Fourth Quarter 2011 Results

Forward Looking Statements

This presentation contains statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue,” “guidance”, or words of similar meaning. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this presentation. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: difficulties in integrating the Lochinvar acquisition or achieving the disclosed accretion, cost synergies or global expansion opportunities related to the acquisition; weakening in the high efficiency boiler market or a slowdown in the transition from non-condensing to condensing boilers; the ability to execute our acquisition strategy; significant volatility in raw material prices; competitive pressures on the company’s businesses; inability to implement pricing actions; instability in the company’s water products markets; further weakening in housing construction; further weakening in commercial construction; timing of any recoveries in housing or commercial construction; a slowdown in the Chinese economy; and adverse general economic conditions and capital market deterioration.

Forward-looking statements included in this presentation are made only as of the date of this presentation, and the company is under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the company, or persons acting on its behalf, are qualified entirely by these cautionary statements. This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. Non-GAAP financial measures are generally identified by “Adjusted” (Adj.), “Non-GAAP” or “Before Restructuring”.

2011 Highlights

- Record Sales (continuing operations) of $1.71 Billion
  - Fifteen percent increase; includes $76 million from Lochinvar
  - China still growing, up 29% to $370 million
- Record Earnings (continuing operations) of $2.11 per share
  - Excludes $.28 per share gain from hedged RBC shares and net settlement income
  - Lochinvar added $.07, including professional fees and purchase accounting charges
- Sale of Electrical Products Company
  - $700 million in cash, 2.83 million shares of RBC received in August
  - Gain on sale of $152 million
- Purchase of Lochinvar
  - $418 million in cash paid in August

Fourth Quarter Results: Continuing Operations

	2011	2010	change	% chg.
Sales	$475.8	$ 370.2	$105.6	29%
Earnings	$ 31.5	$ 20.5	$ 11.0	54%
EPS	$ 0.68	$ 0.44	$ 0.24	55%

(in millions, except per share)

Fourth Quarter Operating Earnings: Continuing Operations

	2011	2010	change	% chg.
Operating Earnings	$ 58.4	$ 43.6		
Add back: flood costs	$ -	$ 1.2		
Adjusted Operations	$ 58.4	$ 44.8	$ 13.6	30%
Corporate/Other	(8.5)	(13.1)	$ 4.6	35%
Adjusted EBIT	$ 49.9	$ 31.7	$ 18.2	57%
Operating Margin*				
Water Products	12.3%	12.1%		

(in millions, except margins)

2011 Results: Continuing Operations

	2011	2010	change	% chg.
Sales	$ 1,710.5	$ 1,489.3	$221.2	15%
Earnings	111.2	57.1		
Non-comparable items	(12.9)	21.6		
Adjusted Earnings	98.3	78.7	$ 19.6	25%
EPS	$ 2.39	$ 1.24		
Non-comparable items	$ (0.28)	$ 0.47		
Adjusted EPS	$ 2.11	$ 1.71	$ 0.40	23%

(in millions, except per share)

2011 Operating Earnings: Continuing Operations

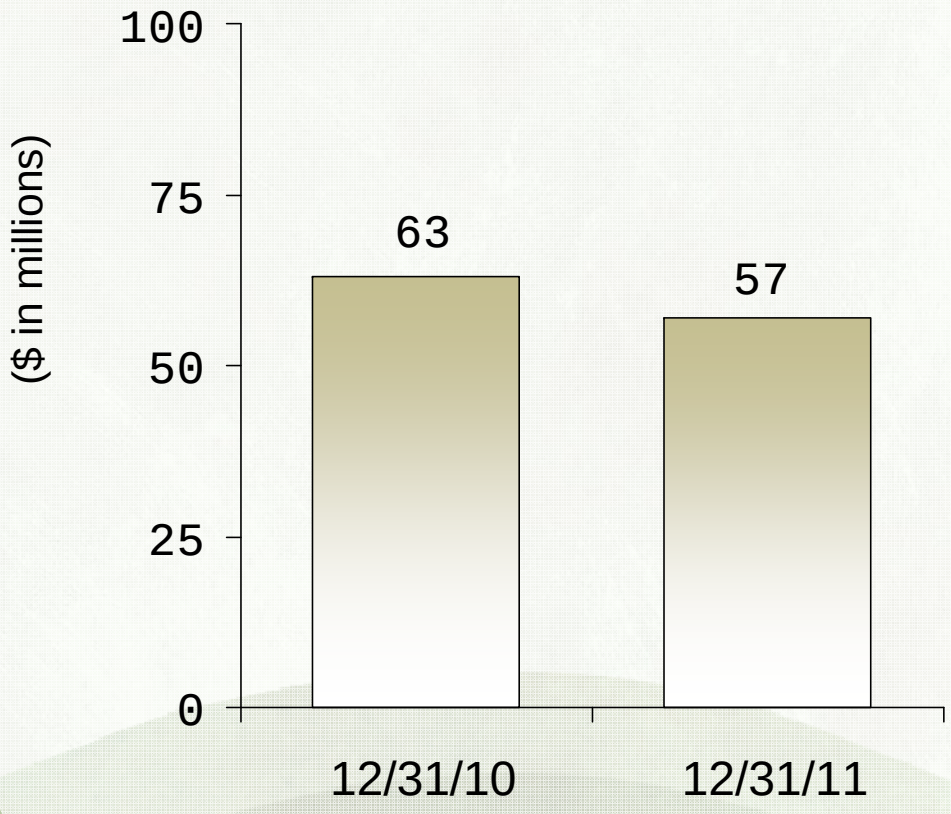
	2011	2010	change	% chg.
Operating Earnings	$ 196.5	$ 132.9		
Non-comparable items*	$ (3.0)	$ 35.4		
Adjusted Operations	$ 193.5	$ 168.3	$ 25.2	15%
Corporate/Other	(25.7)	(51.6)		
Non-comparable items*	(19.8)	-		
Adjusted Corporate	(45.5)	(51.6)	6.1	12%
Adjusted EBIT	$ 148.0	$ 116.7	$ 31.3	27%
Operating Margin*				
Water Products	11.3%	11.3%		

