MASCO

MASCO CORPORATION BUSINESS AND FINANCIAL HIGHLIGHTS

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In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has accounted for the 2004 planned dispositions of Jung Pumpen, The Alvic Group, Alma Kuchen, E. Missel and SKS Group, the first quarter 2005 planned dispositions of Gebhardt Consolidated and GMU Group and the fourth quarter 2005 additional dispositions of Zenith Products and Aran Group as discontinued operations.

Fourth Quarter 2005

- Net sales from continuing operations for the quarter increased six percent to $3.1 billion, primarily from organic growth, with North American sales increasing nine percent and International sales decreasing eight percent. In local currencies, International sales were flat compared with the fourth quarter of 2004.
- Sales of assembled cabinets, plumbing products and windows in North America were particularly strong in the quarter increasing in the aggregate over 13 percent compared with the fourth quarter of 2004. Installation and Other Services sales were also strong and increased 11 percent compared with the fourth quarter of 2004.
- Sales at retail continued the relatively slower growth exhibited in the third quarter. Key retailer sales from continuing operations increased five percent in the 2005 fourth quarter compared with the fourth quarter of 2004 and a two percent increase in the third quarter of 2005. The Company believes retail sales were negatively impacted by higher energy costs adversely affecting lower-income consumers and inventory adjustments by certain retail customers.
- Income from continuing operations for the quarter was $211 million (excluding a non-cash, after-tax charge of $69 million for goodwill impairment related to certain European businesses) compared with $243 million (excluding a non-cash, after-tax charge of $104 million for goodwill impairment related to certain European businesses) for the fourth quarter of 2004. Reported income from continuing operations, including the goodwill impairment charges, was $142 million and $139 million for the fourth quarters of 2005 and 2004, respectively.
- Excluding the charges for goodwill impairment in both periods, reported earnings from continuing operations were $.50 per common share for the fourth quarter of 2005, compared with the Company's most recent guidance of $.48 to $.52 per common share, and $.54 per common share for the fourth quarter of 2004.

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Fourth Quarter 2005 (continued)

- Including the charges for goodwill impairment in both periods, reported earnings from continuing operations were $.34 per common share for the fourth quarter of 2005 and $.31 per common share for the fourth quarter of 2004.
- Results for the fourth quarter of 2005 benefited from net gains from the sale of financial investments and other assets of $.02 per common share offset by $.02 per common share from an adjustment of deferred taxes related to certain European operations. Results for the fourth quarter of 2004 benefited from net gains from the sale of financial investments of $.06 per common share partially offset by an impairment charge of $.03 per common share related to the Company's investment in Furniture Brands International common stock. Results for the 2004 fourth quarter also benefited from a reduction in the Company's tax rate related to the utilization of foreign tax credits generated in the 2004 fourth quarter on distributions of foreign earnings which benefited earnings by $.02 per common share.
- Sales changes by segment, which were substantially all organic growth, in the 2005 fourth quarter versus the 2004 fourth quarter were:
  - Cabinets and Related Products sales increased six percent;
  - Plumbing Products sales increased four percent;
  - Installation and Other Services sales increased 11 percent;
  - Decorative Architectural Products sales declined one percent; and
  - Other Specialty Products sales increased seven percent.
- Sales in certain segments were negatively impacted by weaker foreign currencies and in addition, inventory adjustments by certain retail customers (principally in the Decorative Architectural Products segment).

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Fourth Quarter 2005 (concluded)

- Gross margins were 27.6 percent in the fourth quarter of 2005 compared with 29.8 percent in the fourth quarter of 2004. Operating profit margins as reported were 10.2 percent in the fourth quarter of 2005 compared with 8.8 percent in the fourth quarter of 2004. Excluding non-cash, pre-tax charges for goodwill impairment of $69 million in the fourth quarter of 2005 and $112 million in the fourth quarter of 2004, operating profit margins were 12.4 percent in the fourth quarter of 2005 compared with 12.5 percent in the fourth quarter of 2004.
- Results for the fourth quarter of 2005 include the positive impact of higher sales volume, which was offset by the negative effect of previously communicated increases in a number of operating expenses, including such items as commodity, freight, energy and other petroleum-based product costs.
- SG&A expenses as a percent of sales, including general corporate expense, were 15.2 percent in the fourth quarter of 2005 and 17.3 percent in the fourth quarter of 2004.
- General corporate expense was 1.5 percent of sales in the fourth quarter of 2005 compared with 2.0 percent in the comparable period of 2004.
- The reported tax rates on income from continuing operations of 46.8 percent and 43.3 percent for the fourth quarters of 2005 and 2004, respectively, principally reflect the impact of a lower tax benefit on the goodwill impairment charges. Excluding the goodwill impairment charges in 2005 and 2004 and the adjustment of deferred taxes related to certain European operations in 2005 and the impact of the distribution of foreign earnings in 2004 the Company's tax rate was 35 percent in the fourth quarters of both 2005 and 2004.
- The Company's diluted common shares for purposes of calculating earnings per common share were 419 million for the fourth quarter of 2005 compared with 451 million for the fourth quarter of 2004.

