

Third Quarter 2009

# 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 release. Factors that could cause such a variance include the following: significant volatility in raw material prices; competitive pressures on the company’s businesses; inability to implement pricing actions; negative impact of future pension contributions on the company’s cash flow; instability in the company’s electric motor and 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; expected restructuring savings realized; further adverse changes in customer liquidity and general economic and capital market conditions; the impact of acquisition accounting or non-GAAP financial measures on the company’s financial statements or difficulties in closing on and integrating the proposed China acquisition, and realizing future growth and profit expectations.

Forward-looking statements included in this press release 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.

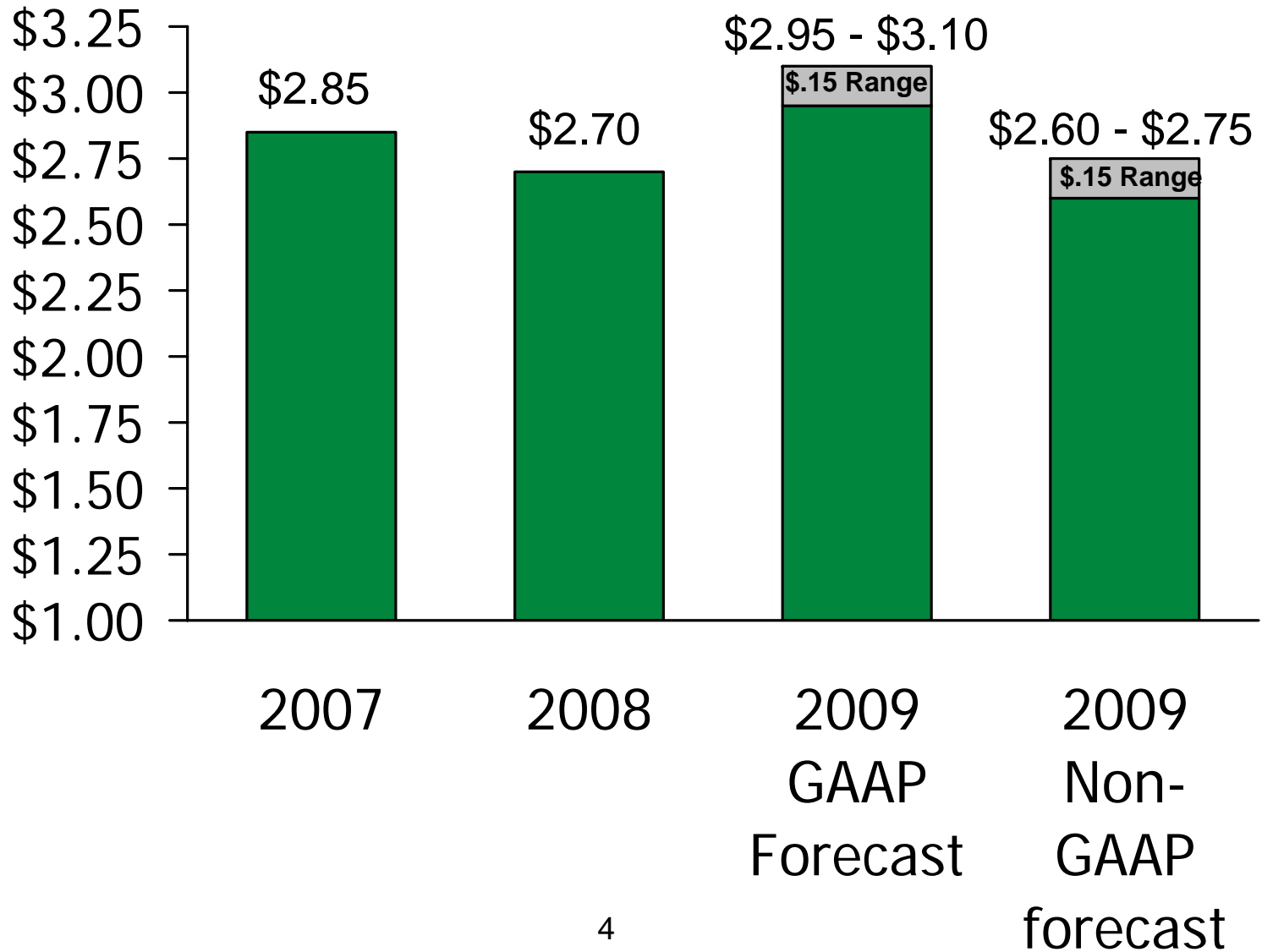
This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. Non-GAAP financial measures are generally identified by “Adjusted” (Adj.), “Non-GAAP” or “Before Restructuring”.