(in millions, except margins)

* In 2011, the impact from the hedged RBC shares was a gain of $19.8 million and net settlement income in second quarter was $3 million. In 2010, flood costs totaled $35.4 million.

AO Smith

Operating Cash Flow: Continuing Operations



2011 Highlights

- Cash flow of $57 million
- $175 million pension contribution (after-tax cash flow impact is $107 million)
- Debt to capital ratio of 30%
- Cash balance: $463 million*
- Full year
  - CAPX: $54 million
  - D&A: $47 million
  - Stock Repurchase:
    - Average $38.69 per share
    - 611,000 shares

* $30 million tax payment due in Q1 2012, related to the sale of EPC

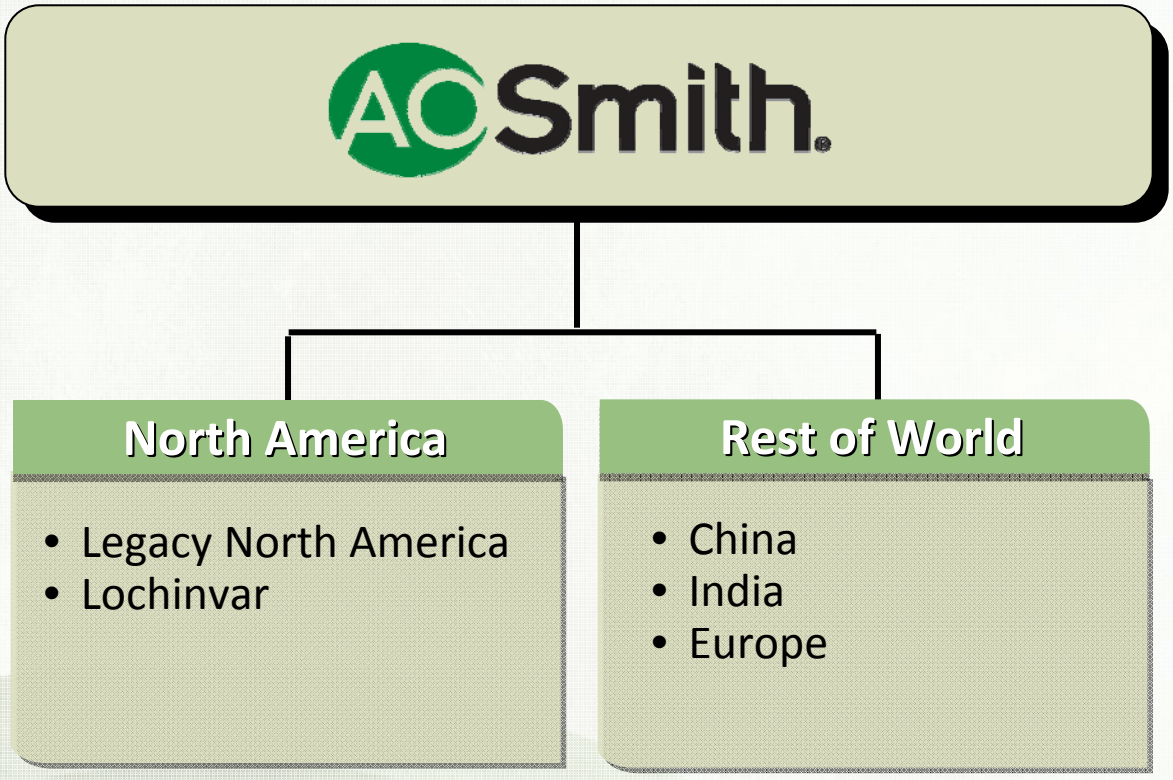
Relevant Data Points: Continuing Operations

