins should continue to expand and we will actively allocate our resources and product innovations toward our most attractive opportunities.

2017 Financial Highlights:

- Sales increased 3 percent to $2.5 billion.
- Operating income grew 5 percent to $272 million.
- Operating margin increased to 11.0 percent.

Doors

We saw strong share-gain performance for our Doors segment. The Therma-Tru brand continues to resonate with large homebuilders and distributors, and benefited from retail placements and new product and display investments. Looking ahead, we plan to continue to build on this strong momentum and to invest even more in the business.

2017 Financial Highlights:

- Sales increased 6 percent to $503 million.
- Operating income grew 20 percent to $75 million.
- Operating margin increased to 14.8 percent.

FINANCIAL HIGHLIGHTS

IN MILLIONS, EXCEPT PER-SHARE AMOUNTS

YEARS ENDED DECEMBER 31	2017	2016	2015	2014	2013	2012
Total Net Sales	**$5,283**	$4,985	$4,579	$4,014	$3,704	$3,135
Operating Income	**$725**	$658	$538	$431	$353	$212
Earnings Per Share	**$3.08**	$2.75	$2.07	$1.74	$1.37	$0.83

CAPITAL PERFORMANCE	12/31/2017	12/31/2012
Cash	**$323**	$336
Debt	**$1,508**	$326
Debt-to-Capital	**37%**	12%
Market Capitalization (in billions)	**$10.4**	$4.8

Learn more about our company portfolio on the following pages.

Security
Our core business grew from new product innovation and strong international sales. Looking ahead, we see additional growth opportunities to increase sales with new products across retail, international and commercial markets.

2017 Financial Highlights:

- Sales increased 2 percent to $593 million.
- Operating income grew 8 percent to $88 million.
- Operating margin increased to 14.9 percent.

DRIVING INCREMENTAL GROWTH

Since 2012, we have deployed more than $3 billion on strategic acquisitions, share repurchases and dividends. Incremental growth through these methods remains a priority going forward. We remain encouraged by the number of strategic acquisition opportunities we see, and have substantial flexibility to continue to create incremental shareholder value. In fact, over the next three years, we believe we have the potential to deploy another $3+ billion for acquisitions, share repurchases and dividends to further drive incremental growth and shareholder value.

LOOKING AHEAD

We are excited about the new U.S. tax legislation that delivers a lower effective tax rate and will increase our cash flow. I believe that tax reform was designed to benefit companies like ours, with a large base of U.S. manufacturing and sales. Consumers should create a favorable environment for growth due to the strength in underlying demand. We now have a greater ability to continue to invest capital in our business and people, which should help drive growth while generating even more free cash flow.

Looking ahead, we are focused on creating long-term growth opportunities, deploying additional capital to drive shareholder value and leveraging our improved position to sell even more products. I remain incredibly proud of our consistent and strong results as we continue with our mission to “fulfill the dreams of homeowners and help people feel more secure.” Thank you for your support as we continue to build a great company.

Regards,

Christopher J. Klein
Chief Executive Officer
Fortune Brands Home & Security, Inc.

February 28, 2018

COMPANY PORTFOLIO

PLUMBING

KEY BRANDS

Moen
Perrin & Rowe
Riobel
ROHL
Shaws
Victoria + Albert

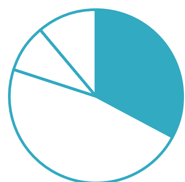
The GPG was designed to accelerate high-margin growth. This multi-brand, multi-channel, and multi-geography business was expanded in 2017 by two acquisitions, further elevating the segment's product and price-point offering to reach a broader group of consumers. The GPG manufactures, assembles and distributes a multitude of plumbing consumer products, including faucets, showers, sinks and tubs.

STRUCTURAL ADVANTAGES

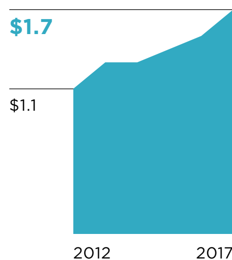
- The GPG's expanded product and brand portfolio is driving growth in new and existing sales channels, including showrooms, hospitality and online
- Exclusive, national, multi-year contracts with a significant share of the largest builders help secure Moen's leading brand position in North America
- Consumer-focused innovation drives higher sales and profitability
- The GPG enables acquisitions, supply agreements, and distribution agreements by leveraging our channel strength

Segment Net Sales
% OF TOTAL FBHS

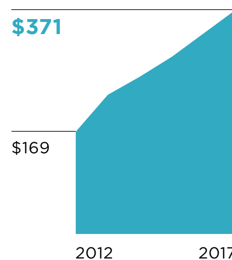
33%



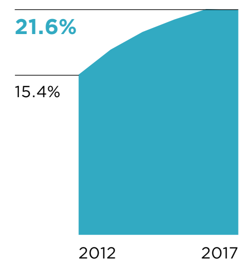
Net Sales
IN BILLIONS



Operating Income
IN MILLIONS



Operating Margin
OM%



COMPANY PORTFOLIO

CABINETS

MasterBrand Cabinets leverages its industry leadership and strong network to meet consumers' needs. Our Cabinets segment manufactures custom, semi-custom and stock cabinetry under more than a dozen brands. The segment offers the full range of styles and price points that appeal to consumers undergoing major kitchen remodels or simpler DIY projects.

KEY BRANDS

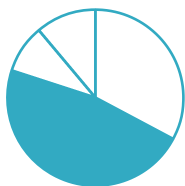
Aristokraft
Decorá
Diamond
Homecrest
Kemper
Kitchen Craft
Mid Continent
Omega
Schrock
StarMark
UltraCraft
WoodCrafters

STRUCTURAL ADVANTAGES

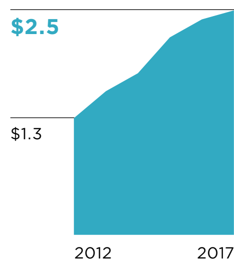
- Focus on channels with the most attractive opportunities for profitable growth: kitchen & bath dealers and in-stock cabinets & vanities
- Superior service to our 5,000+ dealer customers supported by our responsive, regional supply chain and innovative, diverse offerings
- In-stock cabinets & vanities backed by a separate supply chain, driving profitable growth in home centers

Segment Net Sales
% OF TOTAL FBHS

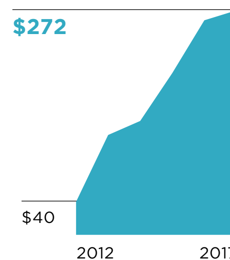
47%



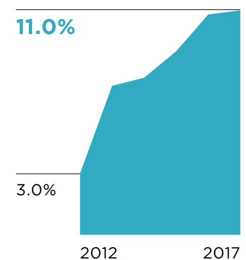
Net Sales
IN BILLIONS



Operating Income
IN MILLIONS



Operating Margin
OM%



COMPANY PORTFOLIO

DOORS

KEY BRANDS
Therma-Tru
Fypon

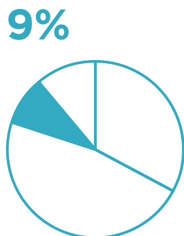
The Therma-Tru brand continues to resonate with large homebuilders and industry-leading door distributors. Our Doors segment manufactures fiberglass entry door systems in a range of styles and sizes to add beauty and functionality to a variety of home architectures. Therma-Tru also makes steel entry door systems and patio doors, as well as urethane millwork products under the Fypon brand.

STRUCTURAL ADVANTAGES

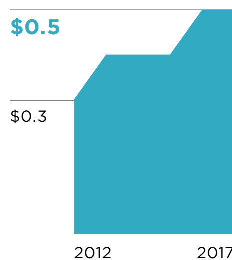
- Therma-Tru is a leader in fiberglass entry doors, the fastest-growing segment of the entry door market
- Our strong door fabrication network adds value through assembly and installation of integrated, whole entry door systems
- Decorative glass designs, door styles and finishes promote product differentiation and higher margins

Segment Net Sales
% OF TOTAL FBHS

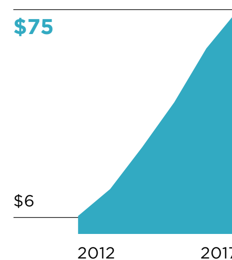
9%



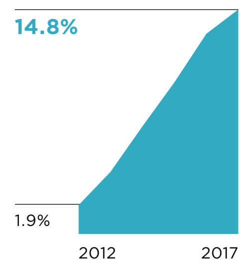
Net Sales
IN BILLIONS



Operating Income
IN MILLIONS



Operating Margin
OM%



COMPANY PORTFOLIO

SECURITY

Our Security segment is best-known for its locks, but its product portfolio is broader and includes safety and security devices, electronic security products and safes. Our security products are sold across retail, international and commercial markets. They are manufactured, sourced and distributed primarily under the Master Lock, SentrySafe and American Lock brands.

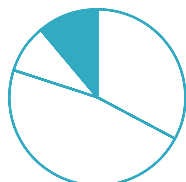
KEY BRANDS
Master Lock
SentrySafe
American Lock

STRUCTURAL ADVANTAGES

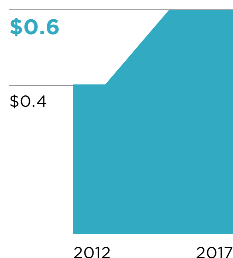
- Iconic, growth-oriented Master Lock and SentrySafe brands have leading market share positions and global brand recognition
- Consistent flow of consumer-focused innovation and increased emphasis on electronic locking solutions
- Integrated, flexible global supply chain

Segment Net Sales
% OF TOTAL FBHS

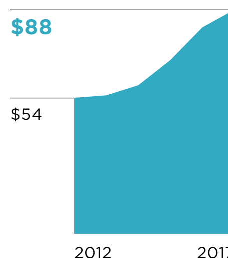
11%



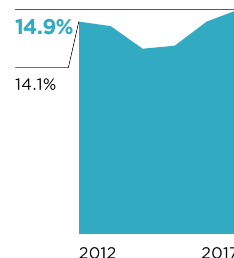
Net Sales
IN BILLIONS



Operating Income
IN MILLIONS



Operating Margin
OM%



> "I believe we have only begun to test our full value-creation potential in this housing market. Our story of growth continues."

Christopher J. Klein
CHIEF EXECUTIVE OFFICER

2017

Fortune Brands Home & Security, Inc.

FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission file number 1-35166

Fortune Brands Home & Security, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**62-1411546**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

520 Lake Cook Road, Deerfield, IL 60015-5611
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (847) 484-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer (Do not check if a smaller reporting company) ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant at June 30, 2017 (the last day of the registrant's most recent second quarter) was $10,015,217,282. The number of shares outstanding of the registrant's common stock, par value $0.01 per share, at February 2, 2018, was 151,950,428.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant's proxy statement for its Annual Meeting of Stockholders to be held on May 1, 2018 (to be filed not later than 120 days after the end of the registrant's fiscal year) (the "2018 Proxy Statement") is incorporated by reference into Part III hereof.

Form 10-K Table of Contents

		Page
PART I		
Item 1.	Business.	1
Item 1A.	Risk Factors.	7
Item 1B.	Unresolved Staff Comments.	12
Item 2.	Properties.	13
Item 3.	Legal Proceedings.	13
Item 4.	Mine Safety Disclosures.	13
Executive Officers of the Registrant.		13
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	15
Item 6.	Selected Financial Data.	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	18
	Results of Operations	21
	2017 Compared to 2016	22
	2016 Compared to 2015	25
	Liquidity and Capital Resources	28
	Critical Accounting Policies and Estimates	34
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk.	40
Item 8.	Financial Statements and Supplementary Data.	41
	Notes to Consolidated Financial Statements	46
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	82
Item 9A.	Controls and Procedures.	82
Item 9B.	Other Information.	83
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance.	83
Item 11.	Executive Compensation.	83
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	84
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	84
Item 14.	Principal Accountant Fees and Services.	84
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	84
Item 16.	Form 10-K Summary	87
Signatures		88
Schedule II	Valuation and Qualifying Accounts	89

PART I

Item 1. Business.

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains certain "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding expected capital spending, expected pension contributions, the anticipated effects of recently issued accounting standards on our financial statements, planned business strategies, estimated impact and effects of the U.S. Tax Cuts and Jobs Act of 2017, market potential, future financial performance and other matters. Statements that include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations at the time this report is filed with the Securities and Exchange Commission (the "SEC") or, with respect to any documents incorporated by reference, available at the time such document was prepared or filed with the SEC. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those indicated in such statements. These factors include those listed in the section below entitled "Risk Factors." Except as required by law, we undertake no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or changes to future results over time or otherwise.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to "Fortune Brands," the "Company," "we," "our" or "us" refer to Fortune Brands Home & Security, Inc. and its consolidated subsidiaries.

Our Company

We are a leading home and security products company that competes in attractive long-term growth markets in our product categories. With a foundation of market-leading brands across a diversified mix of channels, and lean and flexible supply chains, as well as a tradition of strong product innovation and customer service, we are focused on outperforming our markets in both growth and returns, and driving increased shareholder value. We have four business segments: Cabinets, Plumbing, Doors and Security. We sell our products through a wide array of sales channels, including kitchen and bath dealers, wholesalers oriented toward builders or professional remodelers, industrial and locksmith distributors, "do-it-yourself" remodeling-oriented home centers and other retail outlets. We believe the Company's impressive track record reflects the long-term attractiveness and potential of our categories and our leading brands. Our performance in the six years since becoming an independent publicly traded company demonstrates the strength of our operating model and our ability to generate profitable growth as sales volume increases and we leverage our structural competitive advantages to gain share in our categories.

Our Strategy

Build on leading business and brand positions in attractive growth and return categories. We believe that we have leading market positions and brands in many of our product categories. We continue to invest in targeted advertising and other strategic initiatives aimed at enhancing brand awareness and educating consumers regarding the breadth, features and benefits of our product lines. For example, in the third quarter of 2017, Moen launched its new "Innovated By…" advertising campaign which brings Moen innovation to life through compelling narratives designed to evoke emotion

and provoke thought. We also strive to leverage our brands by expanding into adjacent product categories and continue to develop new programs by working closely with our customers.

Continue to develop innovative products for customers, designers, installers and consumers. Sustained investments in consumer-driven product innovation and customer service, along with our low cost structures, have contributed to our success in the marketplace and creating consumer demand. In 2017, MasterBrand Cabinets, which provides a wide range of cabinets for the home, launched innovative new cabinet door designs, lighting systems, color palettes and features in a range of styles that allows consumers to create a custom kitchen look at an affordable price and introduced new, exclusive laminate door and finish options across multiple price segments. We continue to provide channel support with responsive websites featuring our cabinet brands that drives consumers to our partner dealers. In 2016, we created the Global Plumbing Group ("GPG"), a strategic platform within our Plumbing segment that spans across brands and geographic areas in order to accelerate growth opportunities and transform our existing plumbing business. During 2017 and 2016, we expanded our brand presence in plumbing through acquisitions. In 2017, we acquired Victoria + Albert, a U.K. manufacturer of luxury freestanding tubs and basins and Shaws Since1987 Limited ("Shaws"), a U.K.-based company that specializes in the design, production and marketing of luxury fire-clay kitchen sinks. In 2016, we acquired Riobel Inc. ("Riobel"), a Canadian premium showroom brand and ROHL LLC ("ROHL"), a California-based luxury brand and in a related transaction and TCL Manufacturing Ltd, which gave us ownership of Perrin & Rowe Limited ("Perrin & Rowe"), a UK manufacturer and designer of luxury kitchen and bathroom plumbing products. In addition, GPG's legacy brand, Moen had a number of innovative product launches in 2017, including a customizable shower technology with personal device integration. The Therma-Tru portfolio of on-trend door and glass collections continued to evolve to meet current and emerging architectural design trends including wider and taller door styles, expanding panel configurations, as well as additional decorative, privacy and textured glass designs. Master Lock continued to be an innovation leader in security and safety products and services, driven by consumer and end user focused insights with continued emphasis on electronic enabled solutions for enhanced capability and convenience. SentrySafe continued to provide a full line portfolio of quality security, fire and water resistant safes to help consumers and small business owners protect documents and valuables.

Expand in international markets. We expect to have opportunities to expand sales by further penetrating international markets, which represented approximately 15% of net sales in 2017. We continue to develop our relationship with dealers and distributors and their Moen branded stores throughout China. In our Cabinets segment, Kitchen Craft remained a leading cabinetry brand in Canada, while WoodCrafters provided a company presence in Mexico. Master Lock continued to expand its presence in Europe and Asia (primarily Japan), while Therma-Tru made inroads in Canada as consumers transitioned from traditional entry door materials to more advanced and energy-efficient fiberglass doors.

Leverage our global supply chains. We are using lean manufacturing, design-to-manufacture and distributive assembly techniques to make our supply chains more flexible and improve supply chain quality, cost, response times and asset efficiency. We view our supply chains as a strategic asset not only to support strong operating leverage as volumes increase, but also to enable the profitable growth of new products, adjacent market expansion and international growth.

Enhance returns and deploy our cash flow to high-return opportunities. We continue to believe our most attractive opportunities are to invest in profitable organic growth initiatives, pursue accretive strategic acquisitions and joint ventures, and return cash to stockholders through a combination of dividends and repurchases of shares of our common stock under our share repurchase program. Both add-on acquisitions and share repurchase opportunities may be particularly attractive in the next few years. In 2017, we repurchased 3.4 million shares of our outstanding common stock under the Company's share repurchase programs for $214.8 million. In July 2017, we acquired Shaws, a UK-based luxury plumbing products company that specializes in manufacturing and selling fireclay sinks. In October 2017, we acquired Victoria +Albert, a UK-based premium brand of standalone bathtubs, sink, tub fillers, faucets and other accessories. These acquisitions broadened our plumbing portfolio and enhanced future growth opportunities.

Our Competitive Strengths

We believe our competitive strengths include the following:

Leading brands. We have leading brands in many of our product categories. We believe that established brands are meaningful to both consumers and trade customers in their respective categories and that we have the opportunity to, among other things, continue to expand many of our brands into adjacent product categories and international markets.

Strategic focus on attractive consumer-facing categories. We believe we operate in categories that, while very competitive, are among the more attractive categories in the home products and security products markets. Some of the key characteristics that make these categories attractive in our view include the following:

- product quality, innovation, fashion, finish, durability and functionality, which are key determinants of product selection in addition to price;
- established brands, which are meaningful to both consumers and trade customers;
- the opportunity to add value to a complex consumer purchasing decision with excellent service propositions, reliability of products, ease of installation and superior delivery lead times;
- the value our products add to a home, particularly with kitchen and bath remodeling and additions, and the curb appeal offered by stylish entry door systems;
- favorable long-term trends in household formations that benefit the outlook for our markets over time;
- the relatively stable demand for plumbing and security products; and
- the opportunity to expand into adjacent categories.

Operational excellence. We believe our investments in lean manufacturing and productivity initiatives have resulted in supply chain flexibility and the ability to cost-effectively add or reduce capacity in order to match demand levels. In 2017, we invested approximately $40 million to support long-term growth potential both in the U.S. and international markets. In addition, our supply chains and low cost manufacturing structures have created favorable operating leverage allowing volumes to grow without sacrificing customer service levels. We believe that margin improvement will continue to be driven predominantly by organic volume growth that can be readily accommodated by additional production shifts and equipment as necessary.

Commitment to innovation. We have a long track record of successful product and process innovations that introduce valued new products and services to our customers and consumers. We are committed to continuing to invest in new product development and enhance customer service to strengthen our leading brands and penetrate adjacent markets.

Diverse sales end-use mix. We sell in a variety of product categories in the U.S. home and security products markets. In addition, our exposure to changing levels of U.S. residential new home construction activity is balanced with repair-and-remodel activity, which comprised a substantial majority of the overall U.S. home products market and about two-thirds of our U.S. home products sales in 2017. We also benefit from a stable market for plumbing and security products and international sales growth opportunities.

Diverse sales channels. We sell through a wide array of sales channels, including kitchen and bath dealers, wholesalers oriented to builders or professional remodelers, industrial and locksmith distributors, “do-it-yourself” remodeling-oriented home centers and other retail outlets. We also sell security products to locksmiths, industrial distributors and mass merchants. We are able to leverage these existing sales channels to expand into adjacent product categories. In 2017, sales to our top ten customers represented less than half of total sales.

Decentralized business model. Our business segments are focused on distinct product categories and are responsible for their own performance. This structure enables each of our segments to independently best position itself within each category in which it competes and reinforces strong accountability for operational and financial performance. Each of our segments focuses on its unique set of consumers, customers, competitors and suppliers, while also sharing best practices.

Strong capital structure. We exited 2017 with a strong balance sheet. In 2017, we repurchased 3.4 million of our shares. As of December 31, 2017, we had $323.0 million of cash and cash equivalents and total debt was $1,507.6 million, resulting in a net debt position of $1,184.6 million. In addition, we had $635.0 million available under our credit facility as of December 31, 2017.

Business Segments

We have four business segments: Cabinets, Plumbing, Doors and Security. The following table shows net sales for each of these segments and key brands within each segment:

Segment	2017 Net Sales (in millions)	Percentage of Total 2017 Net Sales	Key Brands
Cabinets	$2,467.1	47%	Aristokraft, Diamond, Mid-Continent, Kitchen Craft, Schrock, Homecrest, Omega, Thomasville[a], Kemper, StarMark, Ultracraft
Plumbing	1,720.8	33%	Moen, ROHL, Riobel, Perrin & Rowe, Victoria + Albert, Shaws, Waste King
Doors	502.9	9%	Therma-Tru, Fypon
Security	592.5	11%	Master Lock, American Lock, SentrySafe
Total	$5,283.3	100%	

[a] Thomasville is a registered trademark of Hhg Global Designs LLC.

Our segments compete on the basis of innovation, fashion, quality, price, service and responsiveness to distributor, retailer and installer needs, as well as end-user consumer preferences. Our markets are very competitive. Approximately 15% of 2017 net sales were to international markets, and sales to two of the Company's customers, The Home Depot, Inc. ("The Home Depot") and Lowe's Companies, Inc. ("Lowe's"), each accounted for more than 10% of the Company's net sales in 2017. Sales to all U.S. home centers in the aggregate were approximately 27% of net sales in 2017.

Cabinets. Our Cabinets segment manufactures custom, semi-custom and stock cabinetry, as well as vanities, for the kitchen, bath and other parts of the home through a regional supply chain footprint to deliver high quality and service to our customers. This segment sells a portfolio of brands that enables our customers to differentiate themselves against competitors. This portfolio includes brand names such as Aristokraft, Diamond, Mid-Continent, Kitchen Craft, Schrock, Homecrest, Omega, Thomasville, Kemper, StarMark and Ultracraft. Substantially all of this segment's sales are in North America. This segment sells directly to kitchen and bath dealers, home centers, wholesalers and large builders. In aggregate, sales to The Home Depot and Lowe's comprised approximately 34% of net sales of the Cabinets segment in 2017. This segment's competitors include Masco, American Woodmark and RSI (owned by American Woodmark), as well as a large number of regional and local suppliers.

Plumbing. Our Plumbing segment manufactures or assembles and sells faucets, accessories, kitchen sinks and waste disposals in North America and China, predominantly under the Moen, ROHL, Riobel, Perrin & Rowe, Victoria + Albert, Shaws and Waste King brands. Although this segment sells products principally in the U.S., Canada and China, this segment also sells in Mexico, Southeast Asia, Europe and

South America. Approximately 26% of 2017 net sales were to international markets. This segment sells directly through its own sales force and indirectly through independent manufacturers' representatives, primarily to wholesalers, home centers, mass merchandisers and industrial distributors. In aggregate, sales to The Home Depot and Lowe's comprised approximately 23% of net sales of the Plumbing segment in 2017. This segment's chief competitors include Delta (owned by Masco), Kohler, Pfister (owned by Spectrum Brands), American Standard (owned by LIXIL Group), InSinkErator (owned by Emerson Electronic Company) and imported private-label brands.

Doors. Our Doors segment manufactures and sells fiberglass and steel entry door systems under the Therma-Tru brand and urethane millwork product lines under the Fypon brand. This segment benefits from the long-term trend away from traditional materials, such as wood, steel and aluminum, toward more energy-efficient and durable synthetic materials. Therma-Tru products include fiberglass and steel residential entry door and patio door systems, primarily for sale in the U.S. and Canada. This segment's principal customers are home centers, millwork building products and wholesale distributors, and specialty dealers that provide products to the residential new construction market, as well as to the remodeling and renovation markets. In aggregate, sales to The Home Depot and Lowe's comprised approximately 14% of net sales of the Doors segment in 2017. This segment's competitors include Masonite, JELD-WEN, Plastpro and Pella.

Security. Our Security segment's products consist of locks, safety and security devices, and electronic security products manufactured, sourced and distributed primarily under the Master Lock brand and fire resistant safes, security containers and commercial cabinets manufactured, sourced and distributed under the SentrySafe brand. This segment sells products principally in the U.S., Canada, Europe, Central America, Japan and Australia. Approximately 25% of 2017 net sales were to international markets. This segment manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, door hardware, automotive, trailer and towing locks, electronic access control solutions, and other specialty safety and security devices for consumer use to hardware, home center and other retail outlets. In addition, the segment sells lock systems and fire resistant safes to locksmiths, industrial and institutional users, and original equipment manufacturers. In aggregate, sales to The Home Depot and Lowe's comprised approximately 18% of the net sales of the Security segment in 2017. Master Lock competes with Abus, W.H. Brady, Hampton, Kwikset (owned by Spectrum Brands), Schlage (owned by Allegion), Assa Abloy and various imports, and SentrySafe competes with First Alert, Magnum, Fortress, Stack-On and Fire King.

Annual net sales for each of the last three fiscal years for each of our business segments were as follows:

(In millions)	*2017*	*2016*	2015
Cabinets	$2,467.1	$2,397.8	$2,173.4
Plumbing	1,720.8	1,534.4	1,414.5
Doors	502.9	473.0	439.1
Security	592.5	579.7	552.4
Total	$5,283.3	$4,984.9	$4,579.4

For additional financial information for each of our business segments, refer to Note 18, "Information on Business Segments," to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Other Information

Raw materials. The table below indicates the principal raw materials used by each of our segments. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the cost of manufacturing our products.

Segment	Raw Materials
Cabinets	Hardwoods (maple, cherry and oak), plywood and particleboard
Plumbing	Brass, zinc, resins, stainless steel, aluminum and copper
Doors	Resins, wood, glass, foam, aluminum and steel
Security	Rolled steel, zinc, brass and resins

Intellectual property. Product innovation and branding are important to the success of our business. In addition to the brand protection offered by our trademarks, patent protection helps distinguish our unique product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. We hold U.S. and foreign patents covering various features used in products sold within all of our business segments. Although each of our segments relies on a number of patents and patent groups that, in the aggregate, provide important protections to the Company, no single patent or patent group is material to any of the Company's segments.

Employees. As of December 31, 2017, we had approximately 23,800 full-time employees. Of these employees, approximately 2,000 of these employees are covered by collective bargaining agreements. Employee relations are generally good.

Information about geographic areas. For additional information about net sales and assets by geographic areas, refer to Note 18, "Information on Business Segments," to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Seasonality. All of our operating segments traditionally experience lower sales in the first quarter of the year when new home construction, repair-and-remodel activity and security buying are at their lowest. As a result of sales seasonality and associated timing of working capital fluctuations, our cash flow from operating activities is typically higher in the second half of the year.

Environmental matters. We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties ("PRP") under "Superfund" or similar state laws. As of December 31, 2017, eleven such instances have not been dismissed, settled or otherwise resolved. In 2017, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have a material adverse effect on our results of operations, cash flows or financial condition. At December 31, 2017 and 2016, we had accruals of $0.7 and $1.0 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

Legal structure. Fortune Brands Home & Security, Inc. is a holding company that was initially organized as a Delaware corporation in 1988. Wholly-owned subsidiaries of the Company include MasterBrand Cabinets, Inc., Moen Incorporated, Fortune Brands Global Plumbing Group LLC, Fortune Brands Doors, Inc. and Fortune Brands Storage & Security LLC. As a holding company, we are a legal entity separate and distinct from our subsidiaries. Accordingly, the rights of the Company, and thus the rights of our creditors (including holders of debt securities and other obligations) and stockholders to participate in any distribution of the assets or earnings of any subsidiary is subject to the claims of creditors

of the subsidiary, except to the extent that claims of the Company itself as a creditor of such subsidiary may be recognized, in which event the Company's claims may in certain circumstances be subordinate to certain claims of others. In addition, as a holding company, the source of our unconsolidated revenues and funds is dividends and other payments from subsidiaries. Our subsidiaries are not limited by long-term debt or other agreements in their abilities to pay cash dividends or to make other distributions with respect to their capital stock or other payments to the Company.

