

Corporate Responsibility & Sustainability Report





# Letter from the Chief Executive Officer

On behalf of the nearly 16,500 employees of A. O. Smith Corporation worldwide, I am pleased to share our first Corporate Responsibility & Sustainability Report (the Report), publishing our environmental, social and governance activities and performance. This Report describes the current status of our efforts, as well as a preview of where we intend to go moving forward. We are excited to share our progress and welcome your feedback.



One of the characteristics that makes A. O. Smith Corporation an outstanding company is our values. The founders of our company, the Smith family, believed in conducting business honestly and ethically, and in being socially responsible corporate citizens. Thanks to an unwavering commitment to integrity, A. O. Smith enjoys an outstanding reputation for excellence in all the markets we serve. This reputation stems from our commitment to our customers and our core values:

- A. O. Smith will achieve profitable growth
- A. O. Smith will emphasize innovation
- A. O. Smith will preserve its good name
- A. O. Smith will be a good place to work
- A. O. Smith will be a good citizen

In this report, you will read about how we operate responsibly today and about notable milestones from our company's proud history. This includes how our innovative and energy-efficient products are making a real, positive impact on our planet. You will also read about our efforts to reduce energy and water usage at our plants and our commitment to our employees and communities in which we operate.

While we are proud of our accomplishments, we know there are opportunities to innovate in the areas of efficiency, conservation and sustainability. To that end, we formed a Corporate Responsibility & Sustainability (CRS) Council comprised of a cross-section of leaders from operations; environment, health, and safety; government affairs; investor relations; human resources and supply chain. The Council reports to me, making recommendations about CRS priorities and goals, key performance indicators and potential reporting enhancements, while also identifying improvement areas regarding environmental, social and governance activities at A. O. Smith.

I look forward to sharing our progress with you in future reports.

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Kevin J. Wheeler President and Chief Executive Officer



## About A. O. Smith

OUR BUSINESS & RESULTS	5
HOW WE OPERATE	6

## Our Products: Innovative, Customer-Centric & Efficient

CUSTOMER-CENTRIC	8
RESEARCH & DEVELOPMENT	
EFFICIENT PRODUCTS	9
PRODUCT STEWARDSHIP	

11

4

## **Operational Discipline**

MANAGEMENT APPROACH	
ENVIRONMENT	12
SAFETY	
SUPPLY CHAIN INTEGRITY	

14

## A Good Place to Work

EMPLOYEE ENGAGEMENT	.15
PERFORMANCE MANAGEMENT	.15
DIVERSITY & INCLUSION	.16
REWARDS & RECOGNITION	.16

17

## A Good Citizen

A. O. SMITH FOUNDATION	.18
SUPPORTING COMMUNITIES	.19
EMPLOYEE GIVING & VOLUNTEERING	19
INDUSTRY ENGAGEMENT	.20

**CORPORATE RESPONSIBILITY & SUSTAINABILITY REPORT 2018** 

# About A. O. Smith

A. O. Smith Corporation is a publicly-traded company listed on the New York Stock Exchange (NYSE: AOS) and a member of the S&P 500 Stock Index. The company is one of the world's leading manufacturers and best-known brands of residential and commercial water heaters and boilers, as well as a global leader in the manufacturing of water treatment systems for household and light commercial applications. Headquartered in Milwaukee, Wisconsin, our employees live and work in 10 countries, serving customers in more than 60 countries around the world.

An automation technician services the cycle test unit

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## **Our Business & Results**

In 2017, we achieved record sales of \$3 billion, with each of our global product categories contributing to the increase, and a double-digit increase in adjusted earnings and adjusted earnings per share. North America water heaters and boilers experienced solid growth and we achieved a 16 percent increase in sales in China. In addition, we successfully completed the acquisition of Hague Quality Water to expand our water treatment product line in North America, enhanced our global water treatment capabilities, and more recently, launched a complete line of water treatment products at Lowe's Home Improvement stores throughout United States.



#### **2017 FINANCIAL HIGHLIGHTS**



#### Sales

## **Adjusted Earnings**



## Adjusted Earnings per Share



## **Dividends per Share**



See our 2017 Annual Report and 10-K for details.

## **How We Operate**

The SmithWay of doing business—as outlined in the A. O. Smith Corporation Guiding Principles—applies to all aspects of how we develop our products; run our operations; hire, train and treat our employees; work with suppliers, customers and partners; and partner in the communities in which we operate and do business.