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Full-Year 2005

- Net sales from continuing operations for 2005 increased seven percent to $12.6 billion compared with $11.9 billion for 2004. North American sales increased eight percent and International sales increased one percent. In local currencies, International sales also increased one percent.
- Sales of assembled cabinets, installation services and windows in North America were particularly strong in 2005.
- For the full-year 2005, key retailer sales were $3.8 billion, an increase of approximately four percent over $3.7 billion for 2004.
- Sales increases by segment, which were substantially all organic growth, for 2005 versus 2004 were:
  - Cabinets and Related Products sales increased eight percent;
  - Plumbing Products sales increased four percent;
  - Installation and Other Services sales increased 11 percent;
  - Decorative Architectural Products sales increased four percent; and
  - Other Specialty Products sales increased four percent.
- Excluding the charges for goodwill impairment in 2005 and 2004, earnings from continuing operations for 2005 were $2.19 per common share, compared with the Company's most recent guidance, as adjusted for discontinued operations, of $2.16 to $2.20 per common share, and $2.31 per common share for 2004.
- The Company sold Zenith Products in North America and Aran Group in Europe in the fourth quarter of 2005 with combined annual sales of approximately $200 million for aggregate proceeds of approximately $200 million. Under Generally Accepted Accounting Principles, the net gain on these transactions, along with 2005 full-year and prior period operating results of these companies, is reflected in discontinued operations. The impact of including these businesses in discontinued operations is to reduce full-year results of continuing operations by $.05 per common share.

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Full-Year 2005 (continued)

- For the full-year 2005, reported income from continuing operations was $872 million compared with $949 million in 2004, including non-cash, after-tax charges for goodwill impairment of $69 million and $104 million in 2005 and 2004, respectively. Reported earnings from continuing operations were $2.03 per common share compared with $2.08 per common share in 2004, including the non-cash, after-tax charges for goodwill impairment.
- Gross margins were 28.5 percent in 2005 compared with 30.9 percent in 2004. Operating profit margins as reported were 12.5 percent in 2005 compared with 13.4 percent in 2004. Excluding non-cash, pre-tax goodwill impairment charges of $69 million in 2005 and $112 million in 2004 and income related to the Behr litigation of $6 million in 2005 and $30 million in 2004, operating profit margins were 13.0 percent in 2005 compared with 14.1 percent in 2004.
- Full-year 2005 gross margins and operating margins were adversely impacted by increased commodity, freight, energy and other petroleum-based product costs, as well as a less favorable product mix.
- SG&A expenses as a percent of sales, including general corporate expense, were 15.6 percent in 2005 compared with

16.8 percent in 2004.
- General corporate expense was 1.5 percent of sales in 2005 compared with 1.6 percent in 2004.
- The Company's reported tax rate on income from continuing operations, excluding the goodwill impairment charges in 2005 and 2004, the adjustment of deferred taxes related to certain European operations in 2005 and the impact of the distributions of foreign earnings in 2004 was 35 percent for both full year 2005 and 2004. The Company anticipates that its tax rate on income from continuing operations for 2006 will approximate 36 percent.

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Full-Year 2005 (continued)

- Accounts receivable days at December 31, 2005 were 48 days compared with 49 days a year ago.
- Inventory days were 46 days at December 31, 2005 compared with 49 days a year ago.
- Accounts payable days were 36 days at both December 31, 2005 and 2004.
- Working capital at December 31, 2005 (defined as accounts receivable and inventories less accounts payable) improved to 15.9 percent of sales from 16.8 percent a year earlier.
- For the twelve months ended December 31, 2005 and December 31, 2004, return on invested capital was 13.0 percent and 12.0 percent, respectively. For the twelve months ended December 31, 2005 and December 31, 2004, return on invested capital (as reconciled) was 13.4 percent and 12.9 percent, respectively. The Company continues to believe that it will approximate its 15 percent return on invested capital goal by the end of 2006 and 18 percent goal by 2010.
- Capital expenditures including discontinued operations were $282 million or 2.2 percent of sales in 2005, compared with $310 million or 2.5 percent of sales in 2004. Certain capital expenditures principally related to capacity expansion and facility acquisitions that were originally expected to occur in 2005 will occur in 2006 and capital expenditures are expected to aggregate $420 million in 2006. Depreciation and amortization was $241 million in 2005 compared with $237 million in 2004.
- The Company repurchased 31 million shares of its common stock during 2005, of which eight million shares were repurchased in the fourth quarter. The Company had 29 million common shares remaining at December 31, 2005 under the March 2005 Board of Directors repurchase authorization of 50 million shares.