Available Information. The Company's website address is www.FBHS.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company's website as soon as reasonably practicable after the reports are filed or furnished electronically with the SEC. These documents also are made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at www.sec.gov. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Principles, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, Charters for the Committees of our Board of Directors and certain other information related to the Company.

Item 1A. Risk Factors.

There are inherent risks and uncertainties associated with our business that could adversely affect our business, financial condition or operating results. Set forth below are descriptions of those risks and uncertainties that we currently believe to be material, but the risks and uncertainties described below are not the only risks and uncertainties that could adversely affect our business, financial condition or operating results. If any of these risks materialize, our business, financial condition or operating results could suffer. In this case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our business primarily relies on North American home improvement, repair and remodel and new home construction activity levels, all of which are impacted by risks associated with fluctuations in the housing market. Downward changes in the general economy, the housing market or other business conditions could adversely affect our results of operations, cash flows and financial condition.

Our business primarily relies on home improvement, repair and remodel, and new home construction activity levels, principally in North America. The housing market is sensitive to changes in economic conditions and other factors, such as the level of employment, access to labor, consumer confidence, consumer income, government tax programs, availability of financing and interest rate levels. Adverse changes in any of these conditions generally, or in any of the markets where we operate, could decrease demand and could adversely impact our businesses by: causing consumers to delay or decrease homeownership; making consumers more price conscious resulting in a shift in demand to smaller, less expensive homes; making consumers more reluctant to make investments in their existing homes, including large kitchen and bath repair and remodel projects; or making it more difficult to secure loans for major renovations. Although the U.S. new home construction market continues to improve, demand for new homes is still recovering after the 2007-2009 U.S. economic recession and continues to remain below historical levels.

We operate in very competitive consumer and trade brand categories.

The markets in which we operate are very competitive. Although we believe that competition in our businesses is based largely on product quality, consumer and trade brand reputation, customer service and product features, as well as fashion, innovation and ease of installation, price is a significant factor for

consumers as well as our trade customers. Some of our competitors may resort to price competition to sustain or grow market share and manufacturing capacity utilization. Also, certain large customers continue to offer private-label brands that compete with some of our product offerings as a lower-cost alternative. The strong competition that we face in all of our businesses may adversely affect our profitability and revenue levels, as well as our results of operations, cash flows and financial condition.

Risks associated with strategic acquisitions and joint ventures could adversely affect our results of operations, cash flows and financial condition.

We consider acquisitions and joint ventures as a means of enhancing shareholder value. Acquisitions and joint ventures involve risks and uncertainties, including difficulties integrating acquired companies and operating joint ventures; difficulties retaining the acquired businesses' customers and brands; the inability to achieve the expected financial results and benefits of transactions; the loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, policies and information systems; and diversion of management's attention from other business matters. Future acquisitions could cause us to incur additional debt or issue additional shares, resulting in dilution in earnings per share and return on capital.

We may not successfully develop new products or processes or improve existing products or processes.

Our success depends on meeting consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes proactively to offset obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new or updated products and processes, we may not be successful in product development and our new products may not be commercially successful. In addition, it is possible that competitors may improve their products or processes more rapidly or effectively, which could adversely affect our sales. Furthermore, market demand may decline as a result of consumer preferences trending away from our categories or trending down within our brands or product categories, which could adversely impact our results of operations, cash flows and financial condition.

Risks associated with our ability to improve organizational productivity and global supply chain efficiency and flexibility could adversely affect our results of operations, cash flows and financial condition.

We regularly evaluate our organizational productivity and global supply chains and assess opportunities to increase capacity, reduce costs and enhance quality. We may be unable to enhance quality, speed and flexibility to meet changing and uncertain market conditions, as well as manage cost inflation, including wages, pension and medical costs. Our success depends in part on refining our cost structure and supply chains to promote consistently flexible and low cost supply chains that can respond to market changes to protect profitability and cash flow or ramp up quickly and effectively to meet demand. Failure to achieve the desired level of quality, capacity or cost reductions could impair our results of operations, cash flows and financial condition.

Future tax law changes or the interpretation of existing tax laws may materially impact our effective income tax rate, the resolution of unrecognized tax benefits and cash tax payments.

Our businesses are subject to income taxation in the U.S., as well as internationally. We are routinely audited by income tax authorities in many jurisdictions. Although we believe that the recorded tax estimates are reasonable and appropriate, there are significant uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material adverse effect on earnings between the period of initial recognition of tax estimates in our financial statements and the point of ultimate tax audit settlement.

Risks associated with global commodity and energy availability and price volatility, as well as the possibility of sustained inflation, could adversely affect our results of operations, cash flows and financial condition.

We are exposed to risks associated with global commodity price volatility arising from restricted or uneven supply conditions, the sustained expansion and volatility of demand from emerging markets, potentially unstable geopolitical and economic variables, weather and other unpredictable external factors. We buy raw materials that contain commodities such as brass, zinc, steel, wood, and glass and petroleum-based products such as resins. In addition, our distribution costs are significantly impacted by the price of oil and diesel fuel. Decreased availability and increased or volatile prices for these commodities, as well as energy used in making, distributing and transporting our products, could increase the costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers over time, there is no assurance that we will be able to offset such cost increases in the future, and the risk of potentially sustained high levels of inflation could adversely impact our results of operations, cash flows and financial condition. While we may use derivative contracts to limit our short-term exposure to commodity price volatility, the commodity exposures under these contracts could still be material to our results of operations, cash flows and financial condition. In addition, in periods of declining commodity prices, these derivative contracts may have the short-term effect of increasing our expenditures for these raw materials.

We manufacture, source and sell products internationally and are exposed to risks associated with doing business globally.

We manufacture, source or sell our products in a number of locations throughout the world, predominantly in the U.S., Canada, China, Europe and Mexico. Accordingly, we are subject to risks associated with potential disruption caused by changes in political, economic and social environments, including civil and political unrest, terrorism, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments and trade disputes with the U.S., and U.S. laws affecting activities of U.S. companies abroad. Risks inherent to international operations include: potentially adverse tax laws, unfavorable changes or uncertainty relating to trade agreements or importation duties, uncertainty regarding clearance and enforcement of intellectual property rights, risks associated with the Foreign Corrupt Practices Act and difficulty enforcing contracts. While we hedge certain foreign currency transactions, a change in the value of the currencies will impact our financial statements when translated into U.S. dollars. In addition, fluctuations in currency can adversely impact the cost position of our products in local currency, making it more difficult for us to compete. Our success will depend, in part, on our ability to effectively manage our businesses through the impact of these potential changes. In addition, we source certain raw materials, components and finished goods from China where we have experienced higher manufacturing costs and longer lead times due to currency fluctuations, higher wage rates, labor shortages and higher raw material costs.

Changes in government and industry regulatory standards could adversely affect our results of operations, cash flows and financial condition.

Government regulations and policies pertaining to trade agreements, health and safety (including protection of employees as well as consumers), taxes and environmental concerns continue to emerge domestically, as well as internationally. In particular, there may be additional tariffs or taxes related to our imported inputs and finished goods. It is necessary for us to comply with current requirements (including requirements that do not become effective until a future date), and even more stringent requirements could be imposed on our products or processes in the future. Compliance with changes in taxes, tariffs and other regulations may require us to alter our manufacturing and installation processes and our sourcing. Such actions could increase our capital expenditures and adversely impact our results of operations, cash flows and financial condition.

Our inability to secure and protect our intellectual property rights could negatively impact revenues and brand reputation.

We have many patents, trademarks, brand names and trade names that are important to our business. Unauthorized use of these intellectual property rights may not only erode sales of our products, but may also cause significant damage to our brand name and reputation, interfere with our ability to effectively represent the Company to our customers, contractors and suppliers, and increase litigation costs. There can be no assurance that our efforts to protect our brands and trademark rights will prevent violations. In addition, existing patent, trade secret and trademark laws offer only limited protection, and the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our intellectual property from infringement by others. There can be no assurance that our efforts to assess possible third party intellectual property rights will ensure that Company's ability to manufacture, distribute, market or sell in any given country or territory. Furthermore, others may assert intellectual property infringement claims against us or our customers.

Our businesses rely on the performance of wholesale distributors, dealers and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels and customers.

We rely on a distribution network comprised of consolidating customers. Any disruption to the existing distribution channels could adversely affect our results of operations, cash flows and financial condition. The consolidation of distributors or the financial instability or default of a distributor or one of its major customers could potentially cause such a disruption. In addition to our own sales force, we offer our products through a variety of third-party distributors, representatives and retailers. Certain of our distributors, representatives or retailers may also market other products that compete with our products. The loss or termination of one or more of our major distributors, representatives or retailers, the failure of one or more of our distributors, representatives or retailers to effectively promote our products, or changes in the financial or business condition of these distributors, representatives or retailers could affect our ability to bring products to market.

Our pension costs and funding requirements could increase as a result of volatility in the financial markets and changes in interest rates and actuarial assumptions.

Increases in the costs of pension benefits may continue and negatively affect our business as a result of: the effect of potential declines in the stock and bond markets on the performance of our pension plan assets; potential reductions in the discount rate used to determine the present value of our benefit obligations; and changes to our investment strategy that may impact our expected return on pension plan assets assumptions. U.S. generally accepted accounting principles require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. Our accounting policy for defined benefit plans may subject earnings to volatility due to the recognition of actuarial gains and losses, particularly due to the change in the fair value of pension assets and interest rates. Funding requirements for our U.S. pension plans may become more significant. However, the ultimate amounts to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to pension funding obligations.

Risks associated with the disruption of operations could adversely affect our results of operations, cash flows and financial condition.

We manufacture a significant portion of the products we sell. Any prolonged disruption in our operations, whether due to technical or labor difficulties, weather, lack of raw material or component availability, startup inefficiencies for new operations, destruction of or damage to any facility (as a result of natural disasters, fires and explosions, use and storage of hazardous materials or other events) or other reasons, could negatively impact our profitability and competitive position and adversely affect our results of operations, cash flows and financial condition.

Our inability to obtain raw materials and finished goods in a timely and cost-effective manner from suppliers could adversely affect our ability to manufacture and market our products.

We purchase raw materials to be used in manufacturing our products and also rely on third-party manufacturers as a source for finished goods. We typically do not enter into long-term contracts with our suppliers or sourcing partners. Instead, most raw materials and sourced goods are obtained on a "purchase order" basis. In addition, in some instances we maintain single-source or limited-source sourcing relationships, either because multiple sources are not available or the relationship is advantageous due to performance, quality, support, delivery, capacity or price considerations. Financial, operating or other difficulties encountered by our suppliers or sourcing partners or changes in our relationships with them could result in manufacturing or sourcing interruptions, delays and inefficiencies, and prevent us from manufacturing or obtaining the finished goods necessary to meet customer demand. If we are unable to meet customer demand, there could be an adverse effect on our results of operations, cash flows and financial condition.

Our failure to attract and retain qualified personnel could adversely affect our results of operations, cash flows and financial condition.

Our success depends in part on the efforts and abilities of qualified personnel at all levels, including our senior management team and other key employees. Their motivation, skills, experience, contacts and industry knowledge significantly benefit our operations and administration. The failure to attract, motivate and retain members of our senior management team and key employees could have an adverse effect on our results of operations, cash flows and financial condition.

Potential liabilities and costs from claims and litigation could adversely affect our results of operations, cash flows and financial condition.

We are, from time to time, involved in various claims, litigation matters and regulatory proceedings that arise in the ordinary course of our business and that could have an adverse effect on us. These matters may include contract disputes, intellectual property disputes, product recalls, personal injury claims, construction defects and home warranty claims, warranty disputes, environmental claims or proceedings, other tort claims, employment and tax matters and other proceedings and litigation, including class actions. It is not possible to predict the outcome of pending or future litigation, and, as with any litigation, it is possible that some of the actions could be decided unfavorably and could have an adverse effect on our results of operations, cash flows and financial condition.

We are subject to product safety regulations, recalls and direct claims for product liability that can result in significant liability and, regardless of the ultimate outcome, can be costly to defend. As a result of the difficulty of controlling the quality of products or components sourced from other manufacturers, we are exposed to risks relating to the quality of such products and to limitations on our recourse against such suppliers.

An impairment in the carrying value of goodwill or other acquired intangible assets could negatively affect our results of operations and financial condition.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangible assets represents the fair value of customer relationships, tradenames and other acquired intangible assets as of the acquisition date. Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by management at least annually. If the carrying value exceeds the implied fair value of goodwill, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. If the carrying value of an indefinite-lived intangible asset is greater than its fair value, the intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events or circumstances that could have a potential negative effect on the

estimated fair value of our reporting units and indefinite-lived tradenames include: actual new construction and repair and remodel growth rates that lag our assumptions, actions of key customers, volatility of discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending and a decline in the price of our common stock. If the value of goodwill or other acquired intangible assets is impaired, our results of operations and financial condition could be adversely affected.

We may experience delays or outages in our information technology system and computer networks. We may be subject to breaches of our information technology systems, which could damage our reputation and consumer relationships. Such breaches could subject us to significant financial, legal and operational consequences.

We, like most companies, may be subject to information technology system failures and network disruptions. These may be caused by delays or disruptions due to system updates, natural disasters, malicious attacks, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. Our businesses may implement enterprise resource planning systems or add applications to replace outdated systems and to operate more efficiently. We may not be able to successfully implement the projects without experiencing difficulties. In addition, any expected benefits of implementing projects might not be realized or the costs of implementation might outweigh the benefits realized. In addition, information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. We believe we devote appropriate resources to network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute security. In the event of a breach, we would be exposed to a risk of loss or litigation and possible liability, which could have an adverse effect on our business, results of operations, cash flows and financial condition.

There can be no assurance that we will have access to the capital markets on terms acceptable to us.

From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe that the sources of capital currently in place permit us to finance our operations for the foreseeable future on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including, but not limited to: our financial performance, our credit ratings, the liquidity of the overall capital markets and the state of the economy, including the U.S. housing market. There can be no assurance that we will have access to the capital markets on terms acceptable to us. In addition, a prolonged global economic downturn may also adversely impact our access to long-term capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially adversely impact our ability to pay dividends, fund acquisitions and repurchase shares in the future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive office is located at 520 Lake Cook Road, Deerfield, Illinois 60015. We operate 29 U.S. manufacturing facilities in 16 states and have 19 manufacturing facilities in international locations (8 in Mexico, 3 in Asia, 4 in Europe, 2 in Africa, and 2 in Canada). In addition, we have 50 distribution centers and warehouses worldwide, of which 41 are leased. The following table provides additional information with respect to these properties.

Segment	Manufacturing Facilities			Distribution Centers and Warehouses		
	Owned	*Leased*	*Total*	*Owned*	*Leased*	*Total*
Cabinets	23	4	27	3	20	23
Plumbing	8	4	12	5	12	17
Doors	4	2	6	—	2	2
Security	3	—	3	1	7	8
Totals	38	10	48	9	41	50

We are of the opinion that the properties are suitable to our respective businesses and have production capacities adequate to meet the current needs of our businesses.

Item 3. Legal Proceedings.

The Company is a defendant in lawsuits that are ordinary routine litigation matters incidental to its businesses. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon the Company's results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested. Accordingly, the Company believes the likelihood of material loss is remote.

Item 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of the Registrant.

Name	Age	Position
Christopher J. Klein	54	Chief Executive Officer
Patrick D. Hallinan	50	Senior Vice President and Chief Financial Officer
Michael P. Bauer	53	President, The Master Lock Company
Nicholas I. Fink	43	President, Fortune Brands Global Plumbing Group LLC
Brett E. Finley	47	President, Fortune Brands Doors, Inc.
David M. Randich	56	President, MasterBrand Cabinets, Inc.
Tracey L. Belcourt	51	Senior Vice President, Global Growth and Development
Robert K. Biggart	63	Senior Vice President, General Counsel and Secretary
Sheri R. Grissom	53	Senior Vice President, Human Resources
Dan Luburic	46	Vice President and Corporate Controller
Brian C. Lantz	55	Senior Vice President, Communications & Corporate Administration
Marty Thomas	59	Senior Vice President, Operations & Supply Chain Strategy

Christopher J. Klein has served as Chief Executive Officer of Fortune Brands since January 2010.

Patrick D. Hallinan has served as Senior Vice President and Chief Financial Officer of Fortune Brands since July 2017. From January 2017 to July 2017, Mr. Hallinan served as Senior Vice President of Finance of Fortune Brands. Prior to joining Fortune Brands' executive team, Mr. Hallinan served as chief financial officer of Moen Incorporated, a subsidiary of Fortune Brands, from November 2013 to January 2017.

Michael P. Bauer has served as President of The Master Lock Company since December 2014. From April 2011 through December 2014, Mr. Bauer served as the President of the U.S. Businesses at Moen Incorporated, a subsidiary of Fortune Brands.

Nicholas I. Fink has served as President of Fortune Brands Global Plumbing Group LLC since August 2016. From June 2015 to August 2016, Mr. Fink served as Senior Vice President-Global Growth and Development of Fortune Brands. From June 2006 to May 2015, Mr. Fink worked at Beam Suntory, Inc., a global spirits company, and its predecessor entities in various senior positions including as Senior Vice President and President, Asia-Pacific/South America.

Brett E. Finley has served as President of Fortune Brands Doors, Inc. since February 2016. From February 2008 to February 2016, Mr. Finley held various leadership positions at IDEX Corporation, a global manufacturer of fluidics systems and specialty engineered products, including Senior Vice President, Group Executive, Fluid & Metering Technologies Segment and President- IDEX-Asia.

David M. Randich has served as President of MasterBrand Cabinets, Inc., a subsidiary of Fortune Brands, since October 2012.

Tracey L. Belcourt has served as Senior Vice President of Global Growth and Development of Fortune Brands since December 2016. From 2012 to 2016, Ms. Belcourt served as Executive Vice President, Strategy of Mondelez International, Inc. a confectionary, food and beverage company.

Robert K. Biggart has served as Senior Vice President, General Counsel and Secretary of Fortune Brands since December 2013. From March 2005 through December 2013, Mr. Biggart served as Senior Vice President — General Counsel of PepsiCo Americas Beverages, a business division of PepsiCo, Inc., a global food and beverage company.

Sheri R. Grissom has served as Senior Vice President — Human Resources of Fortune Brands since February 2015. Ms. Grissom served as Executive Vice President — Global Human Resources of Actuant Corporation, a diversified industrial company, from October 2010 to February 2015.

Dan Luburic has served as Vice President and Corporate Controller of Fortune Brands since October 2011.

Brian C. Lantz has served as Senior Vice President, Communications & Corporate Administration since January 2017. Mr. Lantz joined Fortune Brands in June 2011 as Vice President of Investor Relations.

Marty Thomas has served as Senior Vice President, Operations and Supply Chain Strategy since September 2017. Mr. Thomas served as Senior Vice President of Global Operations and Engineering Services at Rockwell Automation, Inc., a provider of industrial automation and information products, from 2006 to 2016.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information, Dividends and Holders of Record

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the ticker symbol "FBHS". The following table presents the high and low prices for our common stock as reported on the NYSE and the dividends declared for each of the periods indicated.

	2017			2016		
	High	*Low*	*Dividends Declared*	*High*	*Low*	*Dividends Declared*
First Quarter	$61.67	$53.15	—	$56.36	$44.19	—
Second Quarter	66.35	60.22	0.18	59.98	54.51	0.16
Third Quarter	67.77	61.34	0.36[(a)]	64.47	56.09	0.32[(a)]
Fourth Quarter	69.76	63.41	0.20	58.39	52.05	0.18

[(a)] Reflects a $0.18 and $0.16 per share dividend declared and paid in the third quarter of 2017 and 2016, respectively, and a $0.18 and $0.16 per share dividend declared in third quarter and paid in fourth quarter of 2017 and 2016, respectively.

In December 2017, our Board of Directors increased the quarterly cash dividend by 11% to $0.20 per share of our common stock. Our Board of Directors will continue to evaluate dividend payment opportunities on a quarterly basis. There can be no assurance as to when and if future dividends will be paid, or at what level, because the payment of dividends is dependent upon our financial condition, results of operations, capital requirements and other factors deemed relevant by our Board of Directors.

On February 2, 2018, there were 10,615 record holders of the Company's common stock, par value $0.01 per share. A substantially greater number of holders of the Company's common stock are "street name" or beneficial holders, whose shares of record are held by banks, brokers or other financial institutions.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

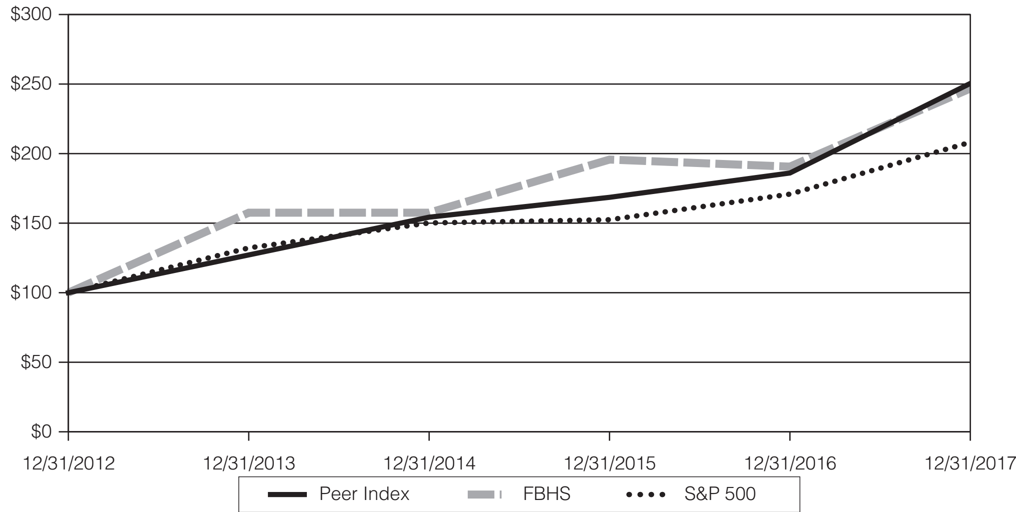
Below are the repurchases of common stock by the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) for the three months ended December 31, 2017:

Period	*Total number of shares purchased[(a)]*	*Average price paid per share*	*Total number of shares purchased as part of publicly announced plans or programs[(a)]*	*Approximate dollar value of shares that may yet be purchased under the plans or programs[(a)]*
October 1 – October 31	589,000	$66.18	589,000	$308,366,151
November 1 – November 30	—	—	—	308,366,151
December 1 – December 31	—	—	—	558,366,151
Total	589,000	$66.18	589,000	

[(a)] Information on the Company's share repurchase program follows:

Authorization date	*Announcement date*	*Authorization amount of shares of outstanding common stock*	*Expiration date*
February 16, 2016	*February 22, 2016*	*$400 million*	*February 16, 2018*
February 28, 2017	*March 1, 2017*	*$300 million*	*February 28, 2019*
December 8, 2017	*December 11, 2017*	*$250 million*	*December 8, 2019*

Stock Performance



The above graph compares the relative performance of our common stock, the S&P 500 Index and a Peer Group Index. This graph covers the period from December 31, 2012 through December 31, 2017. This graph assumes $100 was invested in the stock or the index on December 31, 2012 and also assumes the reinvestment of dividends. The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or the Exchange Act.

Peer Group Index The 2017 peer group is composed of the following publicly traded companies corresponding to the Company's core businesses:

Armstrong World Industries, Inc., Fastenal Company, Leggett & Platt Incorporated, Lennox International Inc., Masco Corporation, Mohawk Industries, Inc., Newell Brands Inc., The Sherwin-Williams Company, Stanley Black & Decker, Inc. and USG Corporation.

Calculation of Peer Group Index

The weighted-average total return of the entire peer group, for the period of December 31, 2012 through December 31, 2017, is calculated in the following manner:

(1) the total return of each peer group member is calculated by dividing the change in market value of a share of its common stock during the period, assuming reinvestment of any dividends, by the value of a share of its common stock at the beginning of the period; and

(2) each peer group member's total return is then weighted within the index based on its market capitalization relative to the market capitalization of the entire index, and the sum of such weighted returns results in a weighted-average total return for the entire Peer Group Index.

Item 6. Selected Financial Data.

Five-year Consolidated Selected Financial Data

(In millions, except per share amounts)	Years Ended December 31, 2017	2016	2015	2014	2013
Income statement data[a]					
Net sales	$5,283.3	$4,984.9	$4,579.4	$4,013.6	$3,703.6
Cost of products sold[b]	3,350.8	3,180.3	2,997.5	2,646.7	2,408.5
Selling, general and administrative expenses[b]	1,194.8	1,129.9	1,047.6	943.3	938.7
Amortization of intangible assets	31.7	28.1	21.6	13.1	9.4
Loss on sale of product line (see Note 4)	2.4	—	—	—	—
Asset impairment charges	3.2	—	—	—	21.2
Restructuring charges	8.3	13.9	16.6	7.0	2.8
Operating income	692.1	632.7	496.1	403.5	323.0
Income from continuing operations, net of tax[e]	475.3	412.4	306.5	273.6	209.0
Basic earnings per share — continuing operations	3.10	2.67	1.92	1.68	1.26
Diluted earnings per share — continuing operations	3.05	2.61	1.88	1.64	1.21
Other data[a]					
Depreciation and amortization	$ 130.3	$ 122.7	$ 115.1	$ 98.8	$ 90.4
Cash flow provided by operating activities[c]	600.3	650.5	429.2	266.2	308.8
Capital expenditures	(165.0)	(149.3)	(128.5)	(127.5)	(96.7)
Proceeds from the disposition of assets	0.4	3.9	2.5	0.7	2.2
Dividends declared per common share	0.74	0.66	0.58	0.50	0.42
Balance sheet data					
Total assets[d]	$5,511.4	$5,128.5	$4,875.7	$4,051.5	$4,176.8
Third party long-term debt[d]	1,507.6	1,431.1	1,168.7	642.3	348.7
Total invested capital	4,108.7	3,794.1	3,623.3	2,931.6	3,007.9

[a] Income statement data excludes discontinued operations. Other data is derived from the Statement of Cash Flows and therefore includes discontinued operations. For additional information, refer to Note 18, "Information on Business Segments."

[b] The Company's defined benefit expense included recognition of pre-tax actuarial gains (losses) in each of the last five years as follows:

	2017	2016	2015	2014	2013
Pre-tax actuarial gains (losses)	*$0.5*	*$(1.9)*	*$(8.6)*	*$(13.7)*	*$(5.2)*
Portion in cost of products sold	*0.4*	*(1.3)*	*(0.2)*	*(3.0)*	*(2.7)*
Portion in selling, general and administrative expenses	*0.1*	*(0.6)*	*(2.3)*	*(10.7)*	*(2.5)*
Portion in discontinued operations	—	—	*(6.1)*	—	—

[c] Reflects adoption of Accounting Standards Update ("ASU") 2016-09 "Improvements to Employee Share-Based Payment Accounting" which resulted in the retrospective reclassification of employee withholding taxes paid from operating into financing activities.

[d] Reflects adoption of ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs," resulting in the retrospective reclassification of debt issuance costs from other current assets and other assets to long-term debt.

[e] Includes an estimated net tax benefit of $25.7 million resulting from the enactment of the U.S. Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the "Tax Act").

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is a supplement to the accompanying consolidated financial statements and provides additional information on our business, recent developments, financial condition, liquidity and capital resources, cash flows and results of operations. MD&A is organized as follows:

- Overview: This section provides a general description of our business, and a discussion of management's general outlook regarding market demand, our competitive position and product innovation, as well as recent developments we believe are important to understanding our results of operations and financial condition or in understanding anticipated future trends.
- Basis of Presentation: This section provides a discussion of the basis on which our consolidated financial statements were prepared.
- Results of Operations: This section provides an analysis of our results of operations for each of the three years ended December 31, 2017, 2016 and 2015.
- Liquidity and Capital Resources: This section provides a discussion of our financial condition and an analysis of our cash flows for each of the three years ended December 31, 2017, 2016 and 2015. This section also provides a discussion of our contractual obligations, other purchase commitments and customer credit risk that existed at December 31, 2017, as well as a discussion of our ability to fund our future commitments and ongoing operating activities through internal and external sources of capital.
- Critical Accounting Policies and Estimates: This section identifies and summarizes those accounting policies that significantly impact our reported results of operations and financial condition and require significant judgment or estimates on the part of management in their application.

Overview

The Company is a leader in home and security products focused on the design, manufacture and sale of market-leading branded products in the following categories: kitchen and bath cabinetry, plumbing and accessories, entry door systems, and security products.