# Highlights

---

- Earnings increase over 60%, setting record
  - Aggressive cost control and lower raw material costs in both businesses
- Thirty-five percent growth in China water heaters
- Strong cash flow from operations
  - Significant inventory improvement
  - Paid down over \$100 million in debt
- Annual guidance increased

# 2009 EPS Forecast



# Third Quarter Results

	2009	2008	change	% chg.
Sales	\$ 501.5	\$ 602.7	\$ (101.2)	-17%
Net Earnings	34.6	21.4	13.2	62%
EPS	\$ 1.14	\$ 0.70	\$ 0.44	63%

2008 is non-GAAP

(in millions, except per share)

# Third Quarter Sales

	2009	2008	change	% chg.
Water Products	\$ 336.7	\$ 372.1	\$ (35.4)	-10%
Electrical Products	165.9	231.9	(66.0)	-28%
Intersegment	<u>(1.1)</u>	<u>(1.3)</u>	<u>0.2</u>	
Total Sales	<u><u>\$ 501.5</u></u>	<u><u>\$ 602.7</u></u>	<u><u>\$ (101.2)</u></u>	-17%

(in millions)

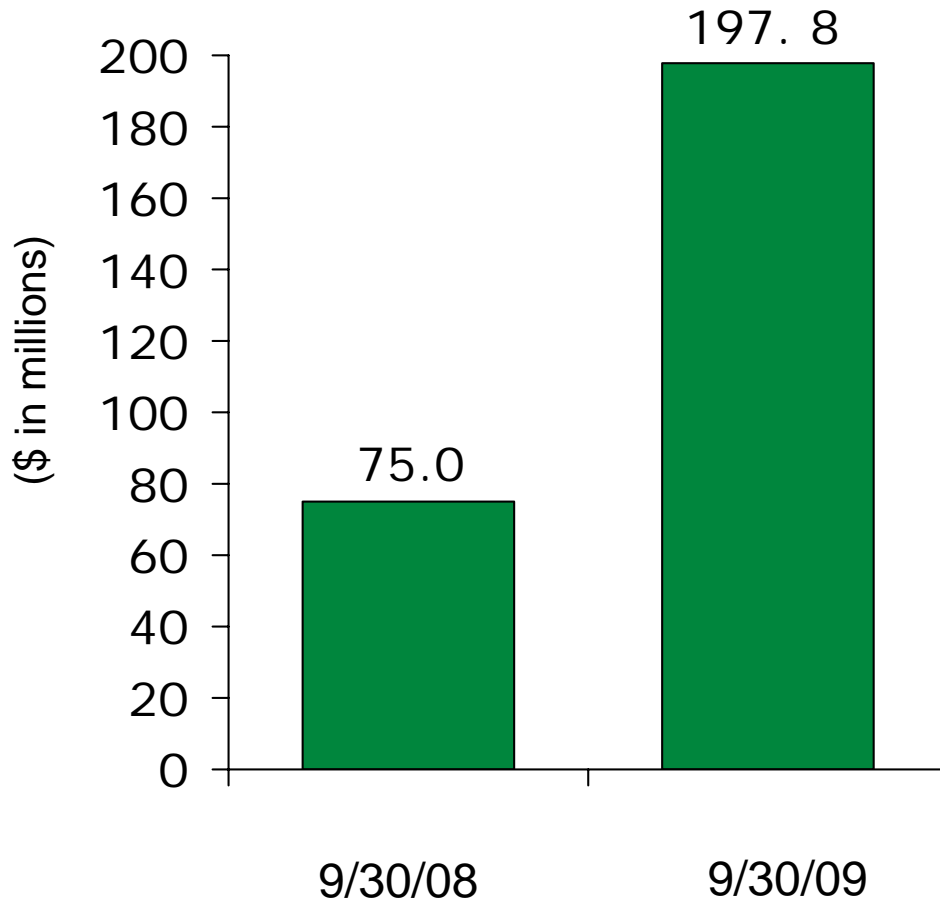
# Third Quarter Operating Profit

	2009	2008	change	% chg.
Water Products	\$ 38.7	\$ 32.8	\$ 5.9	18%
Electrical Products	22.8	10.6	12.2	115%
Corporate	<u>(13.0)</u>	<u>(10.2)</u>	<u>(2.8)</u>	27%
Total Operating Profit	<u>\$ 48.5</u>	<u>\$ 33.2</u>	<u>\$ 15.3</u>	46%
<u>Margin</u>				
Water Products	11.5%	8.8%		
Electrical Products	13.7%	4.6%		

2008 is non-GAAP

(in millions, except margins)

# Nine Month Cash Flow from Operations



- Operating cash flow of \$198 million
- Expect operating cash flow of approximately \$190 to \$200 million in 2009
- Balance Sheet remains strong
- Debt to Capital ratio of 24%

# Water Purification Backdrop in China

---

- Economic Growth
  - GDP growth of 8-10%
  - Reverse Osmosis and Point of Use sales forecasted at +30%
- Declining Water Quality
  - 70% of source water unsafe to drink
- Improvement of Living Standards
  - “Feature rich” apartment options
  - Growing awareness of water health and quality
  - In home product – 10% market penetration

# Tianlong Acquisition

---

- Acquire leading product in China water purification market
- Leverage A. O. Smith brand and water heater presence in appliance stores and building centers
- Other benefits:
  - Provide parallel channels and brands for distribution sales in China
  - Leverage current sales resources, after sales support and consumer marketing data base
  - Provide quality manufacturing base for export sales