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Full-Year 2005 (concluded)

- In 2005 the Company returned $1.3 billion to shareholders through share repurchases (31 million) and dividends. For the three-year period (2003-2005) ended December 31, 2005, the Company has returned $3.6 billion to shareholders through the repurchase of 97 million shares and dividends.
- The Company increased its quarterly dividend in 2005 by 11 percent from $.18 to $.20 per common share. The increased quarterly dividend reflects the Company's favorable long-term outlook, strong balance sheet and cash flow and recent tax law changes, and makes 2005 the 47th consecutive year in which dividends have been increased.
- The Company's diluted common shares for purposes of calculating earnings per common share were 430 million for the year ended December 31, 2005 compared with 456 million for the year ended December 31, 2004.
- On June 10, 2005, the Company issued $500 million of fixed-rate 4.8% notes due 2015, resulting in net proceeds of $494 million. The Company issued this debt to take advantage of favorable interest rates and in anticipation of $800 million of debt maturing in March 2006.
- At the end of the year, the Company had a strong balance sheet, with over $2 billion in cash and marketable securities and $2 billion in unused bank lines. The Company will utilize $800 million of its cash to redeem debt maturing in March 2006.
- The Company's marketable securities had an aggregate cost basis of $94 million, with an aggregate market value of $115 million, including unrealized gains of $21 million at December 31, 2005.
- In 2005 free cash flow was over $1 billion. For the three-year period (2003-2005) ended December 31, 2005, the Company's free cash flow (defined as cash from operations less capital expenditures and before dividends) aggregated $3.4 billion.
- In 2005, the Company generated $193 million of cash from the net disposition of financial investments and $278 million from the net disposition of certain businesses.
- Debt as a percent of total capital was 49 percent at December 31, 2005 compared with 44 percent at December 31, 2004.

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2006 Outlook

- Based on the current market price for the Company's common stock, diluted common shares for the computation of earnings per common share at January 1, 2006 are 418 million. This excludes the impact of any 2006 repurchases of common stock.
- The Company believes that it will achieve further organic sales growth in 2006, and, based on current business trends, believes that it will achieve full-year earnings from continuing operations in a range of $2.35 to $2.45 per common share, including approximately $60 million of increased benefits to be realized in 2006 from our cost reduction programs.
- The Company's full-year guidance is based on housing starts declining five percent from 2005 levels, share repurchases of a minimum 20 million common shares, modest margin improvement reflecting selling price increases offsetting rising commodity costs and anticipated income from financial investments. The guidance also assumes no further significant commodity cost increases.
- The Company in January 2006 announced a planned plant closure in the Plumbing Products segment. The costs associated with the closure are expected to be incurred over the remainder of 2006. These costs and other costs and charges related to the Company's cost reduction initiatives are anticipated to aggregate approximately $70 million in 2006. Including this $70 million of anticipated costs (approximately $.11 per common share) guidance for earnings from continuing operations would be in a range of $2.24 to $2.34 per common share.
- While the Company will continue to provide annual guidance, it will no longer provide quarterly earnings guidance.

PROFIT IMPROVEMENT PROGRAMS

- The Company remains committed to its strategy of value creation and is focused on the simplification of its business model, cash flow generation, improvement in return on invested capital, and the return of cash to shareholders through share repurchases and dividends.Consistent with this strategy, the Company is pursuing a variety of initiatives to offset cost increases and increase operating profit, including sourcing programs, the restructuring of certain of its businesses including consolidations, manufacturing rationalization, headcount reductions, and other profit improvement programs.

- **Major Program Components:**

  - Asian sourcing has grown from $200 million in 2003, $450 million in 2004 to in excess of our $550 million goal in 2005. We have previously indicated that we save 25-30% on items we outsource to Asia.
  - Consolidations, together with divestitures, have reduced our business units from 67 in early 2003 to less than 40 at December 31, 2005.

- **Program Costs**

  We estimate that direct costs associated with our cost reductioninitiatives approximated $30 million in 2005, and anticipate that direct costs will approximate $70 million (primarily related to manufacturing plant closures) or $.11 per common share in 2006. The quarterly timing of recording costs in 2006 will be driven by events over the course of the year.

- **Program Benefits**

  We believe that we realized additional cost reduction benefits in 2005 of approximately $40 million. Additional cost reduction benefits in 2006 are expected to approximate $60 million. The Company expects to realize the full extent of the benefits from these initiatives in 2007 and beyond. Minimal additional costs related to implementing these programs are presently expected for 2007.
- We expect to provide further detail related to our cost reduction programs during our March 30, 2006 Investor Conference.

Statements contained herein may include certain forward-looking statements regarding Masco's future sales, earnings growth potential and other developments. Actual results may vary materially because of external factors such as interest rate fluctuations, changes in consumer spending and other factors over which management has no control. The Company believes that certain non-GAAP performance measures and ratios, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, the Company's reported results under accounting principles generally accepted in the United States. Additional information about our products, markets and conditions, which could affect our future performance, is contained in the Company's filings with the Securities and Exchange Commission and is available on Masco's website at www.masco.com. Masco undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.