For the year ended December 31, 2017, net sales based on country of destination were:

(In millions)		
United States	$4,492.2	85%
Canada	427.6	8
China	202.3	4
Other international	161.2	3
Total	$5,283.3	100%

We believe the Company has certain competitive advantages including market-leading brands, a diversified mix of customer channels, lean and flexible supply chains, a decentralized business model and a strong capital structure as well as a tradition of strong innovation and customer service. We are focused on outperforming our markets in growth, profitability and returns in order to drive increased shareholder value. We believe the Company's track record reflects the long-term attractiveness and potential of our categories and our leading brands. As consumer demand and the housing market continue to grow after the 2007-2009 recession, we expect the benefits of operating leverage and strategic spending to support increased manufacturing capacity and long-term growth initiatives will help us to continue to achieve profitable organic growth.

We believe our most attractive opportunities are to invest in profitable organic growth initiatives. We also believe that as the market grows, we have the potential to generate additional growth from leveraging our cash flows and balance sheet strength by pursuing accretive strategic acquisitions and joint ventures, and by returning cash to shareholders through a combination of dividends and repurchases under our share repurchase program as explained in further detail under "Liquidity and Capital Resources" below.

The U.S. market for our home products consists of spending on both new home construction and repair and remodel activities within existing homes, with the substantial majority of the markets we serve consisting of repair and remodel spending. We believe that the U.S. market for our home products is in the midst of an elongated recovery from the U.S. economic recession that ended in mid-2009 and that a continued recovery will largely depend on consumer confidence, employment, home prices, stable mortgage rates and credit availability.

We may be impacted by fluctuations in raw material, transportation costs, foreign exchange rates and promotional activity among our competitors. We strive to offset the potential unfavorable impact of these items with productivity improvements initiatives and price increases.

During the three years ended December 31, 2017, our net sales grew at a compounded annual rate of 7% as we benefited from an improving U.S. home products market, acquisitions, and growth in international markets. Operating income grew at a compounded annual rate of 18% with consolidated operating margins improving from 10% in 2014 to 13% in 2017. Growth in operating income was primarily due to higher sales volume, changes to our portfolio of businesses, control and leverage of our operating expenses and the benefits of productivity programs.

During 2017, the U.S. home products market grew due to increases in new home construction and repair and remodel activities. We believe new housing construction experienced 7.4% growth in 2017 compared to 2016 and spending for home repair and remodeling increased about 5%. In 2017, net sales grew 6% and operating income increased 9% due to higher sales volume primarily resulting from U.S. home products market growth, the acquisitions in our Plumbing segments, price increases to help mitigate cumulative raw material cost increases, the effect of favorable foreign exchange and productivity improvements.

During 2016, the U.S. home products market grew due to increases in new home construction and repair and remodel activities. We believe new housing construction experienced low double-digit growth in 2016 compared to 2015 and spending for home repair and remodeling increased about of 5%. In 2016, net sales grew 9% and operating income increased 28% due to higher sales volume primarily resulting from U.S. home products market growth, the acquisitions in our Cabinets and Plumbing segments, price increases to help mitigate cumulative raw material cost increases and the effect of unfavorable foreign exchange and productivity improvements.

In October 2017, we acquired Victoria +Albert, a UK-based premium brand of standalone bathtubs, sink, tub fillers, faucets and other accessories. In July 2017, we acquired Shaws, a UK-based luxury plumbing products company that specializes in manufacturing. The combined purchase price was approximately $125 million, net of cash acquired and deferred acquisition payments and subject to certain post-closing adjustments. We financed both of the acquisitions using cash on hand and borrowings under our existing credit facility. These transactions broadened our plumbing portfolio and enhanced future growth opportunities.

During the third quarter of 2016, we announced the creation of GPG, which was designed to support the growth of multiple plumbing brands with an enhanced set of products and brands, while leveraging Moen's existing global supply chain and broad distribution network.

In September 2016, we acquired ROHL, a California-based luxury plumbing company and in a related transaction, we acquired TCL Manufacturing Ltd, which gave us ownership of Perrin & Rowe, a UK

manufacturer and designer of luxury kitchen and bathroom plumbing products. The total combined purchase price was approximately $166 million, subject to certain post-closing adjustments. We financed both acquisitions using cash on hand and borrowings under our existing credit facility. These transactions broadened the plumbing portfolio and enhanced future growth opportunities.

In June 2016, we amended and restated our credit agreement to combine and rollover the existing revolving credit facility and term loan into a new standalone $1.25 billion revolving credit facility. Terms and conditions of the credit agreement, including the total commitment amount, essentially remained the same. The revolving credit facility will mature in June 2021 and borrowings thereunder will be used for general corporate purposes.

In May 2016, we acquired Riobel, a Canadian plumbing company specializing in premium showroom bath and shower fittings, for a total purchase price of $94.6 million, subject to certain post-closing adjustments. We financed the transaction using cash on hand and borrowings under our existing credit facilities.

In September 2015, we completed the sale of Waterloo Industries, Inc. ("Waterloo"), our tool storage business which was included in our security segment for approximately $14 million in cash, subject to certain post-closing adjustments.

In June 2015, we issued $900 million of unsecured senior notes ("Senior Notes") in a registered public offering. We used the proceeds from the Senior Notes offering to pay down our revolving credit facility and for general purposes.

In May 2015, we acquired Norcraft Companies, Inc. ("Norcraft"), a leading publicly-owned manufacturer of kitchen and bathroom cabinetry, for a total purchase price of $648.6 million. We financed the transaction using cash on hand and borrowings under our existing credit facilities.

Basis of Presentation

The consolidated financial statements in this Annual Report on Form 10-K have been derived from the accounts of the Company and its wholly-owned subsidiaries. The Company's consolidated financial statements are based on a fiscal year ending December 31. Certain of the Company's subsidiaries operate on a 52 or 53 week fiscal year ending during the month of December. There were certain transactions that resulted in net cash outflows of $38 million and $49 million as of December 31, 2017 and 2016, respectively, relating to payments made to third parties in the normal course of business during the period between the year-end of our wholly-owned subsidiaries and the Company's year-end.

In October 2017, we acquired Victoria +Albert. In July 2017, we acquired Shaws. The financial results of both of the acquisitions were included in the Company's consolidated balance sheets as of December 31, 2017 and in the Company's consolidated statements of income and statements of cash flow beginning in October 2017 and July 2017, respectively. The results of operations are included in the Plumbing segment.

In September 2016, we acquired ROHL and in a related transaction, we acquired TCL Manufacturing Ltd., which gave us ownership of Perrin & Rowe and in May 2016, we acquired Riobel. The financial results of ROHL and Riobel were included in the Company's consolidated balance sheets as of December 31, 2016 and 2017 and in the Company's consolidated statements of income and statements of cash flow beginning in September 2016 and May 2016, respectively. The results of operations are included in the Plumbing segment.

In September 2015, we completed the sale of Waterloo. In accordance with Accounting Standards Codification ("ASC") requirements, the results of operations of Waterloo through the date of sale, were classified and separately stated as discontinued operations in the accompanying consolidated statements of income for 2015 and 2014. The assets and liabilities of Waterloo were classified as discontinued operations in the accompanying consolidated balance sheet as of December 31, 2014.

In May 2015, we acquired Norcraft. The financial results of Norcraft were included in the Company's consolidated statements of income and statements of cash flow beginning in May 2015 and the consolidated balance sheets as of December 31, 2015 and 2016.

The cash flows from discontinued operations for 2015 were not separately classified on the accompanying consolidated statements of cash flows. Information on Business Segments was revised to exclude these discontinued operations.

Results of Operations

The following discussion of both consolidated results of operations and segment results of operations refers to the year ended December 31, 2017 compared to the year ended December 31, 2016, and the year ended December 31, 2016 compared to the year ended December 31, 2015. The discussion of consolidated results of operations should be read in conjunction with the discussion of segment results of operations and our financial statements and notes thereto included in this Annual Report on Form 10-K. Unless otherwise noted, all discussion of results of operations are for continuing operations.

Years Ended December 31, 2017, 2016 and 2015

(In millions)	*2017*	*% change*	2016	% change	2015
Net Sales:					
Cabinets	$2,467.1	2.9%	$2,397.8	10.3%	$2,173.4
Plumbing	1,720.8	12.1	1,534.4	8.5	1,414.5
Doors	502.9	6.3	473.0	7.7	439.1
Security	592.5	2.2	579.7	4.9	552.4
Total Fortune Brands	$5,283.3	6.0%	$4,984.9	8.9%	$4,579.4
Operating Income:					
Cabinets	$ 267.2	3.6%	$ 257.8	34.0%	$ 192.4
Plumbing	363.6	11.4	326.3	14.3	285.4
Doors	74.5	20.4	61.9	40.7	44.0
Security	72.4	8.7	66.6	19.1	55.9
Corporate[a]	(85.6)	7.1	(79.9)	2.1	(81.6)
Total Fortune Brands	$ 692.1	9.4%	$ 632.7	27.5%	$ 496.1

[a] Corporate expenses include the components of defined benefit plan expense (income) other than service cost which totaled (income) expense of $(4.7) million, $(0.6) million, and $(3.6) million for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, Corporate expenses for the year ended December 31, 2015 includes $15.1 million of Norcraft transaction costs. There are no amounts that represent the elimination or reversal of transactions between reportable segments.

Certain items had a significant impact on our results in 2017, 2016 and 2015. These included the acquisitions of Victoria +Albert, Shaws, Riobel, ROHL, Perrin & Rowe and Norcraft, the disposition of Waterloo, defined benefit plan recognition of actuarial losses, restructuring and other charges, asset impairment charges and the impact of changes in foreign currency exchange rates.

In 2017, financial results included:

> the benefit of the acquisitions in our Plumbing segment,

> restructuring and other charges of $18.5 million before tax ($12.3 million after tax), primarily related to losses on disposal of inventory associated with exiting a product line in our Security segment and exiting a customer relationship in our Cabinets segment, as well as severance costs within our Security, Plumbing and Cabinets segments,

> impairment charge of $7.0 million pertaining to a cost method investment in a development stage home products company due to other-than-temporary decline in its fair value,

- the impact of foreign exchange primarily due to movement in the Canadian dollar, which had a favorable impact compared to 2016, of approximately $4 million on net sales, approximately $5 million on operating income and approximately $4 million on net income and
- an estimated net tax benefit of $25.7 million resulting from the enactment of the U.S. Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the “Tax Act”).

In 2016, financial results included:

- the benefit of the acquisitions in our Cabinets and Plumbing segments,
- defined benefit plan recognition of actuarial losses, recorded in the Corporate segment, of $1.9 million ($1.3 million after tax) compared to $2.5 million ($1.6 million after tax) in 2015. The actuarial losses in 2016 were primarily due to the re-measurement relating to a retiree medical plan,
- restructuring and other charges of $19.3 million before tax ($13.6 million after tax), primarily associated with severance costs and charges associated with the relocation of a manufacturing facility within our Security segment and
- the impact of foreign exchange primarily due to movement in the Canadian dollar, which had an unfavorable impact compared to 2015, of approximately $27 million on net sales, approximately $6 million on operating income and approximately $6 million on net income.

In 2015, financial results included:

- the benefit of the Norcraft, SentrySafe and Anaheim acquisitions,
- defined benefit plan recognition of actuarial losses, recorded in the Corporate segment, of $2.5 million ($1.6 million after tax) compared to $13.7 million ($8.7 million after tax) in 2014. The actuarial losses in 2015 were primarily due to the impact of a lower than expected increase in pension plan assets, partially offset by higher discount rates,
- restructuring and other charges of $22.7 million before tax ($15.8 million after tax), primarily associated with employee related costs,
- the impact of foreign exchange primarily due to movement in the Canadian dollar, which had an unfavorable impact compared to 2014, of approximately $66 million on net sales, approximately $16 million on operating income and approximately $10 million on net income and
- income from discontinued operations of $9.0 million, net of tax, which includes the after-tax gain associated with the sale of the Waterloo business.

2017 Compared to 2016

Total Fortune Brands

Net sales

Net sales increased $298.4 million, or 6.0%. The increase was due to higher sales volume primarily from the continuing improvement in U.S. market conditions for home products, new product introductions, the benefit from the acquisitions in our Plumbing segment and price increases to help mitigate cumulative raw material cost increases as well as the benefit from favorable foreign exchange of approximately $4 million. These benefits were partially offset by unfavorable mix, higher sales promotions, and sales rebates.

Cost of products sold

Cost of products sold increased $170.5 million, or 5.4%, due to higher net sales, including the impact of the acquisitions in our Plumbing segment and raw material cost increases, partially offset by the benefit of productivity improvements.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $64.9 million, or 5.7%, due to higher employee-related costs and advertising costs as well as the impact of the acquisitions in our Plumbing segment.

Amortization of intangible assets

Amortization of intangible assets increased $3.6 million primarily due to the acquisitions in our Plumbing segment, partially offset by a decrease relating to a definite-lived customer relationship intangible in our Doors segment that was fully amortized during the second quarter of 2017.

Loss on sale of product line

In April 2017, we completed the sale of Field ID, our cloud-based inspection and safety compliance software product line included in our Security segment. We recorded a pre-tax loss of $2.4 million as the result of this sale.

Asset impairment charges

Asset impairment charges of $3.2 million relate to our decision in the first quarter of 2017 to sell Field ID.

Restructuring charges

Restructuring charges of $8.3 million in 2017 primarily related to severance costs within our Security, Plumbing and Cabinets segments as well as charges associated with a plant relocation in our Cabinets segment. Restructuring charges of $13.9 million in 2016 primarily related to the severance costs and charges associated with the relocation of a manufacturing facility within our Security segment.

Operating income

Operating income increased $59.4 million or 9.4%. Operating income increased due to higher net sales, including the benefit from acquisitions in our Plumbing segment and productivity improvements. These benefits were partially offset by unfavorable mix, higher employee-related costs, raw material, labor inflation and advertising costs.

Interest expense

Interest expense of $49.4 million was $0.3 million higher as compared to last year primarily due to higher average interest rates which was partially offset by lower average borrowings and the absence of the write-off of debt issuance costs incurred in 2016.

Other (income) expense, net

Other (income) expense, net, was expense of $7.9 million in the twelve months ended December 31, 2017 compared to expense of $1.5 million in the twelve months ended December 31, 2016. The increase of $6.4 million was due to a $7.0 million impairment charge in 2017 pertaining to a cost method investment.

Income taxes

The effective income tax rates for 2017 and 2016 were 25.1% and 29.2% respectively. The 2017 effective income tax rate was favorably impacted by The Tax Cuts and Jobs Act of 2017, (the “Tax Act”).The effective income tax rates for 2017 and 2016 were favorably impacted by the tax benefit attributable to share-based compensation (ASU 2016-09) deduction ($23.9 million and $27.8 million, respectively), the Domestic Production Activity (Internal Revenue Code Section 199) deduction ($10.9 million and

$13.0 million, respectively) and favorable tax rates in foreign jurisdictions ($8.3 million and $7.6 million, respectively), offset by state and local taxes and increases to uncertain tax positions ($11.6 million and $13.2 million, respectively).

The Tax Act made significant changes to the U.S. Internal Revenue Code including a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, generally providing for an exemption from federal income tax for dividends received from foreign subsidiaries, and imposing a one-time transition tax on the deemed repatriation of cumulative foreign earnings and profits as of December 31, 2017. We have calculated our best estimate of the impact of the Tax Act on our 2017 effective income tax rate based upon available information, limited timing and our understanding of the Tax Act, as well as the facts and guidance available at our assessment date of January 22, 2018. The Company has recorded a provisional net benefit of $25.7 million related to the Tax Act in the fourth quarter of 2017, the period in which it was enacted. This provisional amount includes an estimated reduction in the Company's net deferred tax liabilities of $62.4 million resulting from the decrease in the federal income tax rate; an estimated deemed repatriation tax liability of $28.5 million; and an estimated net increase to our provision for taxes on foreign earnings not considered permanently reinvested of $8.2 million. The impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, refinement of calculations due to additional analysis, changes in interpretations, assumptions made and additional guidance that may be issued. Any subsequent adjustment, related to the aforementioned, will be recorded in current tax expense when such analysis is completed or such guidance is issued.

Income from continuing operations

Net income from continuing operations was $475.3 million in 2017 compared to $412.4 million in 2016. The increase of $62.9 million was primarily due to higher operating income.

(Loss) income from discontinued operations

The loss from discontinued operations of $2.6 million in 2017 primarily related to the prior sale of the Waterloo tool storage business and Simonton window businesses. The income from discontinued operations of $0.8 million in 2016 included the effect of tax adjustments relating to the Waterloo business.

Results By Segment

Cabinets

Net sales increased $69.3 million, or 2.9%, due to higher sales volume driven primarily by continuing improvement in the U.S. home products market and the benefit from new product introductions, price increases to help mitigate cumulative raw material cost increases and a $3 million benefit from favorable foreign exchange. These benefits were partially offset by unfavorable mix and higher sales promotions.

Operating income increased $9.4 million, or 3.6%, due to the increase in net sales and productivity improvements. These benefits were partially offset by unfavorable mix, higher employee-related costs, higher labor inflation and higher transportation costs.

Plumbing

Net sales increased $186.4 million, or 12.1%, due to higher sales volume driven by continuing improvement in the U.S. home products market and the benefit from new product introductions, higher sales in international markets, principally China, and the benefit from the acquisitions of Riobel, ROHL and Perrin & Rowe in 2016 as well as Shaws and Victoria +Albert in 2017. These benefits were partially offset by higher sales rebates.

Operating income increased $37.3 million, or 11.4%, due to higher net sales, productivity improvements and favorable mix as well as a $4 million benefit from favorable foreign exchange. These benefits were partially offset by employee-related costs, higher raw materials costs and higher advertising costs.

Doors

Net sales increased $29.9 million, or 6.3%, due to higher sales volume driven primarily by continuing improvement in the U.S. home products market and the benefit from new product introductions and price increases to help mitigate cumulative raw material cost increases.

Operating income increased $12.6 million, or 20.4%, due to higher net sales, the benefits from productivity improvements and leveraging sales on our existing fixed cost base.

Security

Net sales increased $12.8 million, or 2.2%, due to higher sales volume and price increases to help mitigate cumulative raw material cost increases. These benefits were partially offset by the impact of our exiting of two product lines in our commercial distribution channel.

Operating income increased $5.8 million, or 8.7%, primarily due to the higher net sales, the benefits from productivity improvements, lower restructuring and other charges (approximately $6 million) relating to the completion in 2016 of a manufacturing facility relocation, favorable foreign exchange and the related cost savings resulting from the facility relocation.

Corporate

Corporate expenses increased by $5.7 million mainly due to the impairment of a long lived asset and recognition of an actuarial gain versus an actuarial loss in 2016 and higher defined benefit plan income during 2017 compared to 2016.

(In millions)	*2017*	2016
General and administrative expense	$(90.3)	$(80.9)
Defined benefit plan income	4.2	2.9
Defined benefit plan recognition of actuarial gains (losses)	0.5	(1.9)
Total Corporate expenses	$(85.6)	$(79.9)

In future periods the Company may record, in the Corporate segment, material expense or income associated with actuarial gains and losses arising from periodic remeasurement of our liabilities for defined benefit plans. At a minimum the Company will remeasure its defined benefit plan liabilities in the fourth quarter of each year. Remeasurements due to plan amendments and settlements may also occur in interim periods during the year. Remeasurement of these liabilities attributable to updating our liability discount rates and expected return on assets may, in particular, result in material income or expense recognition.

2016 Compared to 2015

Total Fortune Brands

Net sales

Net sales increased $405.5 million, or 9%. The increase was due to higher sales volume primarily from the continuing improvement in U.S. market conditions for home products, the benefit from the acquisitions in our Cabinets and Plumbing segments and price increases to help mitigate cumulative raw material cost increases and the effect of unfavorable foreign exchange. These benefits were partially offset by unfavorable foreign exchange of approximately $27 million and higher sales rebates.

Cost of products sold

Cost of products sold increased $182.8 million, or 6%, due to higher net sales, including the impact of the acquisitions in our Cabinets and Plumbing segments, partially offset by the benefit of productivity improvements.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $82.3 million, or 8%, due to the impact of the acquisitions in our Cabinets and Plumbing segments and higher employee-related costs, partially offset by the absence of Norcraft transaction costs in 2016 ($15.1 million in 2015).

Amortization of intangible assets

Amortization of intangible assets increased $6.5 million due to the recognition of certain intangible assets from the acquisitions in our Cabinets and Plumbing segment.

Restructuring charges

Restructuring charges of $13.9 million in 2016 primarily related to severance costs and charges associated with the relocation of a manufacturing facility within our Security segment. Restructuring charges of $16.6 million in 2015 primarily related to the same relocation of a manufacturing facility, including severance costs within our Security segment as well as severance costs to relocate a Plumbing manufacturing facility in China.

Operating income

Operating income increased $136.6 million or 28%. Operating income increased due to higher net sales, including the benefit from acquisitions and productivity improvements. These benefits were partially offset by higher employee-related costs, higher advertising costs and higher sales rebates and approximately $6 million of unfavorable foreign exchange. Operating income in 2015 was also impacted by $15.1 million of Norcraft transaction costs, which did not recur in 2016.

Interest expense

Interest expense increased $17.2 million to $49.1 million due to higher average borrowings and higher average interest rates.

Other expense, net

Other expense, net, was expense of $1.5 million in 2016 compared to expense of $4.3 million in 2015. The change was principally due to favorable foreign currency adjustments.

Income taxes

The effective income tax rates for 2016 and 2015 were 29.2% and 33.4%, respectively. The effective income tax rates for 2016 and 2015 were favorably impacted by the tax benefit attributable to the Domestic Production Activity (Internal Revenue Code Section 199) Deduction ($13.0 million and $12.5 million, respectively) and favorable tax rates in foreign jurisdictions ($7.6 million and $8.7 million, respectively), offset by state and local taxes and increases to uncertain tax positions ($13.2 million and $4.7 million, respectively). The 2016 effective income tax rate was favorably impacted by a tax benefit related to the adoption of ASU 2016-09, the new accounting guidance relating to share-based compensation ($27.8 million). The 2015 effective income tax rate was unfavorably impacted by $2.4 million related to nondeductible acquisition costs.

Income from continuing operations

Net income from continuing operations was $412.4 million in 2016 compared to $306.5 million in 2015 due to higher operating income.

Income (loss) from discontinued operations

Income from discontinued operations was $0.8 million and $9.0 million in 2016 and 2015, respectively. The discontinued operations in 2016 includes the effect of tax adjustments relating to the Waterloo business. The discontinued operations in 2015 consist of the results of operations of Waterloo and the after-tax gain associated with the sale of the business.

Results By Segment

Cabinets

Net sales increased $224.4 million, or 10%, due to the benefit of the Norcraft acquisition, the benefit of price increases to help mitigate cumulative raw material cost increases and higher sales volume including the impact of new product introductions. These benefits were partially offset by approximately $6 million of unfavorable foreign exchange.

Operating income increased $65.4 million, or 34%, due to higher net sales including the benefit of the Norcraft acquisition and productivity improvements. These benefits were partially offset by higher employee-related costs.

Plumbing

Net sales increased $119.9 million, or 8%, due to higher sales volume in the U.S. driven by improving U.S. market conditions and new product introductions, the benefit from the acquisitions of Riobel, ROHL and Perrin & Rowe and price increases to help mitigate cumulative raw material cost increases and the effect of unfavorable foreign exchange. These benefits were partially offset by higher sales rebates and approximately $18 million of unfavorable foreign exchange.

Operating income increased $40.9 million, or 14%, due to higher net sales including the benefits of the acquisitions of Riobel, ROHL and Perrin & Rowe, as well as productivity improvements. These benefits were partially offset by higher employee-related costs, higher advertising costs and approximately $7 million of unfavorable foreign exchange. Operating income in 2016 was also favorably impacted by lower restructuring and other charges ($4.0 million impact) primarily related to severance costs to relocate a facility in China.

Doors

Net sales increased $33.9 million, or 8%, due to higher sales volume driven primarily by improved conditions in the U.S. home products market, new product introductions, price increases to help mitigate cumulative raw material cost increases and favorable mix.

Operating income increased $17.9 million, or 41%, due to higher net sales, the benefits of productivity improvements and approximately $2 million of favorable foreign exchange. These benefits were partially offset by higher employee related costs.

Security

Net sales increased $27.3 million, or 5%, due primarily to higher sales volume in the U.S. and Europe and price increases to help mitigate cumulative raw material cost increases. These benefits were partially offset by the impact of exiting certain product lines and approximately $3 million of unfavorable foreign exchange.

Operating income increased $10.7 million, or 19% due to higher net sales and the benefits of productivity improvements. These benefits were partially offset by the impact of approximately $3 million of unfavorable foreign exchange.

Corporate

Corporate expenses in 2016 benefited from the absence of transaction costs associated with the Norcraft acquisition ($15.1 million in 2015). This benefit was offset by higher employee-related costs and lower defined benefit plan income.

(In millions)	*2016*	2015
General and administrative expense	$(80.9)	$(70.1)
Defined benefit plan income	2.9	6.1
Defined benefit plan recognition of actuarial losses	(1.9)	(2.5)
Norcraft transaction costs[a]	—	(15.1)
Total Corporate expenses	$(79.9)	$(81.6)

[a] Represents external costs directly related to the acquisition of Norcraft and primarily includes expenditures for banking, legal, accounting and other similar services.

In future periods the Company may record, in the Corporate segment, material expense or income associated with actuarial gains and losses arising from periodic remeasurement of our liabilities for defined benefit plans. At a minimum the Company will remeasure its defined benefit plan liabilities in the fourth quarter of each year. Remeasurements due to plan amendments and settlements may also occur in interim periods during the year. Remeasurement of these liabilities attributable to updating our liability discount rates and expected return on assets may, in particular, result in material income or expense recognition.

Liquidity and Capital Resources

Our primary liquidity needs are to support working capital requirements, fund capital expenditures and service indebtedness, as well as to finance acquisitions, repurchase shares of our common stock and pay dividends to stockholders, as deemed appropriate. Our principal sources of liquidity are cash on hand, cash flows from operating activities, availability under our credit facility and debt issuances in the capital markets. Our operating income is generated by our subsidiaries. There are no restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Fortune Brands. In December 2017, our Board of Directors increased the quarterly cash dividend by 11% to $0.20 per share of our common stock. Our Board of Directors will continue to evaluate dividend payment opportunities on a quarterly basis. There can be no assurance as to when and if future dividends will be paid, and at what level, because the payment of dividends is dependent on our financial condition, results of operations, cash flows, capital requirements and other factors deemed relevant by our Board of Directors.

We periodically review our portfolio of brands and evaluate potential strategic transactions to increase shareholder value. However, we cannot predict whether or when we may enter into acquisitions, joint ventures or dispositions, make any purchases of shares of our common stock under our share repurchase program, or pay dividends, or what impact any such transactions could have on our results of operations, cash flows or financial condition, whether as a result of the issuance of debt or equity securities, or otherwise. Our cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section “Item 1A. Risk Factors.”

In June 2016, the Company amended and restated its credit agreement to combine and rollover the existing revolving credit facility and term loan into a new standalone $1.25 billion revolving credit facility. This amendment and restatement of the credit agreement was a non-cash transaction for the Company. Terms and conditions of the credit agreement, including the total commitment amount, essentially remained the same as under the 2011 credit agreement. The revolving credit facility will mature in June 2021 and borrowings thereunder will be used for general corporate purposes. On December 31, 2017 and December 31, 2016, our outstanding borrowings under these facilities were $615.0 million and $540.0 million, respectively. At December 31, 2017 and December 31, 2016, the current portion of long-term debt was zero. Interest rates under the facility are variable based on LIBOR at the time of the

borrowing and the Company's long-term credit rating and can range from LIBOR + 0.9% to LIBOR + 1.5%. As of December 31, 2017, we were in compliance with all covenants under this facility. As a result of the refinancing, we wrote off prepaid debt issuance costs of approximately $1.3 million as of June 30, 2016. We retrospectively adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," on January 1, 2016, resulting in the reclassification of approximately $3 million of debt issuance costs from other current assets and other assets to long-term debt as of December 31, 2015. Adoption of this guidance did not impact the Company's equity, results of operations or cash flows.

On December 8, 2017, our Board of Directors authorized the repurchase of up to $250 million of shares of our common stock over the two years ending December 8, 2019. As of December 31, 2017, total remaining available share repurchase authorization was $558.4 million which included amounts pursuant to the Board of Directors authorization on February 16, 2016 for the repurchase of up to $400.0 million of our common stock over the two years ended February 16, 2018. The share repurchase programs do not obligate us to repurchase any specific dollar amount or number of shares and may be suspended or discontinued at any time. In 2017, we repurchased 3.4 million shares of our outstanding common stock under the Company's share repurchase programs for $214.8 million.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to $23.5 million and $25.7 million in aggregate as of December 31, 2017 and 2016, respectively, of which zero were outstanding, as of December 31, 2017 and 2016. The weighted-average interest rates on these borrowings were zero, 1.5% and 1.0% in 2017, 2016 and 2015 respectively.