# Tianlong Profile

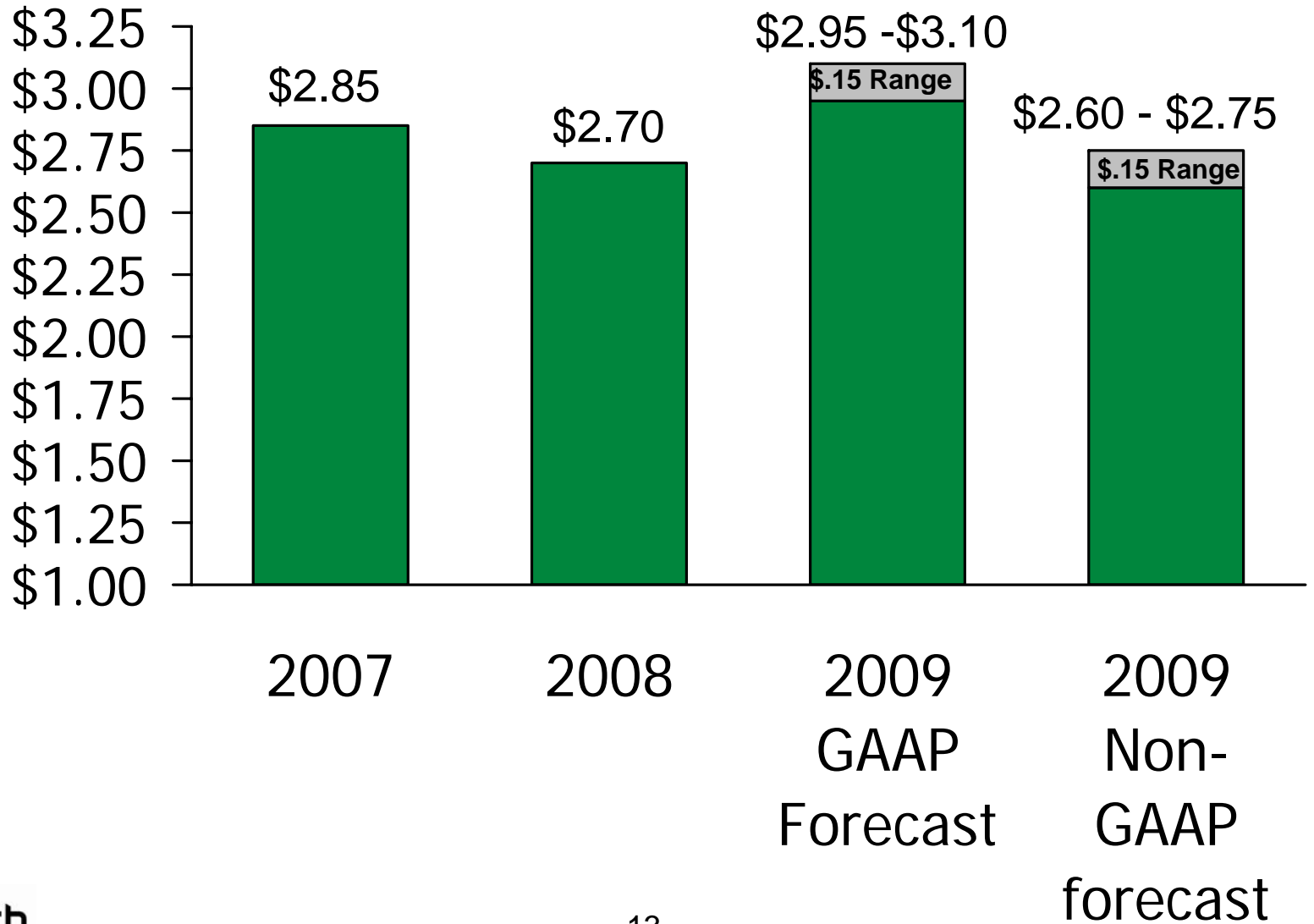
- Leading supplier of RO systems to the China market
  - Leading domestic market share
  - Exports to 30 countries
- Market channels
  - Thousands of franchise shops and mom and pop stores
- Product Types
  - Residential RO machines, RO membranes, filters, water softeners, Commercial/Industrial equipment, Components of residential RO machines
- Profitability
  - Accretive day 1
  - ROIC greater than cost of capital in first full year under AOS ownership

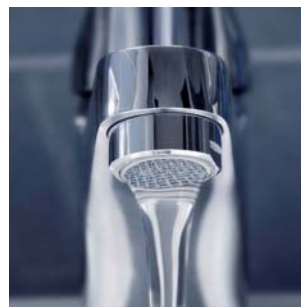
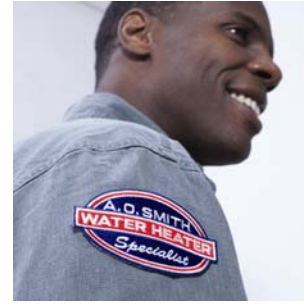


# Outlook

- Residential markets stabilize - commercial markets decline
  - Decline in new home construction leveling off
  - Commercial construction continues to decline
  - Seasonally low HVAC demand in Q4
  - Well positioned to leverage future incremental demand increases
- China water heater sales continue to grow
  - Expecting growth similar to China GDP
- Raw material costs are increasing
  - steel index increases of 30-40%
- Continue to focus on cash conservation

# 2009 EPS Forecast





Answers to your Questions