	2011	2012
Operating Cash Flow	$ 57	$145 to $155
Capital Expenditures	$ 54	$80 to $90
Depreciation and Amortization	$ 47	$55 to $60
Tax Rate	31.1 %	30-31 %
Pension Contribution (pre-tax)	$ 175	none expected
Pension Expense	$ 3	$13 to 14
Corporate/Other Expenses (adj)	$ 46	$43 to $45

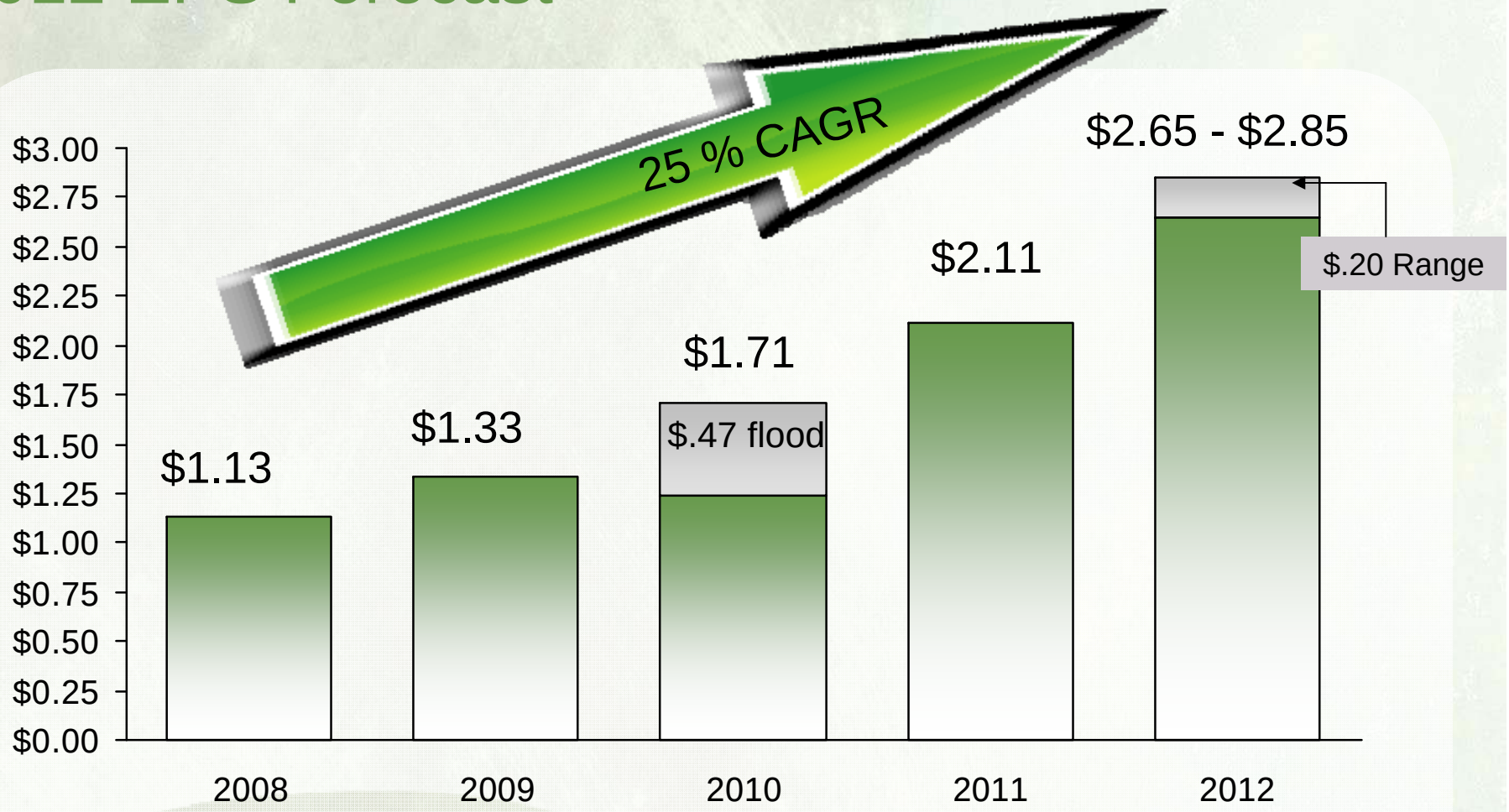
(in millions, except tax rate)

New Segment Reporting

AOS will report two geographic segments in the next 10-K



2012 EPS Forecast



2008, 2009 and 2010 are Non-GAAP, EPS all periods is Continuing Operations Only

2011 excludes the impact from the second quarter one-time settlement and increase to the warranty reserve and the hedged RBC shares. 2012 excludes the impact from future acquisitions and activity related to the RBC shares.

2012 Outlook

Highlights

- China growth at two times China GDP
- Continuing transition in North America to higher efficiency boilers; Lochinvar growing at over 10%; seasonality of boiler products for hydronic heating
- Stable North American replacement market; new construction flat; first quarter impacted negatively by Southern California prebuy

A. O. Smith Growth Strategy

Answers to your Questions