Acquisitions and divestitures in 2017, 2016 and 2015 include:

> In October 2017, the Company acquired Victoria + Albert, a UK manufacturer of luxury freestanding tubs and basins. In July 2017, we acquired Shaws, a UK-based luxury plumbing products company that specializes in manufacturing and selling fireclay sinks. The combined purchase price was approximately $125 million, net of cash acquired and deferred acquisition payments and subject to certain post-closing adjustments. The results of operations of the acquired companies are included in the Plumbing segment from the date of acquisitions. We financed the transactions using cash on hand and borrowings under our existing credit facility.

> In September 2016, we acquired ROHL, a California-based luxury plumbing company. We also acquired Perrin & Rowe, a UK manufacturer and designer of luxury kitchen and bathroom plumbing products. The total combined purchase price was approximately $166 million, subject to certain post-closing adjustments. We financed the transaction using cash on hand and borrowings under our existing credit facility.

> In May 2016, we acquired Riobel, a Canadian plumbing company for a purchase price of $94.6 million in cash, subject to certain post-closing adjustments. We financed the transaction using cash on hand and borrowings under our existing credit facilities.

> In September 2015, we completed the sale of the Waterloo tool storage business for approximately $14 million in cash, subject to certain post-closing adjustments.

> In May 2015, we acquired Norcraft, a leading manufacturer of kitchen and bathroom cabinetry, for a purchase price of $648.6 million. We financed this transaction using cash on hand and borrowings under our existing credit facility.

In 2017, we invested approximately $40 million in incremental capacity to support long-term growth potential. We expect capital spending in 2018 to be in the range of $150 to $160 million.

On December 31, 2017, we had cash and cash equivalents of $323.0 million, of which $260.5 million was held at non-U.S. subsidiaries. We manage our global cash requirements considering (i) available funds among the subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-U.S. cash balances from certain subsidiaries could have adverse tax consequences as we may be required to pay and record tax expense on those funds that are repatriated.

Our operating cash flows are significantly impacted by the seasonality of our businesses. We typically generate most of our operating cash flow in the third and fourth quarters of each year.

In June 2015, we issued $900 million of Senior Notes in a registered public offering. The Senior Notes consist of two tranches: $400 million of five-year notes due 2020 with a coupon of 3% and $500 million of ten-year notes due 2025 with a coupon of 4%. We used the proceeds from the Senior Notes offering to pay down our revolving credit facility and for general corporate purposes. On December 31, 2017, the outstanding amount of the Senior Notes, net of underwriting commissions and price discounts, was $892.6 million.

Cash Flows

Below is a summary of cash flows for the years ended December 31, 2017, 2016 and 2015.

(In millions)	*2017*	2016	2015
Net cash provided by operating activities	$ 600.3	$ 650.5	$ 429.2
Net cash used in investing activities	(287.7)	(385.1)	(766.6)
Net cash (used in) provided by financing activities	(250.1)	(250.4)	398.8
Effect of foreign exchange rate changes on cash	9.0	(2.0)	(14.8)
Net increase in cash and cash equivalents	$ 71.5	$ 13.0	$ 46.6

Net cash provided by operating activities was $600.3 million in 2017 compared to $650.5 million in 2016 and $429.2 million in 2015. The $50.2 million decrease in cash provided by operating activities from 2017 to 2016 was primarily due to higher build in working capital, primarily driven by higher inventory purchases in 2017, partially offset by a higher net income. The $221.3 million increase in cash provided by operating activities from 2015 to 2016 was primarily due to a reduction in working capital in 2016 compared to 2015 and higher net income.

Net cash used in investing activities was $287.7 million in 2017 compared to $385.1 million in 2016 and $766.6 million in 2015. The decrease of $97.4 million from 2016 to 2017 was primarily due lower cost of acquisitions of $115.1 million, partially offset by $15.7 million of higher capital expenditures. The decrease of $381.5 million from 2015 to 2016 was primarily due the decrease in cost of acquisitions of $413.1 million, partially offset by $20.8 million of higher capital spending.

Net cash used in financing activities was $250.1 million in 2017 compared to net cash used in financing activities of $250.4 million in 2016 and net cash provided by in financing activities of $398.8 million in 2015. The change of $649.2 million in 2016 compared to 2015 was primarily due to $372.8 million of higher share repurchases and lower net borrowings of $240.8 million.

Pension Plans

Subsidiaries of Fortune Brands sponsor their respective defined benefit pension plans that are funded by a portfolio of investments maintained within our benefit plan trust. In 2017, 2016 and 2015, we contributed $28.4 million, zero and $2.3 million, respectively, to qualified pension plans. In 2018, we expect to make pension contributions of approximately $12.8 million. As of December 31, 2017, the fair value of our total pension plan assets was $656.6 million, representing funding of 79% of the accumulated benefit obligation liability. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by the Pension Protection Act of 2006.

Foreign Exchange

We have operations in various foreign countries, principally Canada, China, Mexico, the United Kingdom, France, Australia and Japan. Therefore, changes in the value of the related currencies affect our financial statements when translated into U.S. dollars.

Contractual Obligations and Other Commercial Commitments

The following table describes our obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees, as of December 31, 2017.

(In millions)	Payments Due by Period as of December 31, 2017				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$1,507.6	$ —	$398.3	$615.0	$494.3
Interest payments on long-term debt[a]	238.0	49.0	91.0	48.0	50.0
Operating leases	158.2	31.0	47.6	28.9	50.7
Purchase obligations[b]	397.3	371.3	21.1	2.9	2.0
Deferred acquisition payments[c]	33.0	13.7	19.3	—	—
Defined benefit plan contributions[d]	12.9	12.9	—	—	—
Total	$2,347.0	$477.9	$577.3	$694.8	$597.0

[a] Interest payments on long-term debt were calculated using the borrowing rate in effect on December 31, 2017.

[b] Purchase obligations include contracts for raw material and finished goods purchases; selling and administrative services; and capital expenditures.

[c] In addition to deferred acquisition payments relating to Victoria + Albert and Shaws, the acquisition of Victoria + Albert includes certain payments up to $9.6 million that are contingent on continued employment for one year after the acquisition date.

[d] Pension and postretirement contributions cannot be determined beyond 2018.

Due to the uncertainty of the timing of settlement with taxing authorities, we are unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits. Therefore, $87.5 million of unrecognized tax benefits as of December 31, 2017 have been excluded from the Contractual Obligations table above. In addition, we are still evaluating our options regarding the timing of the payment of the deemed repatriation tax liability resulting from the Tax Act. Therefore we have excluded the provisional $28.5 million deemed repatriation tax liability from the Contractual Obligations table above. See Note 15, "Income Taxes," to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

In addition to the contractual obligations and commitments listed and described above, we also had other commercial commitments for which we are contingently liable as of December 31, 2017. Other corporate commercial commitments include standby letters of credit of $42.9 million, in the aggregate, all of which expire in less than one year, and surety bonds of $5.1 million, of which $5.0 million matures in less than 1 year and $0.1 million matures in 1-3 years. These contingent commitments are not expected to have a significant impact on our liquidity.

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements that are material or reasonably likely to be material to our financial condition or results of operations.

Foreign Currency Risk

Certain anticipated transactions, assets and liabilities are exposed to foreign currency risk. Principal currencies hedged include the Canadian dollar, the Mexican peso and the Chinese yuan. We regularly monitor our foreign currency exposures in order to maximize the overall effectiveness of our foreign currency hedge positions. For additional information on this risk, see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in this Annual Report on Form 10-K.

Derivative Financial Instruments

In accordance with ASC requirements for Derivatives and Hedging, we recognize all derivative contracts as either assets or liabilities on the balance sheet, and the measurement of those instruments is at fair

value. If the derivative is designated as a fair value hedge and is effective, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the consolidated statement of income when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is designated as an effective economic hedge of the net investment in a foreign operation, the changes in the fair value of the derivative is reported in the cumulative translation adjustment section of OCI. Similar to foreign currency translation adjustments, these changes in fair value are recognized in earnings only when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity.

Deferred currency gains/(losses) of $0.4 million, (3.5) million and $3.6 million (before tax impact) were reclassified into earnings for the year ended December 31, 2017, 2016 and 2015, respectively. Based on foreign exchange rates as of December 31, 2017, we estimate that $3.0 million of net currency derivative losses included in OCI as of December 31, 2017 will be reclassified to earnings within the next twelve months.

Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which clarifies the accounting for revenue arising from contracts with customers and specifies the disclosures that an entity should include in its financial statements. The standard is effective for annual reporting periods beginning after December 15, 2017 (calendar year 2018 for Fortune Brands). During 2016, the FASB issued certain amendments to the standard relating to the principal versus agent guidance, accounting for licenses of intellectual property and identifying performance obligations as well as the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The effective date and transition requirements for these amendments are the same as those of the original ASU. Our key considerations pursuant to ASU 2014-09 during the assessment period were the control of goods (i.e., timing of revenue recognition), separate performance obligations and customer rights of return (i.e., the reclassification on the balance sheet of the customer rights of return from accounts receivable to a refund liability as well as the recognition of a corresponding asset). We will adopt the new standard using the modified retrospective method beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize almost all leases on their balance sheet as a "right-of-use" asset and lease liability but recognize related expenses in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions for all entities. The standard is effective for annual periods beginning after December 15, 2018 (calendar year 2019 for Fortune Brands) and earlier application is permitted. We are assessing the impact the adoption of this standard will have on our financial statements.

Clarifying Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In May 2017, the FASB issued ASU 2017-05 that clarifies the scope and application of various standards for the sale of nonfinancial assets (e.g. PP&E including real estate, intangible assets, materials and supplies). The standard distinguishes between a sale to customer vs non-customer. Sales to customers are in scope of the new revenue standard. It also clarifies a derecognition model for nonfinancial assets that do not represent a business. We will adopt the new standard beginning January 1, 2018 consistent with the effective date for the new revenue recognition standard. The adoption of this standard will not have a material effect on our financial statements.

Stock Compensation Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance provides a relief to entities that make non-substantive changes to their share-based payment awards and will result in fewer changes to the terms of an award being accounted for as modifications. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Presentation of Net Periodic Pension and Postretirement Cost

In March 2017, the FASB issued ASU 2017-07, which requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Companies will present the other components (i.e., amortization of prior service cost/credits, interest cost, expected return on plan assets and actuarial gains/losses) separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. We will retrospectively adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business and therefore business combination guidance would apply. The new standard requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset (i.e., a business) or a group of similar identifiable assets (i.e., not a business). The guidance also requires a business to include at least one substantive process and narrows the definition of outputs (e.g., revenues with customers). We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, according to which entities are no longer required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The prior standard did not address the classification of activity related to restricted cash and restricted cash equivalents in the statement of cash flows and this has resulted in diversity in cash flows presentation. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU 2016-16, which requires companies to account for the income tax effects of intercompany sales and transfers of assets other than inventory (e.g., intangible assets) when the transfer occurs. Under the current guidance companies are required to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized (e.g., depreciated, amortized or impaired). We will adopt the new standard beginning January 1, 2018 using a “modified retrospective” (i.e., with a cumulative adjustment to retained earnings at adoption). The adoption of this standard will not have a material effect on our financial statements.

Classification of Certain Cash Receipts and Cash Payments

In September 2016 the FASB issued ASU 2016-15, which changes how an entity classifies certain cash receipts and cash payments on its statement of cash flows. The key changes that may potentially impact

our financial statements include the following: 1) Cash payments for debt prepayment or extinguishment costs would be classified as financing cash outflows; 2) Contingent consideration payments that are not made within three months after the consummation of a business combination would be classified as financing (if the payment is made up to the acquisition date fair value of liability) or operating outflows (if in excess of acquisition fair value). Cash payments made "soon after" the consummation of a business combination generally would be classified as cash outflows for investing activities; 3) Insurance settlement proceeds would be classified based on the nature of the loss; and 4) Company-owned life insurance settlement proceeds would be presented as investing cash inflows, and premiums would be classified as investing or operating cash outflows, or a combination of both. We will retrospectively adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, which requires entities to measure investments in unconsolidated entities (other than those accounted for using the equity method of accounting) at fair value through the income statement. There will no longer be an available-for-sale classification (with changes in fair value reported in Other Comprehensive Income). In addition, the cost method is eliminated for equity investments without readily determinable fair values. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 that amends current hedge accounting model. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item (which is consistent with our current practice). The change in fair value for qualifying cash flow and net investment hedges will be included in Other comprehensive income (until they are reclassified into the income statement). The standard also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The standard is effective as of January 1, 2019 and earlier application is permitted. We are assessing the impact the adoption of this standard will have on our financial statements.

Financial Instruments — Credit Losses

In June 2016, the FASB issued ASU 2016-13, which changes the impairment model for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance applies to most financial assets measured at amortized cost, including trade and other receivables and loans as well as off-balance-sheet credit exposures (e.g., loan commitments and standby letters of credit). The standard will replace the "incurred loss" approach under the current guidance with an "expected loss" model that requires an entity to estimate its lifetime "expected credit loss." The standard is effective January 1, 2020 and early application is permitted beginning January 1, 2019. We are assessing the impact the adoption of this standard will have on our financial statements.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2, "Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. The Consolidated Financial Statements are prepared in conformity with GAAP. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities reflected in the financial statements and revenues and expenses reported for the relevant reporting periods. We believe the policies discussed below are the Company's critical accounting policies as they include the more significant, subjective and complex judgments and estimates made when preparing our consolidated financial statements.

Allowances for Doubtful Accounts

Trade receivables are recorded at the stated amount, less allowances for discounts, doubtful accounts and returns. The allowances for doubtful accounts represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers' potential insolvency) or discounts related to early payment of accounts receivables by our customers. The allowances include provisions for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for customer defaults on a general formula basis when it is determined that the risk of some default is probable and estimable, but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical collection experience and existing economic conditions. In accordance with this policy, our allowance for doubtful accounts was $3.3 million and $7.4 million as of December 31, 2017 and 2016, respectively.

Inventories

Inventory provisions are recorded to reduce inventory to the lower of cost or market value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage and specific identification of items, such as product discontinuance, engineering/material changes, or regulatory-related changes. In accordance with this policy, our inventory provision was $45.0 million and $36.4 million as of December 31, 2017 and 2016, respectively.

Long-lived Assets

In accordance with ASC requirements for Property, Plant and Equipment, a long-lived asset (including amortizable identifiable intangible assets) or asset group held for use is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

Goodwill and Indefinite-lived Intangible Assets

In accordance with ASC requirements for Intangibles — Goodwill and Other, goodwill is tested for impairment at least annually in the fourth quarter, and written down when impaired. An interim impairment test is performed if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

We evaluate the recoverability of goodwill using a weighting of the income (80%) and market (20%) approaches. For the income approach, we use a discounted cash flow model, estimating the future cash flows of the reporting units to which the goodwill relates and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital. In determining the estimated future cash flows, we consider current and projected future levels of income based on management's plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. Furthermore, our cash flow projections used to assess impairment of our goodwill and other intangible assets are significantly influenced by our projection for the continued recovery of the U.S. home products market, our annual operating plans finalized in the fourth quarter of each year, and our ability to execute on various planned cost reduction initiatives supporting operating income improvements. Our projection for the U.S. home products market is inherently uncertain and is subject to a number of factors, such as employment, home prices, credit availability, new home starts and the rate of home foreclosures.

For the market approach, we apply market multiples for peer groups to the current operating results of the reporting units to determine each reporting unit's fair value. The Company's reporting units are operating segments. When the estimated fair value of a reporting unit is less than its carrying value, we measure and recognize the amount of the goodwill impairment loss based on that difference, if any.

The significant assumptions that are used to determine the estimated fair value for goodwill impairment testing include the following: third-party market forecasts of U.S. new home starts and home repair and remodel spending; management's sales, profit and cash flow forecasts; peer company EBITDA earnings multiples; the market-participant-based weighted-average cost of capital; and the perpetuity growth rate. Our estimates of reporting unit fair values are based on certain assumptions that may differ from our historical and future actual operating performance. Specifically, assumptions related to growth in the new construction and repair and remodel segments of the U.S. home products markets drive our forecasted sales growth. The market forecasts are developed using independent third-party forecasts from multiple sources. In addition, estimated future profit margins and cash flow consider our historical performance at similar levels of sales volume and management's future operating plans as reflected in annual and long-term plans that are reviewed and approved by management.

Purchased intangible assets other than goodwill are amortized over their useful lives unless those lives are determined to be indefinite. The determination of the useful life of an intangible asset other than goodwill is based on factors including historical and tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, customer attrition rates, and other relevant factors. Certain of our tradenames have been assigned an indefinite life as we currently anticipate that these tradenames will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at least annually to determine whether the indefinite useful life is appropriate. We review indefinite-lived intangible assets for impairment annually in the fourth quarter, and whenever market or business events indicate there may be a potential impairment of that intangible. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. The significant assumptions that are used to determine the estimated fair value for indefinite-lived intangible asset testing are third-party market forecasts of U.S. new home starts and home repair and remodel spending; management's sales and profit margin forecasts; the market-participant weighted-average cost of capital; and the perpetuity growth rate. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. We measure fair value of our indefinite-lived tradenames using the standard relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party over the remaining useful life. We first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors include changes in volume, customers and the industry. If it is deemed more likely than not that an intangible asset is impaired, we will perform a quantitative impairment test.

In 2017, 2016 and 2015, we did not record any asset impairment charges in operating income associated with goodwill or indefinite-lived intangible assets. As of December 31, 2017, the fair value of two tradenames in the Cabinets segment exceeded their carrying values by less than 10%. Accordingly, a reduction in the estimated fair value of these tradenames could trigger an impairment. As of December 31, 2017, the total carrying value of these tradenames was $217.8 million.

Defined Benefit Plans

We have a number of pension plans in the United States, covering many of the Company's employees. In addition, the Company provides postretirement health care and life insurance benefits to certain retirees. Service cost for 2017 relates to benefit accruals in an hourly Union defined benefit plan in our Security segment. Benefit accruals under all other defined benefit pension plans were frozen as of December 31, 2016.

We recognize changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10 percent of the greater of the fair value of pension plan assets or each plan's projected benefit obligation (the "corridor") in earnings immediately upon remeasurement, which is at least annually in the fourth quarter of each year. Net actuarial gains and losses occur when actual experience differs from any of the assumptions used to value defined benefit plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value obligations as of the measurement date and the differences between expected and actual returns on pension plan assets. This accounting method results in the potential for volatile and difficult to forecast gains and losses. The pre-tax recognition of actuarial (gains) losses was $(0.5) million, $1.9 million and $2.5 million in 2017, 2016 and 2015, respectively. The total net actuarial losses in accumulated other comprehensive income for all defined benefit plans were $67.4 million as of December 31, 2017, compared to $73.4 million as of December 31, 2016.

We record amounts relating to these defined benefit plans based on various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. We believe that the assumptions utilized in recording our obligations under our plans are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect our financial condition or results of operations. The expected return on plan assets is determined based on the nature of the plans' investments, our current asset allocation and our expectations for long-term rates of return. The weighted-average long-term expected rate of return on pension plan assets for the years ended December 31, 2017 and 2016 was 6.4% and 6.6%, respectively. Compensation increases reflect expected future compensation trends. The discount rate used to measure obligations is based on a spot-rate yield curve on a plan-by-plan basis that matches projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The bond portfolio used for the selection of the discount rate is from the top quartile of bonds rated by nationally recognized statistical rating organizations, and includes only non-callable bonds and those that are deemed to be sufficiently marketable with a Moody's credit rating of Aa or higher. The weighted-average discount rate for defined benefit liabilities as of December 31, 2017 and 2016 was 3.8% and 4.3%, respectively.

For postretirement benefits, our health care trend rate assumption is based on historical cost increases and expectations for long-term increases. As of December 31, 2017, for postretirement medical and prescription drugs in the next year, our assumption was an assumed rate of increase of 7.1% for pre-65 retirees and 8.4% for post-65 retirees, declining until reaching an ultimate assumed rate of increase of 4.5% per year in 2026. As of December 31, 2016, for postretirement medical and prescription drugs in the next year, our assumption was an assumed rate of increase of 7.3% for pre-65 retirees and 8.2% for post-65 retirees, declining until reaching an ultimate assumed rate of increase of 4.5% per year in 2026.

Below is a table showing pre-tax pension and postretirement expenses, including the impact of actuarial gains and losses:

(In millions)	*2017*	2016	2015
Total pension expense	$(2.5)	$ 6.8	$ 8.0
Actuarial loss component of expense above	0.9	—	2.9
Total postretirement income	(6.5)	(11.3)	(13.2)
Actuarial (gain) loss component of expense above	(1.4)	1.9	(0.4)
Amortization of prior service credit component of expense above	(5.1)	(13.5)	(13.5)

The actuarial gains in 2017 were principally due to normal re-measurement of prior year defined benefit plan liabilities. The actuarial losses in 2016 were principally due to the re-measurement relating to a retiree medical plan. The actuarial losses in 2015 were due to lower asset returns, partially offset by higher

discount rates. Discount rates in 2017 used to determine benefit obligations decreased by an average of 50 basis points for pension benefits. Discount rates for postretirement benefits remained the same in 2017. Discount rates in 2016 used to determine benefit obligations decreased by an average of 30 basis points for pension benefits and an average of 70 basis points for postretirement benefits. Discount rates in 2015 used to determine benefit obligations increased by an average of 40 basis points for pension benefits and an average of 50 basis points for postretirement benefits. The changes in discount rates was due to changes in interest rates for the bond portfolio that comprises our spot-rate yield curve. Our spot-rate yield curve is based on high quality bond interest rates. Our actual return on plan assets in 2017 was 16.3% compared to an actuarial assumption of an average 6.4% expected return. Our actual return on plan assets in 2016 was 10.0% compared to an actuarial assumption of an average 6.6% expected return. Significant actuarial losses in future periods would be expected if discount rates decline, actual returns on plan assets are lower than our expected return, or a combination of both occurs.

A 25 basis point change in our discount rate assumption would lead to an increase or decrease in our pension and postretirement liability of approximately $27 million. A 25 basis point change in the long-term rate of return on plan assets used in accounting for our pension plans would have a $1.6 million impact on pension expense. In addition, if required, actuarial gains and losses will be recorded in accordance with our defined benefit plan accounting method as previously described. It is not possible to forecast or predict whether there will be actuarial gains and losses in future periods, and if required, the magnitude of any such adjustment. These gains and losses are driven by differences in actual experience or changes in the assumptions that are beyond our control, such as changes in interest rates and the actual return on pension plan assets.

Income Taxes

In accordance with ASC requirements for Income Taxes, we establish deferred tax liabilities or assets for temporary differences between financial and tax reporting bases and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, no tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to change the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recorded in the consolidated statement of income and consolidated balance sheet in the period in which such changes occur. As of December 31, 2017, we had liabilities for unrecognized tax benefits pertaining to uncertain tax positions totaling $87.5 million. It is reasonably possible that the unrecognized tax benefits may decrease in the range of $1.5 million to $21.5 million in the next 12 months primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued regarding the application of U.S. GAAP to situations where a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, we have calculated and included our best estimate of the impact of the Tax Act in our year end income tax provision. In accordance with our understanding of the Tax Act and guidance available, a provisional net tax benefit of $25.7 million was recorded in the fourth quarter of 2017. This provisional amount includes a tax benefit of $62.4 million due to the remeasurement of the Company’s net deferred tax liabilities, tax expense on

deemed repatriation of foreign earnings of $28.5 million and tax expense of $8.2 million on foreign earnings not considered permanently reinvested. The impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, refinement of calculations due to additional analysis, changes in interpretations, assumptions made and additional guidance that may be issued. Any subsequent adjustment, related to the aforementioned, will be recorded in current tax expense when such analysis is completed or such guidance is issued.

Customer Program Costs

Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are accounted for in either "net sales" or the category "selling, general and administrative expenses" at the time the program is initiated and/or the revenue is recognized. The costs are predominantly recognized in "net sales" and include, but are not limited to, volume allowances and rebates, promotional allowances, and cooperative advertising programs. These costs are recorded at the later of the time of sale or the implementation of the program based on management's best estimates. Estimates are based on historical and projected experience for each type of program or customer. Volume allowances are accrued based on management's estimates of customer volume achievement and other factors incorporated into customer agreements, such as new products, store sell-through, merchandising support, levels of returns and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations). The costs typically recognized in "selling, general and administrative expenses" include product displays, point of sale materials and media production costs.

Litigation Contingencies

Our businesses are subject to risks related to threatened or pending litigation and are routinely defendants in lawsuits associated with the normal conduct of business. Liabilities and costs associated with litigation-related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation-related losses when a loss is probable and we can reasonably estimate the amount of the loss in accordance with ASC requirements for Contingencies. We evaluate the measurement of recorded liabilities each reporting period based on the then-current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation-related loss contingencies may differ materially from the estimated liability recorded at any particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur.

Environmental Matters

We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties ("PRPs") under "Superfund" or similar state laws. As of December 31, 2017, eleven such instances have not been dismissed, settled or otherwise resolved. In 2017, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have a material adverse effect on our results of operations,

cash flows or financial condition. At December 31, 2017 and 2016, we had accruals of $0.7 million and $1.0 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We enter into financial instruments to manage and reduce the impact of changes in foreign currency exchange rates and commodity prices. The counterparties are major financial institutions.

Interest Rate Risk

A hypothetical 100 basis point change in interest rates affecting the Company's external variable rate borrowings as of December 31, 2017, would be $6.2 million on a pre-tax basis.

Foreign Exchange Rate Risk

We enter into forward foreign exchange contracts principally to hedge currency fluctuations in transactions denominated in certain foreign currencies, thereby limiting our risk that would otherwise result from changes in exchange rates. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions.

The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

The estimated potential loss under foreign exchange contracts from movement in foreign exchange rates would not have a material impact on our results of operations, cash flows or financial condition. As part of our risk management procedure, we use a value-at-risk ("VAR") sensitivity analysis model to estimate the maximum potential economic loss from adverse changes in foreign exchange rates over a one-day period given a 95% confidence level. The VAR model uses historical foreign exchange rates to estimate the volatility and correlation of these rates in future periods. The estimated maximum one-day loss in the fair value of the Company's foreign currency exchange contracts using the VAR model was $1.0 million at December 31, 2017. The 95% confidence interval signifies our degree of confidence that actual losses under foreign exchange contracts would not exceed the estimated losses. The amounts disregard the possibility that foreign currency exchange rates could move in our favor. The VAR model assumes that all movements in the foreign exchange rates will be adverse. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets. The VAR model is a risk analysis tool and should not be construed as an endorsement of the VAR model or the accuracy of the related assumptions.

Commodity Price Risk

We are subject to commodity price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. From time to time, we use derivative contracts to manage our exposure to commodity price volatility.

Item 8. Financial Statements and Supplementary Data.

Consolidated Statements of Income

Fortune Brands Home & Security, Inc. and Subsidiaries

	For years ended December 31		
(In millions, except per share amounts)	*2017*	2016	2015
NET SALES	$5,283.3	$4,984.9	$4,579.4
Cost of products sold	3,350.8	3,180.3	2,997.5
Selling, general and administrative expenses	1,194.8	1,129.9	1,047.6
Amortization of intangible assets	31.7	28.1	21.6
Loss on sale of product line (see Note 4)	2.4	—	—
Asset impairment charges	3.2	—	—
Restructuring charges	8.3	13.9	16.6
OPERATING INCOME	692.1	632.7	496.1
Interest expense	49.4	49.1	31.9
Other expense, net	7.9	1.5	4.3
Income from continuing operations before income taxes	634.8	582.1	459.9
Income taxes	159.5	169.7	153.4
Income from continuing operations, net of tax	475.3	412.4	306.5
(Loss) income from discontinued operations, net of tax	(2.6)	0.8	9.0
NET INCOME	472.7	413.2	315.5
Less: Noncontrolling interests	0.1	—	0.5
NET INCOME ATTRIBUTABLE TO FORTUNE BRANDS	$ 472.6	$ 413.2	$ 315.0
BASIC EARNINGS (LOSS) PER COMMON SHARE			
Continuing operations	$ 3.10	$ 2.67	$ 1.92
Discontinuing operations	(0.02)	0.01	0.05
Net income attributable to Fortune Brands common shareholders	$ 3.08	$ 2.68	$ 1.97
DILUTED EARNINGS (LOSS) PER COMMON SHARE			
Continuing operations	$ 3.05	$ 2.61	$ 1.88
Discontinuing operations	(0.02)	0.01	0.05
Net income attributable to Fortune Brands common shareholders	$ 3.03	$ 2.62	$ 1.93
Basic average number of shares outstanding	153.2	154.3	159.5
Diluted average number of shares outstanding	155.8	157.8	163.0
Dividends declared per common share	$ 0.74	$ 0.66	$ 0.58

See Notes to Consolidated Financial Statements.

	For years ended December 31		
(In millions)	*2017*	2016	2015
NET INCOME	$472.7	$413.2	$315.5
Other comprehensive (loss) income, before tax:			
Foreign currency translation adjustments	33.8	(14.7)	(44.3)
Unrealized (losses) gains on derivatives:			
Unrealized holding (losses) gains arising during period	(1.8)	(6.7)	6.8
Less: reclassification adjustment for losses (gains) included in net income	(0.9)	3.5	(3.6)
Unrealized (losses) gains on derivatives	(2.7)	(3.2)	3.2
Defined benefit plans:			
Prior service credit (cost) arising during period	—	12.1	(0.1)
Prior service credit (cost) recognition due to settlement and curtailment	—	0.1	(1.0)
Net actuarial gain (loss) arising during period	6.2	(1.9)	6.3
Less: amortization of prior service credit included in net periodic pension cost	(5.1)	(13.5)	(13.4)
Defined benefit plans	1.1	(3.2)	(8.2)
Other comprehensive income (loss), before tax	32.2	(21.1)	(49.3)
Income tax benefit (expense) related to items of other comprehensive income[(a)]	0.5	1.7	3.5
Other comprehensive income (loss), net of tax	32.7	(19.4)	(45.8)
COMPREHENSIVE INCOME	505.4	393.8	269.7
Less: comprehensive income attributable to noncontrolling interest	—	—	0.5
COMPREHENSIVE INCOME ATTRIBUTABLE TO FORTUNE BRANDS	$505.4	$393.8	$269.2

(a) Income tax benefit (expense) on unrealized (losses) gains on derivatives of $0.9 million, $0.5 million and $(0.5) million and on defined benefit plans of $(0.4) million, $1.2 million and $4.0 million in 2017, 2016 and 2015, respectively.

See Notes to Consolidated Financial Statements.

(In millions)	December 31 *2017*	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 323.0	$ 251.5
Accounts receivable less allowances for discounts, doubtful accounts and returns	555.3	550.7
Inventories	580.8	531.1
Other current assets	142.6	111.9
TOTAL CURRENT ASSETS	1,601.7	1,445.2
Property, plant and equipment, net of accumulated depreciation	740.0	662.5
Goodwill	1,912.0	1,833.8
Other intangible assets, net of accumulated amortization	1,162.4	1,107.0
Other assets	95.3	80.0
TOTAL ASSETS	$ 5,511.4	$ 5,128.5
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	428.8	393.8
Other current liabilities	478.0	449.0
TOTAL CURRENT LIABILITIES	906.8	842.8
Long-term debt	1,507.6	1,431.1
Deferred income taxes	166.8	163.5
Accrued defined benefit plans	175.9	216.2
Other non-current liabilities	153.2	111.9
TOTAL LIABILITIES	2,910.3	2,765.5
Commitments (Note 17) and Contingencies (Note 22)		
Equity		
Common stock[(a)]	1.7	1.7
Paid-in capital	2,724.9	2,653.8
Accumulated other comprehensive loss	(39.2)	(71.9)
Retained earnings	1,174.2	814.6
Treasury stock	(1,262.1)	(1,036.7)
TOTAL FORTUNE BRANDS EQUITY	2,599.5	2,361.5
Noncontrolling interests	1.6	1.5
TOTAL EQUITY	2,601.1	2,363.0
TOTAL LIABILITIES AND EQUITY	$ 5,511.4	$ 5,128.5

(a) Common stock, par value $0.01 per share, 179.8 million shares and 177.7 million shares issued at December 31, 2017 and 2016, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	For years ended December 31		
(In millions)	*2017*	2016	2015
OPERATING ACTIVITIES			
Net income	$ 472.7	$ 413.2	$ 315.5
Non-cash expense (income):			
Depreciation	98.6	94.6	93.5
Amortization of intangibles	31.7	28.1	21.6
Stock-based compensation	43.0	32.0	27.6
Restructuring charges	—	(0.1)	1.0
Loss (gain) on sale of property, plant and equipment	0.9	1.2	(0.5)
Loss on sale of product line	2.4	—	—
Loss on sale of discontinued operation	—	—	16.7
Asset impairment charges	15.3	—	—
Recognition of actuarial (gains) losses	(0.5)	1.9	8.6
Deferred taxes	(18.7)	(25.8)	(13.6)
Amortization of deferred financing costs	2.0	3.6	0.6
Changes in assets and liabilities including effects subsequent to acquisitions:			
Decrease (increase) in accounts receivable	1.0	(39.1)	(6.9)
(Increase) decrease in inventories	(24.8)	52.4	(69.8)
Increase (decrease) in accounts payable	24.0	57.6	(16.0)
(Increase) decrease in other assets	(28.3)	10.7	(24.4)
(Decrease) increase in accrued taxes	(24.4)	0.3	6.7
Increase in accrued expenses and other liabilities	5.4	19.9	68.6
NET CASH PROVIDED BY OPERATING ACTIVITIES	600.3	650.5	429.2
INVESTING ACTIVITIES			
Capital expenditures[a]	(165.0)	(149.3)	(128.5)
Proceeds from the disposition of assets	0.4	3.9	2.5
Proceeds from sale of product line	1.5	—	—
Proceeds from sale of discontinued operation	—	—	12.2
Cost of acquisitions, net of cash acquired	(124.6)	(239.7)	(652.8)
NET CASH USED IN INVESTING ACTIVITIES	(287.7)	(385.1)	(766.6)
FINANCING ACTIVITIES			
(Decrease) increase in short-term debt	—	(1.1)	0.8
Issuance of long-term debt	640.0	1,065.0	1,748.9
Repayment of long-term debt	(565.0)	(805.0)	(1,250.0)
Proceeds from the exercise of stock options	28.5	25.5	28.9
Excess tax benefit from the exercise of stock-based compensation	—	—	30.7
Employee withholding taxes paid related to stock-based compensation	(10.6)	(10.1)	(18.1)
Deferred acquisition payments	(17.9)	—	—
Dividends to stockholders	(110.3)	(98.2)	(89.5)
Treasury stock purchases	(214.8)	(424.5)	(51.7)
Other financing activities, net	—	(2.0)	(1.2)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(250.1)	(250.4)	398.8
Effect of foreign exchange rate changes on cash	9.0	(2.0)	(14.8)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 71.5	$ 13.0	$ 46.6
Cash and cash equivalents at beginning of year	$ 251.5	$ 238.5	$ 191.9
Cash and cash equivalents at end of year	$ 323.0	$ 251.5	$ 238.5
Cash paid during the year for:			
Interest	$ 44.4	$ 43.7	$ 26.0
Income taxes paid directly to taxing authorities	169.7	172.1	102.2
Income taxes (received from) paid to Fortune Brands, Inc.	—	(0.6)	2.0
Dividends declared but not paid	30.4	27.6	25.6

[a] Capital expenditures of $17.2 million, $11.9 million and $20.0 million that have not been paid as of December 31, 2017, 2016 and 2015, respectively, were excluded from the Statement of Cash Flows.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Equity

(In millions)	Common Stock	Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2014	$1.7	$2,517.3	$ (6.7)	$ 279.5	$ (532.3)	$3.6	$2,263.1
Comprehensive income:							
Net income	—	—	—	315.0	—	0.5	315.5
Other comprehensive (loss) income	—	—	(45.8)	—	—	—	(45.8)
Stock options exercised	—	28.9	—	—	—	—	28.9
Stock-based compensation	—	27.6	—	—	(18.1)	—	9.5
Tax benefit on exercise of stock options	—	28.4	—	—	—	—	28.4
Treasury stock purchase	—	—	—	—	(51.7)	—	(51.7)
Dividends ($0.58 per Common share)	—	—	—	(92.9)	—	—	(92.9)
Dividends paid to noncontrolling interests	—	—	—	—	—	(1.2)	(1.2)
Balance at December 31, 2015	$1.7	$2,602.2	$(52.5)	$ 501.6	$ (602.1)	$2.9	$2,453.8
Comprehensive income:							
Net income	—	—	—	413.2	—	—	413.2
Other comprehensive (loss) income	—	—	(19.4)	—	—	—	(19.4)
Stock options exercised	—	25.5	—	—	—	—	25.5
Stock-based compensation	—	32.0	—	—	(10.1)	—	21.9
Treasury stock purchase	—	—	—	—	(424.5)	—	(424.5)
Dividends ($0.66 per Common share)	—	—	—	(100.2)	—	—	(100.2)
Dividends paid to noncontrolling interests	—	—	—	—	—	(1.4)	(1.4)
Other (See Note 10)	—	(5.9)	—	—	—	—	(5.9)
Balance at December 31, 2016	$1.7	$2,653.8	$(71.9)	$ 814.6	$(1,036.7)	$1.5	$2,363.0
Comprehensive income:							
Net income	—	—	—	472.6	—	0.1	472.7
Other comprehensive income (loss)	—	—	32.7	—	—	—	32.7
Stock options exercised	—	28.5	—	—	—	—	28.5
Stock-based compensation	—	42.6	—	—	(10.6)	—	32.0
Treasury stock purchase	—	—	—	—	(214.8)	—	(214.8)
Dividends ($0.74 per Common share)	—	—	—	(113.0)	—	—	(113.0)
Balance at December 31, 2017	$1.7	$2,724.9	$(39.2)	$1,174.2	$(1,262.1)	$1.6	$2,601.1

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Background and Basis of Presentation

The Company is a leading home and security products company with a portfolio of leading branded products used for residential home repair, remodeling, new construction and security applications. References to (i) "Fortune Brands," "the Company," "we," "our" and "us" refer to Fortune Brands Home & Security, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

Basis of Presentation The consolidated financial statements in this Annual Report on Form 10-K have been derived from the accounts of the Company and its wholly-owned subsidiaries. The Company's consolidated financial statements are based on a fiscal year ending December 31. Certain of the Company's subsidiaries operate on a 52 or 53 week fiscal year ending during the month of December. In December 2017 and 2016, there were certain transactions that resulted in approximately $38 million and $49 million of net cash outflows, respectively, relating to payments made to third parties in the normal course of business during the period between the year-end of our wholly-owned subsidiaries and the Company's year-end.

In October 2017, we acquired Victoria +Albert, a UK-based premium brand of standalone bathtubs, sink, tub fillers, faucets and other accessories. In July 2017, we acquired Shaws Since1897 Limited ("Shaws"), a UK-based luxury plumbing products company that specializes in manufacturing and selling fireclay sinks and selling brassware and accessories in partnership with Perrin & Rowe. The financial results of both of the acquisitions were included in the Company's consolidated balance sheets as of December 31, 2017 and in the Company's consolidated statements of income and statements of cash flow beginning in October 2017 and July 2017, respectively.

In September 2016, we acquired ROHL LLC ("ROHL") and in a related transaction, we acquired TCL Manufacturing which gave us ownership of Perrin & Rowe Limited ("Perrin & Rowe"), and in May 2016, we acquired Riobel Inc ("Riobel"). The financial results of ROHL, Perrin & Rowe and Riobel were included in the Company's consolidated balance sheets as of December 31, 2017 and 2016, and in the Company's consolidated statements of income and statements of cash flow beginning in September 2016 and May 2016, respectively.

In September 2015, we completed the sale of Waterloo Industries, Inc. ("Waterloo"). In accordance with Accounting Standards Codification ("ASC") requirements, the results of operations of Waterloo through the date of sale, were classified and separately stated as discontinued operations in the accompanying consolidated statements of income for 2015.

In May 2015, we acquired Norcraft Companies, Inc. ("Norcraft"). The financial results of Norcraft were included in the Company's consolidated statements of income and statements of cash flow beginning in May 2015 and the consolidated balance sheets as of December 31, 2017 and 2016.

The cash flows from discontinued operations for 2017, 2016 and 2015 were not separately classified on the accompanying consolidated statements of cash flows. Information on Business Segments was revised to exclude these discontinued operations.

2. Significant Accounting Policies

Use of Estimates The presentation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results in future periods could differ from those estimates.

Cash and Cash Equivalents Highly liquid investments with an original maturity of three months or less are included in cash and cash equivalents.

Allowances for Doubtful Accounts Trade receivables are recorded at the stated amount, less allowances for discounts, doubtful accounts and returns. The allowances for doubtful accounts represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers' potential insolvency), or discounts related to early payment of accounts receivables by our customers. The allowances include provisions for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for customer defaults on a general formula basis when it is determined the risk of some default is probable and estimable, but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical collection experience and existing economic conditions. In accordance with this policy, our allowance for doubtful accounts was $3.3 million and $7.4 million as of December 31, 2017 and 2016, respectively.

Inventories The majority of our inventories are accounted for using the first-in, first-out inventory method. Inventory provisions are recorded to reduce inventory to the lower of cost or market value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage and specific identification of items, such as product discontinuance, engineering/material changes, or regulatory-related changes.

We also use the last-in, first-out ("LIFO") inventory method in those product groups in which metals inventories comprise a significant portion of our inventories. LIFO inventories at December 31, 2017 and 2016 were $245.6 million (with a current cost of $259.3 million) and $235.5 million (with a current cost of $244.4 million), respectively.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Depreciation is provided, principally on a straight-line basis, over the estimated useful lives of the assets. Gains or losses resulting from dispositions are included in operating income. Betterments and renewals, which improve and extend the life of an asset, are capitalized; maintenance and repair costs are expensed as incurred. Assets held for use to be disposed of at a future date are depreciated over the remaining useful life. Assets to be sold are written down to fair value at the time the assets are being actively marketed for sale. Estimated useful lives of the related assets are as follows:

Buildings and leasehold improvements	15 to 40 years
Machinery and equipment	3 to 10 years
Software	3 to 7 years

Long-lived Assets In accordance with ASC requirements for Property, Plant and Equipment, a long-lived asset (including amortizable identifiable intangible assets) or asset group held for use is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of the long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

During 2017, we recorded an impairment of $5.1 million related to a long lived asset to be disposed of in selling, general and administrative expenses.

Goodwill and Indefinite-lived Intangible Assets In accordance with ASC requirements for Intangibles — Goodwill and Other, goodwill is tested for impairment at least annually in the fourth quarter, and written down when impaired. An interim impairment test is performed if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

We evaluate the recoverability of goodwill using a weighting of the income (80%) and market (20%) approaches. For the income approach, we use a discounted cash flow model, estimating the future cash flows of the reporting units to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital. In determining the estimated future cash flows, we consider current and projected future levels of income based on management's plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. Furthermore, our projection for the U.S. home products market is inherently subject to a number of uncertain factors, such as employment, home prices, credit availability, new home starts and the rate of home foreclosures. For the market approach, we apply market multiples for peer groups to the current operating results of the reporting units to determine each reporting unit's fair value. The Company's reporting units are operating segments. When the estimated fair value of a reporting unit is less than its carrying value, we measure and recognize the amount of the goodwill impairment loss based on that difference, if any.

Purchased intangible assets other than goodwill are amortized over their useful lives unless those lives are determined to be indefinite. The determination of the useful life of an intangible asset other than goodwill is based on factors including historical and tradename performance with respect to consumer name recognition, geographic market presence, market share, and plans for ongoing tradename support and promotion. Certain of our tradenames have been assigned an indefinite life as we currently anticipate that these tradenames will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at least annually to determine whether the indefinite useful life is appropriate. We review indefinite-lived intangible assets for impairment annually in the fourth quarter, and whenever market or business events indicate there may be a potential impairment of that intangible asset. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. We measure fair value using the standard relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party over the remaining useful life. We first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors include changes in volume, customers and the industry. If it is deemed more likely than not that an intangible asset is impaired, we will perform a quantitative impairment test.

The events and/or circumstances that could have a potential negative effect on the estimated fair value of our reporting units and indefinite-lived tradenames include: actual new construction and repair and remodel growth rates that lag our assumptions, actions of key customers, volatility of discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending and a decrease in royalty rates. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived intangible assets.

Defined Benefit Plans We have a number of pension plans in the United States, covering many of the Company's employees. In addition, the Company provides postretirement health care and life insurance benefits to certain retirees. Service cost for 2017 relates to benefit accruals in an hourly Union defined benefit plan in our Security segment. Benefit accruals under all other defined benefit pension plans were frozen as of December 31, 2016.

We record amounts relating to these plans based on calculations in accordance with ASC requirements for Compensation — Retirement Benefits, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We recognize changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10 percent of the greater of the fair value of pension plan assets or each plan's projected benefit obligation (the "corridor") in earnings immediately upon remeasurement, which is at least annually in the fourth quarter of each year. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. The discount rate used to measure obligations is based on a spot-rate yield curve on a plan-by-plan basis that matches

projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The expected rate of return on plan assets is determined based on the nature of the plans' investments, our current asset allocation and our expectations for long-term rates of return. Compensation increases reflect expected future compensation trends. For postretirement benefits, our health care trend rate assumption is based on historical cost increases and expectations for long-term increases. The cost or benefit of plan changes, such as increasing or decreasing benefits for prior employee service (prior service cost), is deferred and included in expense on a straight-line basis over the average remaining service period of the related employees. We believe that the assumptions utilized in recording obligations under our plans, which are presented in Note 14, "Defined Benefit Plans," are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect our financial position and results of operations. We will continue to monitor these assumptions as market conditions warrant.

Insurance Reserves We provide for expenses associated with workers' compensation and product liability obligations when such amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability.

Litigation Contingencies Our businesses are subject to risks related to threatened or pending litigation and are routinely defendants in lawsuits associated with the normal conduct of business. Liabilities and costs associated with litigation-related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation-related losses when a loss is probable and we can reasonably estimate the amount of the loss in accordance with ASC requirements for Contingencies. We evaluate the measurement of recorded liabilities each reporting period based on the then-current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation-related loss contingencies may differ materially from the estimated liability recorded at any particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur.

Income Taxes

In accordance with ASC requirements for Income Taxes, we establish deferred tax liabilities or assets for temporary differences between financial and tax reporting bases and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, no tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to change the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recorded in the consolidated statement of income and consolidated balance sheet in the period in which such changes occur. As of December 31, 2017, we had liabilities for unrecognized tax benefits pertaining to uncertain tax positions totaling $87.5 million. It is reasonably possible that the unrecognized tax benefits may decrease in the range of $1.5 million to $21.5 million in the next 12 months primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued regarding the application of U.S. GAAP to situations where a registrant does not have the necessary information

available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the "Tax Act"). In accordance with SAB 118, we have calculated and included our best estimate of the impact of the Tax Act in our year end income tax provision. In accordance with our understanding of the Tax Act and guidance available, a provisional net tax benefit of $25.7 million was recorded in the fourth quarter of 2017. This provisional amount includes a tax benefit of $62.4 million due to the remeasurement of the Company's net deferred tax liabilities, tax expense on deemed repatriation of foreign earnings of $28.5 million and tax expense of $8.2 million on foreign earnings not considered permanently reinvested. The impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, refinement of calculations due to additional analysis, changes in interpretations, assumptions made and additional guidance that may be issued. Any subsequent adjustment, related to the aforementioned, will be recorded in current tax expense when such analysis is completed or such guidance is issued.

Revenue Recognition Revenue is recorded when persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. Revenue is recorded net of applicable provisions for discounts, returns and allowances. We record estimates for reductions to revenue for customer programs and incentives, including price discounts, volume-based incentives, promotions and cooperative advertising when revenue is recognized. Sales returns are based on historical returns, current trends and forecasts of product demand.

Cost of Products Sold Cost of products sold includes all costs to make products saleable, such as labor costs, inbound freight, purchasing and receiving costs, inspection costs and internal transfer costs. In addition, all depreciation expense associated with assets used to manufacture products and make them saleable is included in cost of products sold.

Customer Program Costs Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are accounted for in either "net sales" or the category "selling, general and administrative expenses" at the time the program is initiated and/or the revenue is recognized. The costs are predominantly recognized in "net sales" and include, but are not limited to, volume allowances and rebates, promotional allowances, and cooperative advertising programs. These costs are recorded at the later of the time of sale or the implementation of the program based on management's best estimates. Estimates are based on historical and projected experience for each type of program or customer. Volume allowances are accrued based on management's estimates of customer volume achievement and other factors incorporated into customer agreements, such as new product purchases, store sell-through, merchandising support, levels of returns and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations). The costs typically recognized in "selling, general and administrative expenses" include product displays, point of sale materials and media production costs. The costs included in the "selling, general and administrative expenses" category were $62.4 million, $44.1 million and $43.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Selling, General and Administrative Expenses Selling, general and administrative expenses include advertising costs; marketing costs; selling costs, including commissions; research and development costs; shipping and handling costs, including warehousing costs; and general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses were $204.7 million, $197.0 million and $184.6 million in 2017, 2016 and 2015, respectively.

Advertising costs, which amounted to $233.2 million, $199.1 million and $195.4 million in 2017, 2016 and 2015, respectively, are principally expensed as incurred. Advertising costs include product displays, marketing administration costs, media production costs and point of sale materials. Advertising costs recorded as a reduction to net sales, primarily cooperative advertising, were $65.6 million, $52.5 million

and $63.2 million in 2017, 2016 and 2015, respectively. Advertising costs recorded in selling, general and administrative expenses were $167.6 million, $146.6 million and $132.2 million in 2017, 2016 and 2015, respectively.

Research and development expenses include product development, product improvement, product engineering and process improvement costs. Research and development expenses, which were $50.7 million, $53.1 million and $48.7 million in 2017, 2016 and 2015, respectively, are expensed as incurred.

Stock-based Compensation Stock-based compensation expense, measured as the fair value of an award on the date of grant, is recognized in the financial statements over the period that an employee is required to provide services in exchange for the award. The fair value of each option award is measured on the date of grant using the Black-Scholes option-pricing model. The fair value of each performance share award is based on the average of the high and low share prices on the date of grant and the probability of meeting performance targets. The fair value of each restricted stock unit granted is equal to the average of the high and low share prices on the date of grant. See Note 13, "Stock-Based Compensation," for additional information.

Earnings Per Share Earnings per common share is calculated by dividing net income attributable to Fortune Brands by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share include the impact of all potentially dilutive securities outstanding during the year. See Note 20, "Earnings Per Share," for further discussion.

Foreign Currency Translation Foreign currency balance sheet accounts are translated into U.S. dollars at the actual rates of exchange at the balance sheet date. Income and expenses are translated at the average rates of exchange in effect during the period for the foreign subsidiaries where the local currency is the functional currency. The related translation adjustments are made directly to a separate component of the "accumulated other comprehensive income" ("AOCI") caption in equity. Transactions denominated in a currency other than the functional currency of a subsidiary are translated into functional currency with resulting transaction gains or losses recorded in other expense, net.

Derivative Financial Instruments In accordance with ASC requirements for Derivatives and Hedging, all derivatives are recognized as either assets or liabilities on the balance sheet and measurement of those instruments is at fair value. If the derivative is designated as a fair value hedge and is highly effective, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded directly to a separate component of AOCI, and are recognized in the consolidated statement of income when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Deferred currency gains/(losses) of $0.4 million, $(3.5) million and $3.6 million (before tax impact) were reclassified into earnings for the year ended December 31, 2017, 2016 and 2015, respectively. Based on foreign exchange rates as of December 31, 2017, we estimate that $3.0 million of net currency derivative losses included in AOCI as of December 31, 2017 will be reclassified to earnings within the next twelve months.

Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which clarifies the accounting for revenue arising from contracts with customers and specifies the disclosures that an entity should include in its financial statements. The standard is effective for annual reporting periods beginning after December 15, 2017 (calendar year 2018 for Fortune Brands).

During 2016, the FASB issued certain amendments to the standard relating to the principal versus agent guidance, accounting for licenses of intellectual property and identifying performance obligations as well as the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The effective date and transition requirements for these amendments are the same as those of the original ASU. Our key considerations pursuant to ASU 2014-09 during the assessment period were the control of goods (i.e., timing of revenue recognition), separate performance obligations and customer rights of return (i.e., the reclassification on the balance sheet of the customer rights of return from accounts receivable to a refund liability as well as the recognition of a corresponding asset). We will adopt the new standard using the modified retrospective method beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize almost all leases on their balance sheet as a "right-of-use" asset and lease liability but recognize related expenses in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions for all entities. The standard is effective for annual periods beginning after December 15, 2018 (calendar year 2019 for Fortune Brands) and earlier application is permitted. We are assessing the impact the adoption of this standard will have on our financial statements.

Clarifying Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In May 2017, the FASB issued ASU 2017-05 that clarifies the scope and application of various standards for the sale of nonfinancial assets (e.g. PP&E including real estate, intangible assets, materials and supplies). The standard distinguishes between a sale to customer vs non-customer. Sales to customers are in scope of the new revenue standard. It also clarifies a derecognition model for nonfinancial assets that do not represent a business. We will adopt the new standard beginning January 1, 2018 consistent with the effective date for the new revenue recognition standard. The adoption of the standard will not have a material effect on our financial statements.

Stock Compensation Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance provides a relief to entities that make non-substantive changes to their share-based payment awards and will result in fewer changes to the terms of an award being accounted for as modifications. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Presentation of Net Periodic Pension and Postretirement Cost

In March 2017, the FASB issued ASU 2017-07, which requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Companies will present the other components (i.e., amortization of prior service cost/credits, interest cost, expected return on plan assets and actuarial gains/losses) separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. We will retrospectively adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business and therefore business

combination guidance would apply. The new standard requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset (i.e., a business) or a group of similar identifiable assets (i.e., not a business). The guidance also requires a business to include at least one substantive process and narrows the definition of outputs (e.g., revenues with customers). We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, according to which entities are no longer required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The prior standard did not address the classification of activity related to restricted cash and restricted cash equivalents in the statement of cash flows and this has resulted in diversity in cash flows presentation. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU 2016-16, which requires companies to account for the income tax effects of intercompany sales and transfers of assets other than inventory (e.g., intangible assets) when the transfer occurs. Under the current guidance companies are required to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized (e.g., depreciated, amortized or impaired). We will adopt the new standard beginning January 1, 2018 using a “modified retrospective” (i.e., with a cumulative adjustment to retained earnings at adoption). The adoption of this standard will not have a material effect on our financial statements.

Classification of Certain Cash Receipts and Cash Payments

In September 2016 the FASB issued ASU 2016-15, which changes how an entity classifies certain cash receipts and cash payments on its statement of cash flows. The key changes that may potentially impact our financial statements include the following: 1) Cash payments for debt prepayment or extinguishment costs would be classified as financing cash outflows; 2) Contingent consideration payments that are not made within three months after the consummation of a business combination would be classified as financing (if the payment is made up to the acquisition date fair value of liability) or operating outflows (if in excess of acquisition fair value). Cash payments made “soon after” the consummation of a business combination generally would be classified as cash outflows for investing activities; 3) Insurance settlement proceeds would be classified based on the nature of the loss; and 4) Company-owned life insurance settlement proceeds would be presented as investing cash inflows, and premiums would be classified as investing or operating cash outflows, or a combination of both. We will retrospectively adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, which requires entities to measure investments in unconsolidated entities (other than those accounted for using the equity method of accounting) at fair value through the income statement. There will no longer be an available-for-sale classification (with changes in fair value reported in Other Comprehensive Income). In addition, the cost method is eliminated for equity investments without readily determinable fair values. We will adopt the new standard beginning January 1, 2018. The adoption of this standard will not have a material effect on our financial statements.

Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 that amends current hedge accounting model. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally

requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item (which is consistent with our current practice). The change in fair value for qualifying cash flow and net investment hedges will be included in Other comprehensive income (until they are reclassified into the income statement). The standard also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The standard is effective as of January 1, 2019 and earlier application is permitted. We are assessing the impact the adoption of this standard will have on our financial statements.

Financial Instruments — Credit Losses

In June 2016, the FASB issued ASU 2016-13, which changes the impairment model for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance applies to most financial assets measured at amortized cost, including trade and other receivables and loans as well as off-balance-sheet credit exposures (e.g., loan commitments and standby letters of credit). The standard will replace the "incurred loss" approach under the current guidance with an "expected loss" model that requires an entity to estimate its lifetime "expected credit loss." The standard is effective January 1, 2020 and early application is permitted beginning January 1, 2019. We are assessing the impact the adoption of this standard will have on our financial statements.

3. Balance Sheet Information

Supplemental information on our year-end consolidated balance sheets is as follows:

(In millions)	*2017*	2016
Inventories:		
Raw materials and supplies	$ 224.9	$ 207.6
Work in process	58.3	55.9
Finished products	297.6	267.6
Total inventories	$ 580.8	$ 531.1
Property, plant and equipment:		
Land and improvements	$ 58.7	$ 57.0
Buildings and improvements to leaseholds	464.1	429.4
Machinery and equipment	1,167.5	1,079.8
Construction in progress	90.1	64.5
Property, plant and equipment, gross	1,780.4	1,630.7
Less: accumulated depreciation	1,040.4	968.2
Property, plant and equipment, net of accumulated depreciation	$ 740.0	$ 662.5
Other current liabilities:		
Accrued salaries, wages and other compensation	$ 105.9	$ 112.6
Accrued customer programs	142.8	129.3
Accrued taxes	61.4	46.3
Dividends payable	30.4	27.6
Other accrued expenses	137.5	133.2
Total other current liabilities	$ 478.0	$ 449.0

4. Acquisitions and Dispositions

In October 2017, we acquired Victoria + Albert, a UK manufacturer of luxury freestanding tubs and basins. In July 2017, we acquired Shaws, a UK-based luxury plumbing products company that specializes in manufacturing and selling fireclay sinks and selling brassware and accessories in partnership with Perrin &

Rowe. The total combined purchase price was approximately $125 million, net of cash acquired and deferred acquisition payments and subject to certain post-closing adjustments. Net sales and operating income in the twelve months ended December 31, 2017 from these acquisitions were not material to the Company. We financed the transactions using cash on hand and borrowings under our existing credit facility. The results of the operations are included in the Plumbing segment from the date of acquisition. We do not expect any portion of goodwill to be deductible for income tax purposes.

In April 2017, we completed the sale of Field ID, our cloud-based inspection and safety compliance software product line included in our Security segment. We recorded a pre-tax loss of $2.4 million and a pre-tax impairment charge to write down the long-lived assets included in this disposal group to fair value of $3.2 million as a result of this sale (See Note 7). The estimated tax expense on the sale was insignificant. Field ID did not qualify for presentation as a discontinued operation in our financial statements.

In September 2016, we acquired ROHL, a California-based luxury plumbing company. In a related transaction, we also acquired Perrin & Rowe, a UK manufacturer and designer of luxury kitchen and bathroom plumbing products. The total combined purchase price was approximately $166 million (including $3 million of liabilities assumed), subject to certain post-closing adjustments. We financed the transaction using cash on hand and borrowings under our existing credit facility. Net sales and operating income in the twelve months ended December 31, 2016 were not material to the Company. The results of operations are included in the Plumbing segment. The goodwill expected to be deductible for income tax purposes is approximately $49 million.

In May 2016, we acquired Riobel, a Canadian plumbing company specializing in premium showroom bath and shower fittings, for a total purchase price of $94.6 million in cash, subject to certain post-closing adjustments. We financed the transaction using cash on hand and borrowings under our existing credit facility. Net sales and operating income in the twelve months ended December 31, 2016 were not material to the Company. The results of operations are included in the Plumbing segment. We do not expect any portion of goodwill to be deductible for income tax purposes.

5. Discontinued Operations

In 2015, we completed the sale of Waterloo for approximately $14 million in cash, subject to certain post-closing adjustments. We recorded a pre-tax loss of $16.9 million as the result of this sale. Transaction and other sale-related costs were approximately $2.8 million. The estimated tax benefit on the sale was $26.5 million with the after-tax gain of $7.0 million recorded within discontinued operations. The estimated tax benefit resulted primarily from a tax loss in excess of the financial reporting loss as a result of prior period nondeductible asset impairments. Waterloo is presented as a discontinued operation in our financial statements beginning January 1, 2014 and through the date of sale in accordance with ASC 205 requirements. Prior to classifying Waterloo as a discontinued operation, it was reported in the Security segment.

In the twelve months ended December 31, 2017, the loss on discontinued operations is primarily related to the prior sale of the Waterloo tool storage and Simonton window businesses.

6. Goodwill and Identifiable Intangible Assets

We had goodwill of $1,912.0 million and $1,833.8 million as of December 31, 2017 and 2016, respectively. The increase of $78.2 million was primarily due to the acquisitions of Shaws and Victoria + Albert . The change in the net carrying amount of goodwill by segment was as follows:

(In millions)	Cabinets	Plumbing	Doors	Security	Total Goodwill
Balance at December 31, 2015[(a)]	$937.7	$578.6	$143.0	$96.0	$1,755.3
2016 translation adjustments	0.8	(2.3)	—	0.3	(1.2)
Acquisition-related adjustments	(14.2)	93.9	—	—	79.7
Balance at December 31, 2016[(a)]	$924.3	$670.2	$143.0	$96.3	$1,833.8
2017 translation adjustments	2.0	3.3	—	1.2	6.5
Acquisition-related adjustments	—	71.7	—	—	71.7
Balance at December 31, 2017[(a)]	$926.3	$745.2	$143.0	$97.5	$1,912.0

(a) Net of accumulated impairment losses of $399.5 million in the Doors segment.

We also had identifiable intangible assets, principally tradenames, of $1,162.4 million and $1,107.0 million as of December 31, 2017 and 2016, respectively. The $88.2 million increase in gross identifiable intangible assets was primarily due to acquisition-related adjustments in our Plumbing segment (See Note 4) as well as foreign translation adjustments, partially offset by impairment charges during the first quarter of 2017 related to our decision to sell Field ID (See Note 4 and 7).

The gross carrying value and accumulated amortization by class of intangible assets as of December 31, 2017 and 2016 were as follows:

	As of December 31, 2017			As of December 31, 2016		
(In millions)	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived tradenames	$ 709.9	$ —	$ 709.9	$ 671.8	$ —	$ 671.8
Amortizable intangible assets						
Tradenames	15.7	(9.9)	5.8	15.8	(7.3)	8.5
Customer and contractual relationships	663.8	(232.0)	431.8	611.9	(203.1)	408.8
Patents/proprietary technology	60.2	(45.3)	14.9	61.9	(44.0)	17.9
Total	739.7	(287.2)	452.5	689.6	(254.4)	435.2
Total identifiable intangibles	$1,449.6	$(287.2)	$1,162.4	$1,361.4	$(254.4)	$1,107.0

Amortizable intangible assets, principally tradenames and customer relationships, are subject to amortization on a straight-line basis over their estimated useful life, ranging from 2 to 20 years, based on the assessment of a number of factors that may impact useful life. These factors include historical tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, customer attrition rates, and other relevant factors. We expect to record intangible amortization of approximately $33 million in 2018, $30 million in 2019, $30 million in 2020, $30 million in 2021, and $29 million in 2022.

We review indefinite-lived tradename intangible assets for impairment annually in the fourth quarter, as well as whenever market or business events indicate there may be a potential impact on a specific intangible asset. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. We measure fair value using the standard relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the tradename to a third party over the remaining useful life.

In 2017, 2016 and 2015, we did not record any asset impairment charges associated with goodwill or indefinite-lived intangible assets. As of December 31, 2017, the fair value of two tradenames in the Cabinets segment exceeded their carrying value by less than 10%. Accordingly, a reduction in the estimated fair value of these tradenames could trigger an impairment. As of December 31, 2017, the total carrying value of these tradenames was $217.8 million. Factors influencing our fair value estimates of the tradenames are described in the following paragraph.

The events and/or circumstances that could have a potential negative effect on the estimated fair value of our reporting units and indefinite-lived tradenames include: actual new construction and repair and remodel growth rates that lag our assumptions, actions of key customers, volatility of discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending, a decrease in royalty rates and decline in the trading price of our common stock. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived intangible assets.

7. Asset Impairment Charges

In January 2017, we committed to a plan to sell Field ID, our cloud-based inspection and safety compliance software product line included in our Security segment. In accordance with FASB Accounting Standards Codification ("ASC") 360, as a result of our decision to sell, during the first quarter of 2017 we recorded $3.2 million of pre-tax impairment charges to write down the long-lived assets included in this disposal group to fair value, based upon their estimated fair value less cost to sell. These charges consisted of approximately $3.0 million for definite-lived intangible assets and $0.2 million for fixed assets. We completed the sale of Field ID in April 2017.

8. External Debt and Financing Arrangements

In June 2016, the Company amended and restated its credit agreement to combine and rollover the existing revolving credit facility and term loan into a new standalone $1.25 billion revolving credit facility. This amendment and restatement of the credit agreement was a non-cash transaction for the Company. Terms and conditions of the credit agreement, including the total commitment amount, essentially remained the same. The revolving credit facility will mature in June 2021 and borrowings thereunder will be used for general corporate purposes. On December 31, 2017 and 2016, our outstanding borrowings under these facilities were $615.0 million and $540.0 million, respectively. At December 31, 2017 and 2016, the current portion of long-term debt was zero. Interest rates under the facility are variable based on LIBOR at the time of the borrowing and the Company's long-term credit rating and can range from LIBOR + 0.9% to LIBOR + 1.5%. As of December 31, 2017, we were in compliance with all covenants under this facility. As a result of the refinancing, we wrote-off prepaid debt issuance costs of approximately $1.3 million as of June 30, 2016.

In June 2015, we issued $900 million of unsecured senior notes ("Senior Notes") in a registered public offering. The Senior Notes consist of two tranches: $400 million of five-year notes due 2020 with a coupon of 3% and $500 million of ten-year notes due 2025 with a coupon of 4%. We used the proceeds from the Senior Notes offering to pay down our revolving credit facility and for general corporate purposes. On December 31, 2017 and 2016, the outstanding amount of the Senior Notes, net of underwriting commissions and price discounts, was $892.6 million and $891.1 million, respectively.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to $23.5 million in aggregate, of which zero were outstanding, as of December 31, 2017 and 2016. The weighted-average interest rates on these borrowings were zero, 1.5% and 1.0% in 2017, 2016 and 2015 respectively.

The components of external long-term debt were as follows:

(In millions)	*2017*	2016
$400 million unsecured senior note due June 2020	$ 398.3	$ 397.6
$500 million unsecured senior note due June 2025	494.3	493.5
$1,250 million revolving credit agreement due June 2021	615.0	540.0
Total debt	1,507.6	1,431.1
Less: current portion	—	—
Total long-term debt	$1,507.6	$1,431.1

Senior Notes payments during the next five years as of December 31, 2017 are zero in 2018 through 2019, $400 million in 2020 and zero in 2021 through 2022.

In our debt agreements, there are normal and customary events of default which would permit the lenders to accelerate the debt if not cured within applicable grace periods, such as failure to pay principal or interest when due or a change in control of the Company. There were no events of default as of December 31, 2017.

9. Financial Instruments

We do not enter into financial instruments for trading or speculative purposes. We principally use financial instruments to reduce the impact of changes in foreign currency exchange rates and commodities used as raw materials in our products. The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. Derivative financial instruments are recorded at fair value. The counterparties to derivative contracts are major financial institutions. We are subject to credit risk on these contracts equal to the fair value of these instruments. Management currently believes that the risk of incurring material losses is unlikely and that the losses, if any, would be immaterial to the Company.

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. As a result, from time to time, we enter into commodity swaps to manage the price risk associated with forecasted purchases of materials used in our operations. We account for these commodity derivatives as economic hedges or cash flow hedges. Changes in the fair value of economic hedges are recorded directly into current period earnings. There were no material commodity swap contracts outstanding for the years ended December 31, 2017 and 2016.

We enter into foreign exchange contracts primarily to hedge forecasted sales and purchases denominated in select foreign currencies, thereby limiting currency risk that would otherwise result from changes in exchange rates. The periods of the foreign exchange contracts correspond to the periods of the forecasted transactions, which generally do not exceed 12 to 15 months subsequent to the latest balance sheet date.

For derivative instruments that are designated as fair value hedges, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, are recognized on the same line of the statement of income. The effective portions of cash flow hedges are reported in other comprehensive income ("OCI") and are recognized in the statement of income when the hedged item affects earnings. The changes in fair value for net investment hedges are recognized in the statement of income when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity. The ineffective portion of all hedges is recognized in current period earnings. In addition, changes in the fair value of all economic hedge transactions are immediately recognized in current period earnings. Our primary foreign currency hedge contracts pertain to the Canadian dollar, the British pound, and the Mexican peso. The gross U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at December 31, 2017 was $282.8 million, representing a net settlement liability of $4.8 million. Based on foreign exchange rates as of December 31, 2017, we estimate that $3.0 million of net foreign currency

derivative losses included in OCI as of December 31, 2017 will be reclassified to earnings within the next twelve months.

The fair values of foreign exchange and commodity derivative instruments on the consolidated balance sheets as of December 31, 2017 and 2016 were:

		Fair Value	
(In millions)	Location	*2017*	2016
Assets:			
Foreign exchange contracts	Other current assets	$0.8	$2.8
Commodity contracts	Other current assets	0.2	—
Net investment hedges	Other current assets	—	0.6
	Total assets	$1.0	$3.4
Liabilities:			
Foreign exchange contracts	Other current liabilities	$5.6	$2.9
Net investment hedges	Other current liabilities	0.8	0.2
	Total liabilities	$6.4	$3.1

The effects of derivative financial instruments on the consolidated statements of income in 2017, 2016 and 2015 were:

(In millions)	Gain (Loss) Recognized in Income			
Type of hedge	Location	*2017*	2016	2015
Cash flow	Cost of products sold	$ 0.9	$(3.5)	$ 3.6
Fair value	Other (income) expense, net	(2.0)	2.0	8.2
Total		$(1.1)	$(1.5)	$11.8

The effective portion of cash flow hedges recognized in other comprehensive income were net losses of $(1.8) million and $(6.7) million in 2017 and 2016, respectively. In the years ended December 31, 2017, 2016 and 2015, the ineffective portion of cash flow hedges recognized in other (income) expense, net, was insignificant.

10. Fair Value Measurements

The carrying value and fair value of debt as of December 31, 2017 and 2016 were as follows:

(In millions)	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility	$615.0	$615.0	$540.0	$540.0
Senior Notes, net of underwriting commissions and price discounts	892.6	926.3	891.1	919.2

ASC requirements for Fair Value Measurements and Disclosures establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs due to little or no market activity for the asset or liability, such as internally-developed valuation models. We do not have any assets or liabilities measured at fair value on a recurring basis that are level 3.

The estimated fair value of our Senior Notes is determined primarily using broker quotes, which are level 2 inputs.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 were as follows:

(In millions)	Fair Value	
	2017	2016
Assets:		
Derivative asset financial instruments (level 2)	$1.0	$3.4
Deferred compensation program assets (level 2)	7.5	4.5
Total assets	$8.5	$7.9
Liabilities:		
Derivative liability financial instruments (level 2)	$6.4	$3.1

The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. In addition, from time to time, we enter into commodity swaps. Derivative financial instruments are recorded at fair value.

During the second quarter of 2016, we entered into a joint venture arrangement with a partner to operate a manufacturing facility in China. Under the arrangement, we are required to make certain fixed payments to our partner each year starting in June 2017 and through June 2024 (final year of the agreement) and also purchase the outstanding preferred shares of our partner in 2024. During the second quarter of 2016, we recognized the fair value of $8.2 million of these contractual payments, including a redemption of the preferred shares ($7.2 million within other non-current liabilities and $1.0 million due within one year in other current liabilities). We have also recognized the excess of $5.2 million of this liability fair value over the $3.0 million cash contributed by our partner within paid-in capital.

11. Capital Stock

The Company has 750 million authorized shares of common stock, par value $0.01 per share. The number of shares of common stock and treasury stock and the share activity for 2017 and 2016 were as follows:

	Common Shares		Treasury Shares	
	2017	2016	*2017*	2016
Balance at the beginning of the year	153,412,050	159,906,032	24,305,930	15,293,877
Stock plan shares issued	2,068,746	2,518,071	—	—
Shares surrendered by optionees	(180,537)	(204,538)	180,537	204,538
Common stock repurchases	(3,393,462)	(8,807,515)	3,393,462	8,807,515
Balance at the end of the year	151,906,797	153,412,050	27,879,929	24,305,930

In December 2017, our Board of Directors increased the quarterly cash dividend by 11% to $0.20 per share of our common stock.

The Company has 60 million authorized shares of preferred stock, par value $0.01 per share. At December 31, 2017, no shares of our preferred stock were outstanding. Our Board of Directors has the authority, without action by the Company's stockholders, to designate and issue our preferred stock in one or more series and to designate the rights, preferences, limitations and privileges of each series of preferred stock, which may be greater than the rights of the Company's common stock.

In 2017, we repurchased approximately 3.4 million shares of outstanding common stock under the Company's share repurchase program at a cost of $214.8 million. As of December 31, 2017, the

Company's total remaining share repurchase authorization under the remaining program was approximately $558.4 million. The share repurchase program does not obligate the Company to repurchase any specific dollar amount or number of shares and may be suspended or discontinued at any time.

12. Accumulated Other Comprehensive (Loss) Income

The reclassifications out of accumulated other comprehensive (loss) income for the year ended December 31, 2017 and 2016 were as follows:

(In millions)			
Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Income		
	2017	2016	
Gains (losses) on cash flow hedges			
Foreign exchange contracts	$ 0.4	$ (3.5)	Cost of products sold
Commodity contracts	0.5	—	Cost of products sold
	0.9	(3.5)	Total before tax
	(0.1)	—	Tax expense
	$ 0.8	$ (3.5)	Net of tax
Defined benefit plan items			
Amortization of prior service cost	$ 5.1	$13.5	(a)
Recognition of actuarial gains (losses)	0.5	(1.9)	(a)
	5.6	11.6	Total before tax
	(2.0)	(4.3)	Tax expense
	$ 3.6	$ 7.3	Net of tax
Total reclassifications for the period	$ 4.4	$ 3.8	Net of tax

(a) These accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit cost. Refer to Note 14, "Defined Benefit Plans," for additional information.

Total accumulated other comprehensive (loss) income consists of net income and other changes in business equity from transactions and other events from sources other than shareholders. It includes currency translation gains and losses, unrealized gains and losses from derivative instruments designated as cash flow hedges, and defined benefit plan adjustments. The after-tax components of and changes in accumulated other comprehensive (loss) income were as follows:

(In millions)	Foreign Currency Adjustments	Derivative Hedging Gain (Loss)	Defined Benefit Plan Adjustments	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2014	$ 31.0	$(0.6)	$(37.1)	$ (6.7)
Amounts classified into accumulated other comprehensive (loss) income	(44.3)	4.5	(1.4)	(41.2)
Amounts reclassified from accumulated other comprehensive (loss) income into earnings	—	(1.8)	(2.8)	(4.6)
Net current period other comprehensive (loss) income	(44.3)	2.7	(4.2)	(45.8)
Balance at December 31, 2015	$(13.3)	$ 2.1	$(41.3)	$(52.5)
Amounts classified into accumulated other comprehensive (loss) income	(14.7)	(6.2)	5.3	(15.6)
Amounts reclassified from accumulated other comprehensive (loss) income into earnings	—	3.5	(7.3)	(3.8)
Net current period other comprehensive (loss) income	(14.7)	(2.7)	(2.0)	(19.4)
Balance at December 31, 2016	$(28.0)	$(0.6)	$(43.3)	$(71.9)
Amounts classified into accumulated other comprehensive (loss) income	33.8	(1.0)	4.3	37.1
Amounts reclassified from accumulated other comprehensive (loss) income into earnings	—	(0.8)	(3.6)	(4.4)
Net current period other comprehensive (loss) income	33.8	(1.8)	0.7	32.7
Balance at December 31, 2017	$ 5.8	$(2.4)	$(42.6)	$(39.2)

13. Stock-Based Compensation

As of December 31, 2017, we had awards outstanding under two Long-Term Incentive Plans, the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan (the “Plan”) and the 2011 Long-Term Incentive Plan (the “2011 Plan”, and together with the Plan—the “Plans”). Our stockholders approved the Plan in 2013, which provides for the granting of stock options, performance share awards, restricted stock units, and other equity-based awards, to employees, directors and consultants. As of December 31, 2017, approximately six million shares of common stock remained authorized for issuance under the Plan. In addition, shares of common stock may be automatically added to the number of shares of common stock that may be issued as awards expire, are terminated, cancelled or forfeited, or are used to satisfy the required withholding taxes with respect to existing awards under the Plans. No new stock-based awards can be made under the 2011 Plan, but there are outstanding stock options under the 2011 Plan that continue to be exercisable. Upon the exercise or payment of stock-based awards, shares of common stock are issued from authorized common shares.

Pre-tax stock-based compensation expense from continuing operations was as follows:

(In millions)	2017	2016	2015
Stock option awards	$ 7.4	$ 7.2	$ 7.4
Restricted stock units	21.6	17.2	13.4
Performance awards	13.6	6.7	5.9
Director awards	1.0	0.9	0.9
Total pre-tax expense	43.6	32.0	27.6
Tax benefit	15.2	11.4	9.9
Total after tax expense	$28.4	$20.6	$17.7

Included in compensation costs are cash-settled restricted stock units of $0.6 million that are classified as a liability. Compensation costs that were capitalized in inventory were not material.

Restricted Stock Units

Restricted stock units have been granted to officers and certain employees of the Company and represent the right to receive unrestricted shares of Company common stock subject to continued employment through each vesting date. Restricted stock units granted to certain officers are also subject to attaining specific performance criteria. In addition, certain employees can elect to defer receipt of a portion of their RSU awards upon vesting. Compensation cost is recognized over the service period. We calculate the fair value of each restricted stock unit granted by using the average of the high and low share prices on the date of grant. Restricted stock units generally vest ratably over a three-year period.

A summary of activity with respect to restricted stock units outstanding under the Plans for the year ended December 31, 2017 was as follows:

	Number of Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2016	723,398	$49.22
Granted	408,608	58.59
Vested	(338,988)	48.13
Forfeited	(64,953)	53.56
Non-vested at December 31, 2017	728,065	$54.59

The remaining unrecognized pre-tax compensation cost related to restricted stock units at December 31, 2017 was approximately $18.9 million, and the weighted-average period of time over which this cost will be recognized is 1.5 years. The fair value of restricted stock units that vested during 2017, 2016 and 2015 was $20.3 million, $16.4 million and $24.9 million, respectively.

Stock Option Awards

Stock options were granted to officers and certain employees of the Company and represent the right to purchase shares of Company common stock subject to continued employment through each vesting date.

All stock-based compensation to employees is required to be measured at fair value and expensed over the requisite service period. We recognize compensation expense on awards on a straight-line basis over the requisite service period for the entire award. Stock options granted under the Plans generally vest over a three-year period and have a maturity of ten years from the grant date.

The fair value of Fortune Brands options was estimated at the date of grant using a Black-Scholes option pricing model with the assumptions shown in the following table:

	2017	2016	2015
Current expected dividend yield	1.4%	1.4%	1.5%
Expected volatility	26.0%	30.0%	27.0%
Risk-free interest rate	1.9%	1.3%	1.8%
Expected term	5.5 years	5.5 years	6 years

The determination of expected volatility is based on a blended peer group volatility for companies in similar industries, at a similar stage of life and with similar market capitalization because there is not sufficient historical volatility data for Fortune Brands common stock over the period commensurate with the expected term of stock options, as well as other relevant factors. The risk-free interest rate is based on U.S. government issues with a remaining term equal to the expected life of the stock options. The expected term is the period over which our employees are expected to hold their options. In 2017 and 2016, the expected term was determined based on the historical employee exercise behavior and the contractual term of the options. In 2015, the expected term was determined based on the simplified method from the Securities and Exchange Commission's safe harbor guidelines. The dividend yield is based on the Company's estimated dividend over the expected term. The weighted-average grant date fair value of stock options granted under the Plans during the years ended December 31, 2017, 2016 and 2015 was $13.49, $12.70 and $11.58, respectively.

A summary of Fortune Brands stock option activity related to Fortune Brands and employees of Fortune Brands, Inc., the Company from which we spun off from in 2011, for the year ended December 31, 2017 was as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2016	4,815,291	$27.34
Granted	603,230	58.43
Exercised	(1,605,999)	17.73
Expired/forfeited	(129,564)	37.02
Outstanding at December 31, 2017	3,682,958	$36.28

Options outstanding and exercisable at December 31, 2017 were as follows:

	Options Outstanding[a]			Options Exercisable[b]	
Range Of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$9.00 to $12.99	104,500	3.8	$12.30	104,500	$12.30
13.00 to 20.00	1,250,011	3.6	16.17	1,250,011	16.17
20.01 to 65.41	2,328,447	7.4	48.16	1,220,692	42.82
	3,682,958	6.0	$36.28	2,575,203	$28.64

(a) At December 31, 2017, the aggregate intrinsic value of options outstanding was $118.4 million.

(b) At December 31, 2017, the weighted-average remaining contractual life of options exercisable was 4.9 years and the aggregate intrinsic value of options exercisable was $102.5 million.

The remaining unrecognized compensation cost related to unvested awards at December 31, 2017 was $6.0 million, and the weighted-average period of time over which this cost will be recognized is 1.4 years.

The fair value of options that vested during the years ended December 31, 2017, 2016 and 2015 was $6.8 million, $6.0 million and $7.8 million, respectively. The intrinsic value of Fortune Brands stock options exercised in the years ended December 31, 2017, 2016 and 2015 was $70.6 million, $88.1 million and $78.0 million, respectively.

Performance Awards

Performance share awards were granted to officers and certain employees of the Company under the Plans and represent the right to earn shares of Company common stock based on the achievement of or company-wide performance conditions, including cumulative diluted earnings per share, average return on invested capital, average return on net tangible assets and EBITDA during the three-year performance period. Compensation cost is amortized into expense over the performance period, which is generally three years, and is based on the probability of meeting performance targets. The fair value of each performance share award is based on the average of the high and low stock price on the date of grant.

The following table summarizes information about performance share awards as of December 31, 2017, as well as activity during the year then ended. The number of Performance share awards granted are shown below at the target award amounts:

	Number of Performance Share Awards	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2016	421,600	$48.00
Granted	160,196	58.02
Vested	(95,183)	45.13
Forfeited	(58,285)	48.22
Non-vested at December 31, 2017	428,328	$52.35

The remaining unrecognized pre-tax compensation cost related to performance share awards at December 31, 2017 was approximately $6.8 million, and the weighted-average period of time over which this cost will be recognized is 1.3 years. The fair value of performance share awards that vested during 2017 was $5.6 million (100,580 shares).

Director Awards

Stock awards are used as part of the compensation provided to outside directors under the Plan. Awards are issued annually in the second quarter. In addition, outside directors can elect to have director fees paid in stock or can elect to defer payment of stock. Compensation cost is expensed at the time of an award based on the fair value of a share at the date of the award. In 2017, 2016 and 2015, we awarded 15,311, 16,471 and 19,695 shares of Company common stock to outside directors with a weighted average fair value on the date of the award of $63.43, $57.37 and $46.21, respectively.

14. Defined Benefit Plans

We have a number of pension plans in the United States, covering many of the Company's employees, however these plans have been closed to new hires. The plans provide for payment of retirement benefits, mainly commencing between the ages of 55 and 65. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plans are generally determined on the basis of an employee's length of service and/or earnings. Employer contributions to the plans are made, as necessary, to ensure legal funding requirements are satisfied. Also, from time to time, we may make contributions in excess of the legal funding requirements. Service cost for 2017 relates to benefit accruals in an hourly Union defined benefit plan in our Security segment. Benefit accruals under all other defined benefit pension plans were frozen as of December 31, 2016.

In addition, the Company provides postretirement health care and life insurance benefits to certain retirees.

(In millions)	Pension Benefits		Postretirement Benefits	
Obligations and Funded Status at December 31	*2017*	2016	*2017*	2016
Change in the Projected Benefit Obligation (PBO):				
Projected benefit obligation at beginning of year	$ 791.7	$ 767.7	$ 3.6	$15.6
Service cost	0.6	9.6	—	—
Interest cost	33.3	34.4	—	0.3
Plan amendments	—	0.1	—	(12.3)
Actuarial loss (gain)	40.6	11.7	(1.4)	1.6
Benefits paid	(33.8)	(31.8)	(0.4)	(1.6)
Foreign exchange	—	—	(0.2)	—
Projected benefit obligation at end of year	$ 832.4	$ 791.7	$ 1.6	$ 3.6
Accumulated benefit obligation at end of year (excludes the impact of future compensation increases)	$ 832.4	$ 791.7		
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 577.7	$ 561.9	$ —	$ —
Actual return on plan assets	83.2	46.6	—	—
Employer contributions	29.5	1.0	0.5	1.5
Benefits paid	(33.8)	(31.8)	(0.5)	(1.5)
Fair value of plan assets at end of year	$ 656.6	$ 577.7	$ —	$ —
Funded status (Fair value of plan assets less PBO)	$(175.8)	$(214.0)	$(1.6)	$ (3.6)

The accumulated benefit obligation exceeds the fair value of assets for all pension plans. Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Postretirement Benefits	
(In millions)	*2017*	2016	*2017*	2016
Current benefit payment liability	$ (1.1)	$ (1.0)	$(0.2)	$(0.4)
Accrued benefit liability	(174.7)	(213.0)	(1.4)	(3.2)
Net amount recognized	$(175.8)	$(214.0)	$(1.6)	$(3.6)

In the first quarter of 2013, the Company communicated a plan amendment to reduce health benefits to certain retired employees. Due to the risk of litigation at the time of the initial communication, the Company elected to defer the full recognition of the benefit arising from the plan amendment. Following a favorable court decision in the first quarter of 2016, the Company determined that it would realize the benefit from the plan amendment. As a result, the Company performed a re-measurement of the affected retiree plan liability as of March 31, 2016. This remeasurement resulted in a $10.7 million reduction of accrued retiree benefit plan liabilities and a corresponding increase in prior service credits. In accordance with accounting requirements, the liability reduction from this remeasurement is recorded as amortization of prior service credits in net income. In addition, we recorded a $0.9 million actuarial loss during the first quarter of 2016.

In the third quarter of 2015, we recognized actuarial losses of $6.1 million in discontinued operations related to curtailment accounting due to the sale of the Waterloo tool storage business in addition to the $2.5 million of actuarial losses reflected below in net periodic benefit cost.

As of December 31, 2017, we adopted the new Society of Actuaries MP-2017 mortality tables, resulting in a decrease in our pension benefit obligations of approximately $5.0 million, and a corresponding decrease in deferred actuarial losses in accumulated other comprehensive income. As of December 31, 2016, we adopted the new Society of Actuaries MP-2016 mortality tables, resulting in a decrease in our postretirement obligations of approximately $0.1 million, and a corresponding decrease in deferred actuarial losses in accumulated other comprehensive income.

The amounts in accumulated other comprehensive loss on the consolidated balance sheets that have not yet been recognized as components of net periodic benefit cost were as follows:

(In millions)	Pension Benefits	Postretirement Benefits
Net actuarial loss at December 31, 2015	$71.1	$ 0.3
Recognition of actuarial loss	—	(1.9)
Current year actuarial loss	2.3	1.6
Net actuarial loss at December 31, 2016	$73.4	$ —
Recognition of actuarial (loss) gain	(0.9)	1.4
Current year actuarial gain	(5.3)	(1.4)
Net actuarial loss at December 31, 2017	$67.2	$ —
Net prior service cost (credit) at December 31, 2015	$ 0.1	$ (6.4)
Prior service cost recognition due to plan amendments	—	(12.2)
Amortization	—	13.5
Prior service cost recognition due to curtailment	(0.1)	—
Net prior service cost (credit) at December 31, 2016	$ —	$ (5.1)
Amortization	—	5.1
Net prior service cost (credit) at December 31, 2017	$ —	$ —
Total at December 31, 2017	$67.2	$ —

There are no accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.

Components of net periodic benefit cost were as follows:

Components of Net Periodic Benefit (Income) Cost	Pension Benefits			Postretirement Benefits		
(In millions)	*2017*	2016	2015	*2017*	2016	2015
Service cost	$ 0.6	$ 9.6	$ 11.5	$ —	$ —	$ 0.1
Interest cost	33.3	34.4	33.7	—	0.3	0.6
Expected return on plan assets	(37.3)	(37.2)	(40.2)	—	—	—
Recognition of actuarial losses (gains)	0.9	—	2.9	(1.4)	1.9	(0.4)
Amortization of prior service cost (credits)	—	—	0.1	(5.1)	(13.5)	(13.5)
Net periodic benefit (income) cost	$ (2.5)	$ 6.8	$ 8.0	$(6.5)	$(11.3)	$(13.2)

Assumptions	Pension Benefits			Postretirement Benefits		
	2017	2016	2015	*2017*	2016	2015
Weighted-Average Assumptions Used to Determine Benefit Obligations at December 31:						
Discount rate	3.8%	4.3%	4.6%	3.4%	3.4%	4.1%
Rate of compensation increase	—	4.0%	4.0%	—	—	—
Weighted-Average Assumptions Used to Determine Net Cost for Years Ended December 31:						
Discount rate	4.3%	4.6%	4.2%	3.4%	4.1%	3.5%
Expected long-term rate of return on plan assets	6.4%	6.6%	6.8%	—	—	—
Rate of compensation increase	—	4.0%	4.0%	—	—	—

	Postretirement Benefits	
	2017	2016
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations and Net Cost at December 31:		
Health care cost trend rate assumed for next year	7.1/8.4%[a]	7.3/8.2%[a]
Rate that the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2026	2025

[a] The pre-65 initial health care cost trend rate is shown first / followed by the post-65 rate.

A one-percentage-point change in assumed health care cost trend rates would have had the following effects in 2017:

(In millions)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on postretirement benefit obligation	(0.1)	0.1

Plan Assets

The fair value of the pension assets by major category of plan assets as of December 31, 2017 and 2016 were as follows:

(In millions)	Total as of balance sheet date	
	2017	2016
Group annuity/insurance contracts (level 3)	$ 23.3	$ 22.8
Collective trusts:		
Cash and cash equivalents	12.5	6.9
Equity	285.9	258.8
Fixed income	277.7	235.4
Multi-strategy hedge funds	24.6	23.1
Real estate	32.6	30.7
Total	$656.6	$577.7

A reconciliation of Level 3 measurements was as follows:

	Group annuity/ insurance contracts	
(In millions)	2017	2016
January 1	$22.8	$22.3
Actual return on assets related to assets still held	0.5	0.5
December 31	$23.3	$22.8

Our defined benefit plans Master Trust own a variety of investment assets. All of these investment assets, except for group annuity/insurance contracts are measured using net asset value per share as a practical expedient per ASC 820. Following the retrospective adoption of ASU 2015-07 (Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share) we excluded all investments measured using net asset value per share in the amount of $633.3 million and $554.9 million as of December 31, 2017 and 2016, respectively, from the tabular fair value hierarchy disclosure.

The terms and conditions for redemptions vary for each class of the investment assets valued at net asset value per share as a practical expedient. Real estate assets may be redeemed quarterly with a 45 day

redemption notice period. Investment assets in multi-strategy hedge funds may be redeemed semi-annually with a 95 day redemption notice period. Equity, fixed income and cash and cash equivalents have no specified redemption frequency and notice period and may be redeemed daily. As of December 31, 2017 we do not have an intent to sell or otherwise dispose of these investment assets at prices different than the net asset value per share.

Our investment strategy is to optimize investment returns through a diversified portfolio of investments, taking into consideration underlying plan liabilities and asset volatility. The defined benefit asset allocation policy of the plans allow for an equity allocation of 0% to 75%, a fixed income allocation of 25% to 100%, a cash allocation of up to 25% and other investments of up to 20%. Asset allocations are based on the underlying liability structure. All retirement asset allocations are reviewed periodically to ensure the allocation meets the needs of the liability structure.

Our 2018 expected blended long-term rate of return on plan assets of 6.4% was determined based on the nature of the plans' investments, our current asset allocation and projected long-term rates of return from pension investment consultants.

Estimated Future Retirement Benefit Payments

The following retirement benefit payments are expected to be paid:

(In millions)	Pension Benefits	Postretirement Benefits
2018	$ 37.4	$0.1
2019	39.1	0.1
2020	40.4	0.1
2021	41.6	0.1
2022	43.1	0.1
Years 2023-2027	229.9	0.3

Estimated future retirement benefit payments above are estimates and could change significantly based on differences between actuarial assumptions and actual events and decisions related to lump sum distribution options that are available to participants in certain plans.

Defined Contribution Plan Contributions

We sponsor a number of defined contribution plans. Contributions are determined under various formulas. Cash contributions by the Company related to these plans amounted to $29.1 million, $22.7 million and $18.3 million in 2017, 2016 and 2015, respectively.

15. Income Taxes

The components of income from continuing operations before income taxes and noncontrolling interests were as follows:

(In millions)	*2017*	2016	2015
Domestic operations	$554.7	$513.8	$387.7
Foreign operations	80.1	68.3	72.2
Income before income taxes and noncontrolling interests	$634.8	$582.1	$459.9

A reconciliation of income taxes at the 35% federal statutory income tax rate to the income tax provision reported was as follows:

(In millions)	*2017*	2016	2015
Income tax expense computed at federal statutory income tax rate	$222.2	$203.7	$161.0
Other income taxes, net of federal tax benefit	13.4	12.6	9.4
Foreign taxes at a different rate than U.S. federal statutory income tax rate	(8.3)	(7.6)	(8.7)
Tax benefit on income attributable to domestic production activities	(10.9)	(13.0)	(12.5)
Net adjustments for uncertain tax positions	11.6	13.2	4.7
Share-based compensation (ASU 2016-09)	(23.9)	(27.8)	—
Tax Act impact	(25.7)	—	—
Deferred tax impact of state tax rate changes	(2.0)	(1.1)	0.2
Valuation allowance increase (decrease)	(5.2)	(2.1)	0.8
Miscellaneous other, net	(11.7)	(8.2)	(1.5)
Income tax expense as reported	$159.5	$169.7	$153.4
Effective income tax rate	25.1%	29.2%	33.4%

The 2017 effective income tax rate was favorably impacted by The Tax Cuts and Jobs Act of 2017, (the "Tax Act"). The effective income tax rates for 2017, 2016 and 2015 were favorably impacted by the tax benefit attributable to the Domestic Production Activity (Internal Revenue Code Section 199) Deduction and favorable tax rates in foreign jurisdictions, partially offset by state and local taxes and increases to uncertain tax positions. In addition, the 2017 and 2016 effective income tax rates were favorably impacted by a tax benefit related to share-based compensation. The benefit associated with the favorable tax rates in foreign jurisdictions is affected by overall allocation of income, rate changes and impact of foreign exchange rates. The 2015 effective income tax rate was unfavorably impacted by $2.4 million related to nondeductible acquisition costs.

The Tax Act made significant changes to the U.S. Internal Revenue Code including a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, generally providing for an exemption from federal income tax for dividends received from foreign subsidiaries, and imposing a one-time transition tax on the deemed repatriation of cumulative foreign earnings and profits as of December 31, 2017. On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued which deals with the application of US GAAP to situations where a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118 we have calculated our best estimate of the impact of the Tax Act on our 2017 effective income tax rate, based upon available information, limited timing and our understanding of the Tax Act as well as the facts and guidance available at our assessment date of January 22, 2018. As a result, the Company has recorded a provisional net benefit of $25.7 million in the fourth quarter of 2017, the period in which the Tax Act was enacted. This provisional amount includes an estimated reduction in the Company's net deferred tax liabilities of $62.4 million resulting from the decrease in the federal income tax rate; an estimated deemed repatriation tax liability of $28.5 million; and an estimated net increase to our provision for taxes on foreign earnings not considered permanently reinvested of $8.2 million. The impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, refinement of calculations due to additional analysis, changes in interpretations, assumptions made and additional guidance that may be issued. Any subsequent adjustment, related to the aforementioned, will be recorded in current tax expense when such analysis is completed or such guidance is issued.

A reconciliation of the beginning and ending amount of unrecognized tax benefits ("UTBs") was as follows:

(In millions)	*2017*	2016	2015
Unrecognized tax benefits — beginning of year	$58.2	$38.2	$31.0
Gross additions — current year tax positions	31.0	10.7	4.6
Gross additions — prior year tax positions	10.9	10.4	8.3
Gross additions (reductions) — purchase accounting adjustments	4.0	9.7	0.1
Gross reductions — prior year tax positions	(9.4)	(9.8)	(2.1)
Gross reductions — settlements with taxing authorities	(7.2)	(1.0)	(3.6)
Impact of change in foreign exchange rates	(0.0)	(0.0)	(0.1)
Unrecognized tax benefits — end of year	$87.5	$58.2	$38.2

The amount of UTBs that, if recognized as of December 31, 2017, would affect the Company's effective tax rate was $53.0 million. It is reasonably possible that, within the next twelve months, total UTBs may decrease in the range of $1.5 million to $21.5 million primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

We classify interest and penalty accruals related to UTBs as income tax expense. In 2017, we recognized an interest and penalty expense of approximately $2.0 million. In 2016, we recognized an interest and penalty expense of approximately $1.1 million. In 2015, we recognized an interest and penalty expense of approximately $1.0 million. At December 31, 2017 and 2016, we had accruals for the payment of interest and penalties of $11.8 million and $11.0 million, respectively.

We file income tax returns in the U.S., various state and foreign jurisdictions. The Company is currently under examination by the U.S. Internal Revenue Service ("IRS") for the periods related to 2013 through 2015, and is open and subject to examination for subsequent tax years. In addition to the U.S., we have tax years that remain open and subject to examination by tax authorities in the following major taxing jurisdictions: Canada for years after 2012, Mexico for years after 2011 and China for years after 2013.

Income taxes in 2017, 2016 and 2015 were as follows:

(In millions)	*2017*	2016	2015
Current			
Federal	$133.1	$150.4	$130.6
Foreign	22.4	22.3	19.7
State and other	22.8	22.9	16.1
Deferred			
Federal, state and other	(27.2)	(23.9)	(11.3)
Foreign	8.4	(2.0)	(1.7)
Total income tax expense	$159.5	$169.7	$153.4

The components of net deferred tax assets (liabilities) as of December 31, 2017 and 2016 were as follows:

(In millions)	*2017*	2016
Deferred tax assets:		
Compensation and benefits	$ 22.1	$ 56.1
Defined benefit plans	43.7	82.5
Capitalized inventories	11.1	13.6
Accounts receivable	7.8	10.3
Other accrued expenses	45.6	41.4
Net operating loss and other tax carryforwards	25.6	39.7
Valuation allowance	(11.0)	(16.4)
Miscellaneous	3.7	2.5
Total deferred tax assets	148.6	229.7
Deferred tax liabilities:		
LIFO inventories	(4.2)	(6.7)
Fixed assets	(44.5)	(57.1)
Intangible assets	(232.0)	(210.4)
Investment in partnership	(9.2)	(109.3)
Miscellaneous	(16.1)	(0.2)
Total deferred tax liabilities	(306.0)	(383.7)
Net deferred tax liability	$(157.4)	$(154.0)

In accordance with ASC requirements for Income Taxes, deferred taxes were classified in the consolidated balance sheets as of December 31, 2017 and 2016 as follows:

(In millions)	*2017*	2016
Other assets	$ 9.4	$ 9.5
Deferred income taxes	(166.8)	(163.5)
Net deferred tax liability	$(157.4)	$(154.0)

As of December 31, 2017 and 2016, the Company had deferred tax assets relating to net operating losses, capital losses, and other tax carryforwards of $25.6 million and $39.7 million, respectively, of which approximately $8.3 million will expire between 2018 and 2022, and the remainder of which will expire in 2023 and thereafter.

The Company has provided a valuation allowance to reduce the carrying value of certain of these deferred tax assets, as management has concluded that, based on the available evidence, it is more likely than not that the deferred tax assets will not be fully realized.

Under the Tax Act, the accumulated foreign earnings and profits of the Company's foreign subsidiaries are subject to a deemed repatriation tax and should not be subject to additional U.S. federal income tax upon an actual repatriation of those earnings. As a result, the Company has recorded an estimated tax liability of $9.6 million for foreign and state taxes that would be payable on a distribution of those earnings and profits.

We have not provided for deferred taxes on the remaining book over tax outside basis differences of our foreign subsidiaries. The outside basis differences of foreign subsidiaries considered indefinitely reinvested totaled approximately $50 million at December 31, 2017. The associated deferred tax liability on this basis difference would not be material.

16. Restructuring and Other Charges

Pre-tax restructuring and other charges for the year ended December 31, 2017 were as follows:

	Year Ended December 31, 2017			
		Other Charges [a]		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A[b]	Total Charges
Cabinets	$ 1.4	$1.6	$2.2	$ 5.2
Plumbing	2.8	—	—	2.8
Doors	(0.1)	—	0.1	—
Security	4.2	5.6	0.7	10.5
Total	$ 8.3	$7.2	$3.0	$18.5

[a] "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, write-off of displays from exiting a customer relationship, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.

[b] Selling, general and administrative expenses

Restructuring and other charges of $18.5 million before tax ($12.3 million after tax) in 2017, primarily related to losses on disposal of inventory associated with exiting a product line in our Security segment and exiting a customer relationship in our Cabinets segment, as well as severance costs within our Security, Plumbing and Cabinets segments.

Pre-tax restructuring and other charges for the year ended December 31, 2016 were as follows:

	Year Ended December 31, 2016			
		Other Charges [a]		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A[b]	Total Charges
Cabinets	$ 1.8	$ —	$ —	$ 1.8
Plumbing	1.6	0.3	0.2	2.1
Doors	0.4	—	—	0.4
Security	10.1	4.2	0.7	15.0
Total	$13.9	$4.5	$0.9	$19.3

[a] "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.

[b] Selling, general and administrative expenses

Restructuring and other charges in 2016 primarily related to severance costs and charges associated with the relocation of a manufacturing facility within our Security segment.

Pre-tax restructuring and other charges for the year ended December 31, 2015 were as follows:

	Year Ended December 31, 2015			
		Other Charges [a]		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A[b]	Total Charges
Cabinets	$ 1.2	$0.1	$ —	$ 1.3
Plumbing	6.4	0.1	0.6	7.1
Security	8.1	5.3	—	13.4
Corporate	0.9	—	—	0.9
Total	$16.6	$5.5	$0.6	$22.7

[a] "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.

[b] Selling, general and administrative expenses

Restructuring and other charges in 2015 related to severance costs to relocate a Plumbing manufacturing facility in China and severance costs and accelerated depreciation to relocate a manufacturing facility within our Security segment, as well as severance costs in the Security, Cabinets and Corporate segments.

Reconciliation of Restructuring Liability

(In millions)	Balance at 12/31/16	2017 Provision	Cash Expenditures [a]	Non-Cash Write-offs [b]	Balance at 12/31/17
Workforce reduction costs	$2.4	$6.7	$(3.9)	$(0.2)	$5.0
Other	0.6	1.6	(1.3)	(0.1)	0.8
	$3.0	$8.3	$(5.2)	$(0.3)	$5.8

[a] Cash expenditures primarily related to severance charges.

[b] Non-cash write-offs include long-lived asset impairment charges attributable to restructuring actions.

(In millions)	Balance at 12/31/15	2016 Provision	Cash Expenditures [c]	Non-Cash Write-offs [d]	Balance at 12/31/16
Workforce reduction costs	$10.4	$ 9.3	$(17.5)	$ 0.2	$2.4
Asset disposals	—	0.1	—	(0.1)	—
Other	0.5	4.5	(4.1)	(0.3)	0.6
	$10.9	$13.9	$(21.6)	$(0.2)	$3.0

[c] Cash expenditures primarily related to severance charges.

[d] Non-cash write-offs include long-lived asset impairment charges attributable to restructuring actions.

17. Commitments

Purchase Obligations

Purchase obligations of the Company as of December 31, 2017 were $397.3 million, of which $371.3 million is due within one year. Purchase obligations include contracts for raw materials and finished goods purchases, selling and administrative services, and capital expenditures.

Lease Commitments

Future minimum rental payments under non-cancelable operating leases as of December 31, 2017 were as follows:

(In millions)	
2018	$ 31.0
2019	26.9
2020	20.7
2021	15.9
2022	13.0
Remainder	50.7
Total minimum rental payments	$158.2

Total rental expense for all operating leases (reduced by minor amounts from subleases) amounted to $42.1 million, $43.5 million and $34.9 million in 2017, 2016 and 2015, respectively.

Product Warranties

We generally record warranty expense related to contractual warranty terms at the time of sale. We may also provide customer concessions for claims made outside of the contractual warranty terms and those expenses are recorded in the period in which the concession is made. We offer our customers various warranty terms based on the type of product that is sold. Warranty expense is determined based on historic claim experience and the nature of the product category. The following table summarizes activity related to our product warranty liability for the years ended December 31, 2017, 2016 and 2015.

(In millions)	*2017*	2016	2015
Reserve balance at the beginning of the year	$ 16.2	$ 16.0	$ 13.0
Provision for warranties issued	25.1	25.8	29.9
Settlements made (in cash or in kind)	(24.3)	(25.5)	(28.3)
Acquisition	—	0.3	1.6
Foreign currency	0.2	(0.4)	(0.2)
Reserve balance at end of year	$ 17.2	$ 16.2	$ 16.0

18. Information on Business Segments

We report our operating segments based on how operating results are regularly reviewed by our chief operating decision maker for making decisions about resource allocations to segments and assessing performance. The Company's operating segments and types of products from which each segment derives revenues are described below.

The Cabinets segment includes custom, semi-custom and stock cabinetry for the kitchen, bath and other parts of the home under brand names including Aristokraft, Diamond, Mid-Continent, Kitchen Craft, Schrock, Homecrest, Omega, Kemper, StarMark and Ultracraft. In addition, cabinets are distributed under the Thomasville Cabinetry brand names. The Plumbing segment manufactures or assembles and sells faucets, bath furnishings, accessories and kitchen sinks and waste disposals predominantly under the Moen, ROHL, Riobel, Perrin & Rowe, Victoria + Albert, Shaws and Waste King brands. The Doors segment includes residential fiberglass and steel entry door systems under the Therma-Tru brand name and urethane millwork product lines under the Fypon brand name. The Security segment includes locks, safety and security devices and electronic security products under the Master Lock and American Lock brand names and fire resistant safes, security containers and commercial cabinets under the SentrySafe brand name. Corporate expenses consist of headquarters administrative expenses and defined benefit plans costs, primarily interest costs and expected return on plan assets, as well as actuarial gains and losses arising from the periodic remeasurement of our liabilities. Corporate assets consist primarily of cash.

The Company's subsidiaries operate principally in the United States, Canada, Mexico, China and Western Europe.

(In millions)	2017	2016	2015
Net sales:			
Cabinets	$2,467.1	$2,397.8	$2,173.4
Plumbing	1,720.8	1,534.4	1,414.5
Doors	502.9	473.0	439.1
Security	592.5	579.7	552.4
Net sales	$5,283.3	$4,984.9	$4,579.4

Net sales to two of the Company's customers, The Home Depot, Inc. ("The Home Depot") and Lowe's Companies, Inc. ("Lowe's") each accounted for greater than 10% of the Company's net sales in 2017, 2016 and 2015. All segments sell to both The Home Depot and Lowe's. Net sales to The Home Depot were 13%, 13% and 14% of net sales in 2017, 2016 and 2015, respectively. Net sales to Lowe's were 14%, 14% and 14% of net sales in 2017, 2016 and 2015, respectively.

(In millions)	2017	2016	2015
Operating income:			
Cabinets	$267.2	$257.8	$192.4
Plumbing	363.6	326.3	285.4
Doors	74.5	61.9	44.0
Security	72.4	66.6	55.9
Less: Corporate expenses[a]	(85.6)	(79.9)	(81.6)
Operating income	$692.1	$632.7	$496.1

[a] Below is a table detailing Corporate expenses:

	2017	2016	2015
General and administrative expense	$ (85.2)	$ (80.9)	$ (70.1)
Defined benefit plan income	4.2	2.9	6.1
Recognition of defined benefit plan actuarial gains (losses)	0.5	(1.9)	(2.5)
Long-lived asset impairment	(5.1)	—	—
Norcraft transaction costs[b]	—	—	(15.1)
Total Corporate expenses	$ (85.6)	$ (79.9)	$ (81.6)

[b] Representing external costs directly related to the acquisition of Norcraft and primarily includes expenditures for banking, legal, accounting and other similar services.

(In millions)	2017	2016	2015
Total assets:			
Cabinets	$2,416.3	$2,349.4	$2,364.0
Plumbing	1,854.1	1,626.8	1,341.4
Doors	494.8	480.6	483.9
Security	537.4	514.5	520.7
Corporate	208.8	157.2	165.7
Total assets	$5,511.4	$5,128.5	$4,875.7
Depreciation expense:			
Cabinets	$ 42.8	$ 40.1	$ 38.1
Plumbing	26.9	24.6	21.3
Doors	9.1	9.0	11.2
Security	16.8	17.2	19.5
Corporate	3.0	3.7	3.4
Depreciation expense	$ 98.6	$ 94.6	$ 93.5
Amortization of intangible assets:			
Cabinets	$ 19.7	$ 18.4	$ 14.3
Plumbing	7.7	3.6	1.2
Doors	2.3	3.8	3.8
Security	2.0	2.3	2.3
Amortization of intangible assets	$ 31.7	$ 28.1	$ 21.6
Capital expenditures:			
Cabinets	$ 63.4	$ 61.7	$ 61.3
Plumbing	43.5	48.3	27.2
Doors	20.8	12.9	13.3
Security	19.3	25.9	17.3
Corporate	18.0	0.5	9.4
Capital expenditures, gross	165.0	149.3	128.5
Less: proceeds from disposition of assets	(0.4)	(3.9)	(2.5)
Capital expenditures, net	$ 164.6	$ 145.4	$ 126.0
Net sales by geographic region[a]:			
United States	$4,492.2	$4,258.5	$3,892.9
Canada	427.6	406.4	385.1
China	202.3	175.0	163.2
Other international	161.2	145.0	138.2
Net sales	$5,283.3	$4,984.9	$4,579.4
Property, plant and equipment, net:			
United States	$ 562.3	$ 499.8	$ 498.9
Mexico	89.0	90.8	74.2
Canada	50.5	45.5	39.4
China	24.8	22.7	14.4
Other international	13.4	3.7	1.0
Property, plant and equipment, net	$ 740.0	$ 662.5	$ 627.9

[a] Based on country of destination

19. Quarterly Financial Data

Unaudited

(In millions, except per share amounts)

2017	1st	2nd	3rd	4th	Full Year
Net sales	$1,186.8	$1,365.4	$1,348.6	$1,382.5	$5,283.3
Gross profit	417.0	515.5	507.0	493.0	1,932.5
Operating income	114.9	212.4	201.8	163.0	692.1
Income from continuing operations, net of tax	77.4	140.3	129.6	128.0	475.3
Income (loss) from discontinued operations, net of tax	—	(2.6)	—	—	(2.6)
Net income	77.4	137.7	129.6	128.0	472.7
Net income attributable to Fortune Brands	77.4	137.7	129.5	128.0	472.6
Basic earnings (loss) per common share					
Continuing operations	0.50	0.91	0.84	0.84	3.10
Discontinued operations	—	(0.02)	—	—	(0.02)
Net income attributable to Fortune Brands	0.50	0.89	0.84	0.84	3.08
Diluted earnings (loss) per common share					
Continuing operations	0.50	0.90	0.83	0.83	3.05
Discontinued operations	—	(0.02)	—	—	(0.02)
Net income attributable to Fortune Brands	0.50	0.88	0.83	0.83	3.03

2016	1st(a)	2nd	3rd	4th	Full Year
Net sales	$1,106.5	$1,297.8	$1,279.0	$1,301.6	$4,984.9
Gross profit	377.8	474.7	478.0	474.1	1,804.6
Operating income	95.5	187.7	183.1	166.4	632.7
Income from continuing operations, net of tax	61.0	125.1	121.9	104.4	412.4
Income (loss) from discontinued operations, net of tax	—	—	1.5	(0.7)	0.8
Net income	61.0	125.1	123.4	103.7	413.2
Net income attributable to Fortune Brands	61.0	125.2	123.4	103.6	413.2
Basic earnings (loss) per common share					
Continuing operations	0.39	0.82	0.79	0.68	2.67
Discontinued operations	—	—	0.01	(0.01)	0.01
Net income attributable to Fortune Brands	0.39	0.82	0.80	0.67	2.68
Diluted earnings (loss) per common share					
Continuing operations	0.38	0.80	0.77	0.67	2.61
Discontinued operations	—	—	0.01	(0.01)	0.01
Net income attributable to Fortune Brands	0.38	0.80	0.78	0.66	2.62

(a) Amounts revised to reflect adoption of ASU 2016-09 “Improvements to Employee Share-Based Payment Accounting.”

In 2017, we recorded pre-tax defined benefit plan actuarial gains of $0.5 million — $1.3 million of actuarial gains ($0.9 million after tax) in the third quarter and ($0.8) million of actuarial losses (($0.5) million after tax) in the fourth quarter.

In 2016, we recorded pre-tax defined benefit plan actuarial losses of $1.9 million — $0.9 million ($0.6 million after tax) in the first quarter and $1.0 million ($0.7 million after tax) in the third quarter.

20. Earnings Per Share

The computations of earnings (loss) per common share were as follows:

(In millions, except per share data)	*2017*	2016	2015
Income from continuing operations, net of tax	$475.3	$412.4	$306.5
Less: Noncontrolling interests	0.1	—	0.5
Income from continuing operations for EPS	475.2	412.4	306.0
Income (loss) from discontinued operations	(2.6)	0.8	9.0
Net income attributable to Fortune Brands	$472.6	$413.2	$315.0
Earnings (loss) per common share			
Basic			
Continuing operations	$ 3.10	$ 2.67	$ 1.92
Discontinued operations	(0.02)	0.01	0.05
Net income attributable to Fortune Brands common stockholders	$ 3.08	$ 2.68	$ 1.97
Diluted			
Continuing operations	$ 3.05	$ 2.61	$ 1.88
Discontinued operations	(0.02)	0.01	0.05
Net income attributable to Fortune Brands common stockholders	$ 3.03	$ 2.62	$ 1.93
Basic average shares outstanding	153.2	154.3	159.5
Stock-based awards	2.6	3.5	3.5
Diluted average shares outstanding	155.8	157.8	163.0
Antidilutive stock-based awards excluded from weighted-average number of shares outstanding for diluted earnings per share	0.5	0.5	0.7

21. Other Expense, Net

The components of other expense, net for the years ended December 31, 2017, 2016 and 2015 were as follows:

(In millions)	*2017*	2016	2015
Asset impairment charge	$7.0	$ —	$ —
Other items, net	0.9	1.5	4.3
Total other expense, net	$7.9	$1.5	$4.3

During 2017, we recorded an impairment charge of $7.0 million pertaining to a cost method investment in a development stage home products company due to an other-than-temporary decline in its fair value. As a result of the impairment, the carrying value of the investment was reduced to zero and the Company is not subject to further impairment or funding obligations with regard to this investment.

22. Contingencies

Litigation

The Company is a defendant in lawsuits that are ordinary routine litigation matters incidental to its businesses. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon the Company's results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested. Accordingly the Company believes the likelihood of material loss is remote.

Environmental

Compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not have a material effect on capital expenditures, earnings or the competitive position of Fortune Brands. Several of our subsidiaries have been designated as potentially responsible parties ("PRPs") under "Superfund" or similar state laws. As of December 31, 2016, eleven such instances have not been dismissed, settled or otherwise resolved. In calendar year 2017, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have an adverse effect on our results of operations, cash flows or financial condition. At December 31, 2017 and 2016, we had accruals of $0.7 million and $1.0 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Fortune Brands Home & Security, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Fortune Brands Home & Security Inc. and its subsidiaries as of December 31, 2017 and December 31, 2016, and the related consolidated statements of income, comprehensive income, cash flows and equity for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2). (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Victoria + Albert and Shaws from its assessment of internal control over financial reporting as of

December 31, 2017, because they were acquired by the Company in purchase business combinations during 2017. We have also excluded Victoria + Albert and Shaws from our audit of internal control over financial reporting. Victoria & Albert and Shaws are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 0.7% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2017.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, IL
February 28, 2018

We have served as the Company's auditor since 2011.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Company's management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial

reporting based on the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Based on our evaluation under the framework in *Internal Control — Integrated Framework* (2013) issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2017. The Company acquired Victoria + Albert in October 2017 and Shaws Since 1897 Limited ("Shaws") in July 2017, and therefore as permitted by the Securities and Exchange Commission, we excluded Victoria + Albert and Shaws from the scope of our management's assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2017. The total assets and total revenues of Victoria + Albert and Shaws represented 0.7% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2017.

PricewaterhouseCoopers LLP, the Company's independent public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, as stated in their report which appears herein.

(c) Changes in Internal Control Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

See the information under the captions "Election of Directors," "Corporate Governance — Board Committees — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the 2018 Proxy Statement, which information is incorporated herein by reference. See the information under the caption "Executive Officers of the Registrant" contained in Part I of this Annual Report on Form 10-K.

The Company's Board of Directors has adopted a Code of Business Conduct & Ethics which sets forth various policies and procedures intended to promote the ethical behavior of all of the Company's employees. The Company's Board of Directors has also adopted a Code of Ethics for Senior Financial Officers that applies to the Company's principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct & Ethics and the Code of Ethics for Senior Financial Officers are available, free of charge, on the Company's website, http://ir.fbhs.com/corporate-governance.cfm. A copy of these documents is also available and will be sent to stockholders free of charge upon written request to the Company's Secretary. Any amendment to, or waiver from, the provisions of the Code of Business Conduct & Ethics or the Code of Ethics for Senior Financial Officers that applies to any of those officers will be posted to the same location on the Company's website.

Item 11. Executive Compensation.

See the information under the captions "Director Compensation," "Corporate Governance — Board Committees — Compensation Committee," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Executive Compensation," "CEO Pay Ratio" and "Compensation Committee Report" contained in the 2018 Proxy Statement, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information under the caption “Certain Information Regarding Security Holdings” contained in the 2018 Proxy Statement, which information is incorporated herein by reference. See also the “Equity Compensation Plan Information” table contained in the 2018 Proxy Statement, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

See the information under the captions “Director Independence,” “Board Committees,” “Policies with Respect to Transactions with Related Persons” and “Certain Relationships and Related Transactions” contained in the 2018 Proxy Statement, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See the information under the captions “Fees of Independent Registered Public Accounting Firm” and “Approval of Audit and Non-Audit Services” in the 2018 Proxy Statement, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits.

(1) Financial Statements (all financial statements listed below are of the Company and its consolidated subsidiaries):

Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015 contained in Item 8 hereof.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015 contained in Item 8 hereof.

Consolidated Balance Sheets as of December 31, 2017 and 2016 contained in Item 8 hereof.

Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015 contained in Item 8 hereof.

Consolidated Statements of Equity for the years ended December 31, 2017, 2016 and 2015 contained in Item 8 hereof.

Notes to Consolidated Financial Statements contained in Item 8 hereof.

Report of Independent Registered Public Accounting Firm contained in Item 8 hereof.

(2) Financial Statement Schedules

See Financial Statement Schedule of the Company and subsidiaries at page 89.

(3) Exhibits

2.1. Stock Purchase Agreement dated as of August 19, 2014 by and among Fortune Brands Home & Security, Inc., Fortune Brands Windows & Doors, Inc. and Ply Gem Industries, Inc. is incorporated herein by reference to Exhibit 2.1 to the Company’s Quarterly Report on Form 10-Q filed on October 31, 2014, Commission file number 1-35166.†

2.2. Agreement and Plan of Merger, dated as of March 30, 2015, by and among Fortune Brands Home & Security, Inc., Tahiti Acquisition Corp. and Norcraft Companies, Inc. is incorporated herein by reference to Exhibit 99.2 to the Company’s Current Report on Form 8-K filed on March 30, 2015, Commission file number 1-35166.†

3.1. Restated Certificate of Incorporation of Fortune Brands Home & Security, Inc., dated as of September 27, 2011, is incorporated herein by reference to Exhibit 3(i) to the Company's Quarterly Report on Form 10-Q filed on November 5, 2012, Commission file number 1-35166.

3.2. Amended and Restated Bylaws of Fortune Brands Home & Security, Inc., as adopted September 27, 2011, are incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on September 30, 2011, Commission file number 1-35166.

4.1. Indenture, dated as of June 15, 2015, by and among Fortune Brands Home & Security, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent is incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 16, 2015, Commission file number 1-35166.

4.2. First Supplemental Indenture, dated as of June 15, 2015, by and among Fortune Brands Home & Security, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 16, 2015, Commission file number 1-35166.

4.3. Form of global certificate for the Company's 3.000% Senior Notes due 2020 is incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on June 16, 2015, Commission file number 1-35166.

4.4. Form of global certificate for the Company's 4.000% Senior Notes due 2025 is incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K on June 16, 2015, Commission file number 1-35166.

10.1. Tax Allocation Agreement, dated as of September 28, 2011, by and between Fortune Brands Home & Security, Inc. and Fortune Brands, Inc. (N/K/A Beam Suntory Inc.) is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2011, Commission file number 1-35166.

10.2. Indemnification Agreement, dated as of September 14, 2011, by and between Fortune Brands Home & Security, Inc. and Fortune Brands, Inc. (N/K/A Beam Suntory Inc.) is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 15, 2011, Commission file number 1-35166.

10.3. Credit Agreement, dated as of August 22, 2011, among Fortune Brands Home & Security, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A. is incorporated herein by reference to Exhibit 10.6 to Amendment No. 6 to the Company's Registration Statement on Form 10 filed on August 31, 2011, Commission file number 1-35166.

10.4. Amendment No. 1 to Credit Agreement dated July 23, 2013, among Fortune Brands Home & Security, Inc., JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto, is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 1, 2013, Commission file number 1-35166.

10.5. Amendment No. 2 to Credit Agreement dated August 20, 2014, among Fortune Brands Home & Security, Inc., JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto, is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on October 31, 2014, Commission file number 1-35166.

10.6. $1,250,000,000 Amended and Restated Credit Agreement, dated as of June 30, 2016, by and among the Company, the lenders party thereto and JPMorgan Chas Bank, N.A., as Administrative Agent, is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2016, Commission file number 1-35166.

10.7. Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed on October 3, 2011, Commission file number 333-177145.*

10.8. Fortune Brands Home & Security, Inc. Annual Executive Incentive Compensation Plan is incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement filed on March 5, 2013, Commission file number 1-35166.*

10.9. Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed on March 5, 2013, Commission file number 1-35166.*

10.10. Amendment Number One to the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan, dated as of August 2, 2016, is incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2016, Commission file number 1-35166.*

10.11. Form of Founders Grant Stock Option Award Notice & Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2011, Commission file number 1-35166.*

10.12. Form of 2012 Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on February 22, 2012, Commission file number 1-35166.*

10.13. Form of 2013 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 27, 2013, Commission file number 1-35166.*

10.14. Form of 2014 Performance Share Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed on February 26, 2014, Commission file number 1-35166.*

10.15. Form of 2014 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed on February 26, 2014, Commission file number 1-35166.*

10.16. Form of 2014 Restricted Stock Unit Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on February 26, 2014, Commission file number 1-35166.*

10.17. Form of 2016 Performance Share Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2016, Commission file number 1-35166.*

10.18. Form of 2016 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2016, Commission file number 1-35166.*

10.19. Form of 2016 Restricted Stock Unit Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on February 28, 2017, Commission file number 1-35166.*

10.20. Form of Performance Share Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 28, 2017, Commission file number 1-35166.*

10.21. Form of Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed on February 28, 2017, Commission file number 1-35166.*

10.22. Form of Restricted Stock Unit Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed on February 28, 2017, Commission file number 1-35166.*

10.23. Form of Agreement for the Payment of Benefits Following Termination of Employment between the Company and each of Christopher J. Klein, Patrick D. Hallinan, Robert K. Biggart, Sheri R. Grissom, Tracey L. Belcourt, Brian C. Lantz and Marty Thomas.*

10.24. Form of Agreement for the Payment of Benefits Following Termination of Employment for each of Michael P. Bauer, Nicholas I. Fink, Brett E. Finley, David M. Randich and David B. Lingafelter.*

10.25. Fortune Brands Home & Security, Inc. Directors' Deferred Compensation Plan (as Amended and Restated Effective January 1, 2013) is incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on February 27, 2013, Commission file number 1-35166.*

10.26. Fortune Brands Home & Security, Inc. Non-Employee Director Stock Election Program is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed on February 22, 2012, Commission file number 1-35166.*

10.27. Fortune Brands Home & Security, Inc. Deferred Compensation Plan, amended & restated as of February 27, 2017 is incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on February 28, 2017, Commission file number 1-35166.*

21. Subsidiaries of the Company.

23. Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.

24. Powers of Attorney relating to execution of this Annual Report on Form 10-K.

31.1. Certificate of Chief Executive Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.

31.2. Certificate of Chief Financial Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.

32. Joint CEO/CFO Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002.

101. The following materials from the Fortune Brands Home & Security, Inc. Annual Report on Form 10-K for the year ended December 31, 2017 formatted in extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity, and (vi) the Notes to the Consolidated Financial Statements.

* Indicates the exhibit is a management contract or compensatory plan or arrangement.

† The Company agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

Item 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORTUNE BRANDS HOME & SECURITY, INC.
(The Company)

Date: February 28, 2018

By: /s/ CHRISTOPHER J. KLEIN
Christopher J. Klein
Chief Executive Officer (principal executive officer)

/s/ PATRICK D. HALLINAN
Patrick D. Hallinan
Senior Vice President and Chief Financial Officer
(principal financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ CHRISTOPHER J. KLEIN
Christopher J. Klein, Chief Executive Officer and Director (principal executive officer)
Date: February 28, 2018

/s/ PATRICK D. HALLINAN
Patrick D. Hallinan., Senior Vice President and Chief Financial Officer (principal financial officer)
Date: February 28, 2018

/s/ DANNY LUBURIC
Danny Luburic, Vice President — Controller (principal accounting officer)
Date: February 28, 2018

/s/ ANN FRITZ HACKETT*
Ann Fritz Hackett, Director
Date: February 28, 2018

/s/ SUSAN S. KILSBY*
Susan S. Kilsby, Director
Date: February 28, 2018

/s/ A.D. DAVID MACKAY*
A.D. David Mackay, Director
Date: February 28, 2018

/s/ JOHN G. MORIKIS*
John G. Morikis, Director
Date: February 28, 2018

/s/ DAVID M. THOMAS*
David M. Thomas, Director
Date: February 28, 2018

/s/ RONALD V. WATERS, III*
Ronald V. Waters, III, Director
Date: February 28, 2018

/s/ NORMAN H. WESLEY*
Norman H. Wesley, Director
Date: February 28, 2018

*By: /s/ ROBERT K. BIGGART
Robert K. Biggart, Attorney-in-Fact

Schedule II Valuation and Qualifying Accounts
For the years ended December 31, 2017, 2016 and 2015

(In millions)	Balance at Beginning of Period	Charged to Expense	Reclassifications[c]	Write-offs and Deductions[a]	Business Acquisition[b]	Balance at End of Period
2017:						
Allowance for cash discounts, returns and sales allowances	$ 68.2	$ 205.7	$3.0	$ 192.9	$—	$ 84.0
Allowance for doubtful accounts	7.4	0.2	—	4.5	0.2	3.3
Allowance for deferred tax assets	16.4	(5.4)	—	—	—	11.0
2016:						
Allowance for cash discounts, returns and sales allowances	$ 50.3	$ 148.6	$ —	$ 130.7	$—	$ 68.2
Allowance for doubtful accounts	5.8	4.3	—	2.7	—	7.4
Allowance for deferred tax assets	19.7	(3.3)	—	—	—	16.4
2015:						
Allowance for cash discounts, returns and sales allowances	$ 45.1	$ 150.7	$ —	$ 145.5	$—	$ 50.3
Allowance for doubtful accounts	5.4	2.8	—	2.4	—	5.8
Allowance for deferred tax assets	12.0	6.4	—	—	1.3	19.7

(a) Net of recoveries of amounts written off in prior years and immaterial foreign currency impact.

(b) Represents a valuation allowance on an acquired net operating loss carryforward (Norcraft Canada).

(c) Represents a reclassification of certain customer program liabilities to sales allowances (reduction to accounts receivable) in Security segment during 2017.

Reconciliation Of Operating Income Before Charges/Gains To GAAP Operating Income

(In millions) (Unaudited)

	For the Twelve Months Ended						
	December 31,			December 31,			
	2017	2016	% Change	2015	2014	2013	2012
CABINETS							
Operating income before charges/gains	$272.4	$259.6	5	$195.7	$138.3	$120.6	$ 40.0
Restructuring charges [a]	(1.4)	(1.8)	22	(1.2)	(0.4)	(2.2)	(4.7)
Other charges [a]							
Cost of products sold	(1.6)	—	(100)	(2.1)	—	(0.1)	(8.9)
Selling, general and administrative expenses	(2.2)	—	(100)	—	—	—	—
Asset impairment charges	—	—	—	—	—	(21.2)	(5.9)
Operating income (GAAP)	$267.2	$257.8	4	$192.4	$137.9	$ 97.1	$ 20.5
PLUMBING							
Operating income before charges/gains	$370.9	$332.2	12	$292.5	$260.2	$229.7	$169.2
Restructuring charges [a]	(2.8)	(1.6)	(75)	(6.4)	(0.5)	(0.6)	—
Other charges [a]							
Cost of products sold	(2.1)	(4.1)	49	(0.1)	(0.2)	(0.6)	—
Selling, general and administrative expenses	(2.4)	(0.2)	(1,100)	(0.6)	(0.6)	(0.2)	—
Operating income (GAAP)	$363.6	$326.3	11	$285.4	$258.9	$228.3	$169.2
DOORS							
Operating income before charges/gains	$ 74.5	$ 62.3	20	$ 44.0	$ 29.2	$ 15.3	$ 6.0
Restructuring charges [a]	0.1	(0.4)	125	—	—	—	—
Other charges [a]							
Cost of products sold	—	—	—	—	—	—	—
Selling, general and administrative expenses	(0.1)	—	(100)	—	—	—	—
Asset impairment charges	—	—	—	—	—	—	(7.3)
Operating income (GAAP)	$ 74.5	$ 61.9	20	$ 44.0	$ 29.2	$ 15.3	$ (1.3)
SECURITY							
Operating income before charges/gains	$ 88.5	$ 81.6	8	$ 69.3	$ 59.2	$ 55.4	$ 54.3
Restructuring charges [a]	(4.2)	(10.1)	58	(8.1)	(4.1)	—	—
Other charges [a]							
Cost of products sold	(5.6)	(4.2)	(33)	(5.3)	(5.7)	—	—
Selling, general and administrative expenses	(0.7)	(0.7)	—	—	—	—	—
Asset impairment charges	(3.2)	—	(100)	—	—	—	—
Loss on sale of product line	(2.4)	—	(100)	—	—	—	—
Operating income (GAAP)	$ 72.4	$ 66.6	9	$ 55.9	$ 49.4	$ 55.4	$ 54.3
CORPORATE							
Operating income before charges/gains	$ (85.2)	$ (80.8)	(5)	$ (69.2)	$ (65.0)	$ (78.2)	$ (60.8)
Restructuring charges [a]	—	—	—	(0.9)	(2.0)	—	—
Other charges [a]							
Selling, general and administrative expenses	(5.1)	(0.1)	(5,000)	(15.1)	—	—	—
General and administrative expense (GAAP)	(90.3)	(80.9)	(12)	(85.2)	(67.0)	(78.2)	(60.8)
Defined benefit plan income before actuarial gains/(losses)	$ 4.2	$ 2.9	45	$ 6.1	$ 8.8	$ 10.2	$ 3.5
Defined benefit plan actuarial gains/(losses) [b]	0.5	(1.9)	126	(2.5)	(13.7)	(5.1)	(42.2)
Defined benefit plan income/(expense) (GAAP)	4.7	1.0	370	3.6	(4.9)	5.1	(38.7)
Corporate expense (GAAP)	$ (85.6)	$ (79.9)	(7)	$ (81.6)	$ (71.9)	$ (73.1)	$ (99.5)

Reconciliation Of Operating Income Before Charges/Gains To GAAP Operating Income (continued) (In millions) (Unaudited)

	For the Twelve Months Ended						
	December 31,			December 31,			
	2017	2016	% Change	2015	2014	2013	2012
FORTUNE BRANDS HOME & SECURITY							
Operating income before charges/gains	$725.3	$657.8	10	$538.4	$430.7	$353.0	$212.2
Restructuring charges [a]	(8.3)	(13.9)	40	(16.6)	(7.0)	(2.8)	(4.7)
Other charges [a]							
Cost of products sold	(9.3)	(8.3)	(12)	(7.5)	(5.9)	(0.7)	(8.9)
Selling, general and administrative expenses	(10.5)	(1.0)	(950)	(15.7)	(0.6)	(0.2)	—
Asset impairment charges	(3.2)	—	(100)	—	—	(21.2)	(13.2)
Loss on sale of product line	(2.4)	—	(100)	—	—	—	—
Defined benefit plan actuarial gains/(losses) [b]	0.5	(1.9)	126	(2.5)	(13.7)	(5.1)	(42.2)
Operating income (GAAP)	$692.1	$632.7	9	$496.1	$403.5	$323.0	$143.2

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, loss on the sale of a product line 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.

(a) (b) For definitions of Non-GAAP measures, see Definitions of Terms on page 94.

Before Charges/Gains Operating Margin To Operating Margin

(Unaudited)

	For the Twelve Months Ended December 31,	
	2017	2012
CABINETS		
Before charges/gains operating margin	11.0%	3.0%
Restructuring & other charges	(0.2%)	(1.0%)
Asset impairment charges	—	(0.5%)
Operating margin	10.8%	1.5%
PLUMBING		
Before charges/gains operating margin	21.6%	15.4%
Restructuring & other charges	(0.5%)	—
Operating margin	21.1%	15.4%
DOORS		
Before charges/gains operating margin	14.8%	1.9%
Restructuring & other charges	—	—
Asset impairment charges	—	(2.3%)
Operating margin	14.8%	(0.4%)
SECURITY		
Before charges/gains operating margin	14.9%	14.1%
Restructuring & other charges	(1.8%)	—
Asset impairment charges	(0.5%)	—
Loss on sale of product line	(0.4%)	—
Operating margin	12.2%	14.1%
FORTUNE BRANDS HOME & SECURITY		
Before charges/gains operating margin	13.7%	6.8%
Restructuring & other chargess	(0.4%)	(0.4%)
Asset impairment charges	(0.2%)	(0.5%)
Loss on sale of product line	—	—
Defined benefit plan actuarial gains/(losses)	—	(1.3%)
Operating margin	13.1%	4.6%

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 impairment charges, and for FBHS, the impact of income and expense from actuarial gains or losses associated with our defined benefit plans recorded in the Corporate segment, 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.

2017, 2016, 2015, 2014, 2013 & 2012 Diluted EPS Before Charges/Gains Reconciliation

(Unaudited)

	Twelve Months Ended December 31,							
	2017	2016	% Change vs 2017	2015	2014	2013	2012	% Change vs 2017
Earnings per common share — diluted								
EPS before charges/gains [d]	$3.08	$2.75	12	$2.07	$1.74	$1.37	$0.83	271
Restructuring and other charges	(0.10)	(0.10)	—	(0.10)	(0.05)	(0.02)	(0.05)	(100)
Asset impairment charges [e]	(0.07)	—	—	—	(0.01)	(0.12)	(0.05)	(40)
Income tax gains/(losses)	0.16	(0.02)	900	—	0.01	—	0.08	100
Loss on sale of product line	(0.02)	—	—	—	—	—	—	—
Defined benefit plan actuarial gains/(losses)	—	(0.01)	100	(0.01)	(0.05)	(0.02)	(0.16)	100
Write-off of prepaid debt issuance costs	—	(0.01)	100	—	—	—	—	—
Norcraft transaction costs [c]	—	—	—	(0.08)	—	—	—	—
Diluted EPS — continuing operations	$3.05	$2.61	17	$1.88	$1.64	$1.21	$0.65	369

For the twelve months ended December 31, 2017, diluted EPS before charges/gains is 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 ($0.4 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).

(c) (d) (e) For definitions of Non-GAAP measures, see Definitions of Terms on page 94.

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. At Corporate, other charges incurred represent external costs directly related to the acquisition of Norcraft and primarily include expenditures from banking, legal, accounting and other similar services for the twelve months ended December 31, 2015. 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 and $2.1 million for the twelve months ended December 31, 2015, in our Cabinets segment; these charges are classified in cost of products sold. Other charges also included in our Plumbing segment include $1.6 million of compensation expense related 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 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 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)	For Years Ending December 31,											
	2017		2016		2015		2014		2013		2012	
	%	$	%	$	%	$	%	$	%	$	%	$
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
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
Discount rate at December 31:												
Pension benefits	3.8%		4.3%		4.6%		4.2%		5.0%		4.2%	
Postretirement benefits	3.4%		3.4%		4.1%		3.5%		4.3%		3.7%	

(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. 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.

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report contains certain "forward-looking statements" regarding business strategies, market potential, future financial performance and other matters, including all statements with words such as "will," "should," "could," "expects," "look to" or "potential." Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations at the time of this Annual Report. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those indicated in such statements, including the risks described in Item 1A of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Except as required by law, we undertake no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or changes to future results over time or otherwise.

Use of Non-GAAP Financial Information

This Annual Report includes financial measures, including operating income before charges/gains, operating margin before charges/gains and diluted EPS before charges/gains, that are derived on the basis of methodologies other than in accordance with U.S. generally accepted accounting principles (GAAP). We offer these measures to assist investors in assessing our financial performance and liquidity under GAAP, but investors should not rely on these measures as a substitute for any GAAP measure. In addition, these measures may be inconsistent with similarly titled measures presented by other companies. For more information, including reconciliations of these non-GAAP financial measures to the most comparable GAAP measures, please see the reconciliation tables in this Annual Report.

CORPORATE DATA

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520 Lake Cook Road
Suite 300
Deerfield, IL 60015-5611
847-484-4400

WEBSITE
www.FBHS.com

EMAIL
Mail@FBHS.com

REGISTERED OFFICE
251 Little Falls Drive
Wilmington, DE 19808

COMMON STOCK
Fortune Brands Home & Security, Inc., common stock is listed on the New York Stock Exchange. Our trading symbol is FBHS.

ANNUAL MEETING
The Annual Meeting of Stockholders will take place on Tuesday, May 1, 2018, at 8:00 a.m. (CDT) at The Renaissance Chicago North Shore Hotel
933 Skokie Boulevard
Northbrook, IL 60062

TRANSFER AGENT FOR COMMON STOCK
EQ Shareowner Services
1110 Centre Pointe Curve
Suite 101
Mendota Heights,
MN 55120-4100
800-468-9716

QUARTERLY EARNINGS, NEWS SUMMARIES, COPIES OF NEWS RELEASES AND CORPORATE PUBLICATIONS
ir.FBHS.com

Duplicate mailings of proxy materials to the same address are costly and may be inconvenient. Stockholders who wish to eliminate duplicate mailings must provide their request in writing. Eliminating duplicate mailings will not affect your voting rights.

FOR INQUIRIES
Fortune Brands Home & Security, Inc.
Shareholder Services
520 Lake Cook Road
Suite 300
Deerfield, IL 60015-5611

SEC FILINGS
Our Annual Report on Form 10-K, as filed with the SEC for the last fiscal year, and this 2017 Annual Report are being distributed in connection with our 2018 Annual Meeting of Stockholders. You may also view electronic copies of our Annual Report on Form 10-K and other documents we file with the SEC on our investor relations website, ir.FBHS.com.

Fortune Brands Home & Security, Inc. is a holding company with subsidiaries engaged in the manufacture and sale of home and security products. To make this Annual Report easier to read, we've used "we," "our," "FBHS," "Fortune Brands" and similar terms to describe the activities of Fortune Brands Home & Security, Inc., or its subsidiary companies or both, depending on the context.

KEY BRANDS

CABINETS

PLUMBING

DOORS

SECURITY

Throughout this Annual Report, we refer to numerous trademarks, trade names and brands. MasterBrand Cabinets, WoodCrafters, Norcraft, Moen, Riobel, ROHL, Perrin & Rowe, Shaws, Victoria + Albert, Therma-Tru, Master Lock and SentrySafe are among the trademarks or trade names held by subsidiaries of Fortune Brands Home & Security, Inc., and are registered, pending registration, and/or common law marks in the U.S. and/or various countries.

Therma-Tru was awarded the No. 1 in quality and most-used entry door brand in the United States among building professionals, based on the 2017 *Builder* magazine Brand Use Study.

Occasionally, in conveying information, we refer to trademarks of third parties. Such trademarks are the property of their respective owners.

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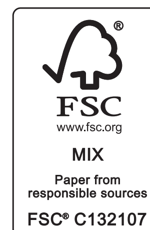

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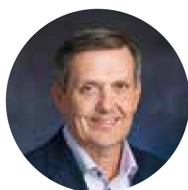
BOARD OF DIRECTORS



DAVID M. THOMAS
Chairman of the Board,
Former Chairman and
Chief Executive Officer
IMS Health Incorporated

CHRISTOPHER J. KLEIN
Chief Executive Officer
Fortune Brands Home &
Security, Inc.

ANN FRITZ HACKETT
Partner and Co-Founder
Personal Pathways LLC

SUSAN SALTZBART KILSBY
Former Senior Advisor
Credit Suisse Group AG

A.D. DAVID MACKAY
Former President and
Chief Executive Officer
Kellogg Company

JOHN G. MORIKIS
Chairman, President and
Chief Executive Officer
The Sherwin-Williams Company

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Former President and
Chief Executive Officer
LoJack Corporation

NORMAN H. WESLEY
Former Chairman and
Chief Executive Officer
Fortune Brands, Inc.

LEADERSHIP TEAM

CHRISTOPHER J. KLEIN
Chief Executive Officer

PATRICK D. HALLINAN
Senior Vice President and
Chief Financial Officer

MICHAEL P. BAUER
President
Master Lock Company

TRACEY L. BELCOURT
Senior Vice President
Global Growth and Development

ROBERT K. BIGGART
Senior Vice President
General Counsel and Secretary

NICHOLAS I. FINK
President
Global Plumbing Group

BRETT E. FINLEY
President
Therma-Tru

SHERI R. GRISSOM
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BRIAN C. LANTZ
Senior Vice President
Communications and
Corporate Administration

DAVID M. RANDICH
President
MasterBrand Cabinets

MARTY THOMAS
Senior Vice President
Operations and Supply Chain
Strategy

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ABOUT THE COVER

New acquisitions into Fortune Brands' Global Plumbing Group (GPG) continue to elevate our product, brand and price-point offering, and further fuel the platform's ability to drive accelerated organic and incremental growth.