## **Ethics & Compliance**

Embedded in our Guiding Principles is a commitment to ethical conduct, which we never compromise. We expect our employees, officers and directors to adhere to those Guiding Principles at all times.

## **Code of Conduct**

As part of our Corporate Compliance Program, we have put in place rigorous policies and reporting procedures that clearly communicate the code of conduct that all employees must follow. Any waiver of, or amendments to, the Guiding Principles is required to be posted on our corporate governance website; to date there have been none.



## **Guiding Principles**

Our Guiding Principles provide a standard of conduct and an ethical framework in a rapidly changing business world.

## **Compliance Training**

Upon joining our company, every employee receives a copy of our Guiding Principles. We require employees to participate in annual in-person and computer-based training to keep them up-to-date and in compliance with internal policies. Over the past year, we have made several enhancements to the training component of our Ethics and Compliance Program including:

- Launching an anti-harassment training module to reinforce our commitment to an anti-harassment and anti-discrimination environment;
- Updating our Guiding Principles training and all legal department training materials to highlight the importance of our Non-Retaliation Policy; and
- Establishing a security awareness program to address increasingly complex cyber security and data protection challenges.

## A. O. Smith Integrity Helpline

Our employees have a responsibility to follow all laws and policies in the geographies in which they work. We encourage employees to ask questions if they are not sure about an action or a decision and speak up to report any violations. Research shows the top two reasons employees do not report ethics violations are the fear of retaliation and the belief that their company will not take action. Our program has specific components to address these potential concerns. The A. O. Smith Integrity Helpline and website are staffed with third-party, trained communications specialists and are available 24 hours a day, seven days a week and in multiple languages to provide maximum flexibility for employees to anonymously report potential violations without fear of retaliation.



Parag Kulkarni, Managing Director of A. O. Smith India Water Products Pvt., Ltd.: <u>100 Most Trusted</u> <u>CEOs in India of 2017</u> and <u>50 Most Impactful</u> Leaders in Water and Water Management

Employees consistently rate our commitment to compliance and ethics and our employees' ability to communicate concerns among the highest attributes in our biannual Global Employee Engagement Survey. This gives us confidence that our efforts are having the intended impact.

## **Board & Executive Leadership**

As mentioned earlier in this Report, the Smith Family has been a guiding force for the company since 1874, when C. J. Smith founded the company. Today, we are a global manufacturer, and the Smith Family remains a steward of the company, with two fifth-generation family members currently serving on our Board of Directors.

Our Board and senior leadership are encouraged to address all opportunities in the long-term best interests of all our business. Our company's Criteria for Selecting Board Candidates promotes the appointment of diverse, independent directors with a variety of backgrounds, experiences and skills to oversee and steward this successful enterprise. Eight of our company's 10 board members are independent by New York Stock Exchange and the Securities and Exchange Commission standards, and we have 20 percent gender diversity on our Board. Our company's senior leadership team averages more than 20 years tenure with the company and are recognized leaders in the global water industry.

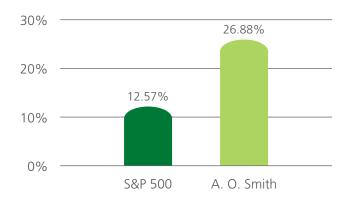
With our Board's guidance and the commitment of our senior leadership, we achieved status as one of the highest-performing industrial stocks as measured by the company's five-year cumulative total return, which was more than double the S&P 500 Index as of June 30, 2018.



Ajita Rajendra named in Fortune Magazine's <u>2016</u> <u>Businessperson of the Year</u> List of Top 50 CEOs

Read more about our Board of Directors and governance on our website or in our 2018 Proxy.

#### FIVE YEAR TOTAL STOCK RETURN CAGR AS OF JUNE 30, 2018







Build a custom solution.

Smith

Remove 99% of bacteria & viruses sometimes found in well water or with boll warnings. Add a UV filter.

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**CORPORATE RESPONSIBILITY & SUSTAINABILITY REPORT 2018** 

# Our Products: Innovative, Customer-Centric & Efficient

Our company's commitment to innovative, customer-centric and efficient products throughout our **history** has enabled us to become a global leader in delivering water heating and treatment technologies. As a leader in water technologies, the efficiency and water conservation improvements of our products have a substantial positive impact on our planet. "Innovation Has A Name" is our motto, and our commitment to innovation results in products that are highly efficient and meet the needs of our customers.

## **Customer-Centric**

Our innovation process starts by listening to the voice of our customers to understand their needs and pain points so we can identify solutions. By starting with the local consumers' input, we don't take a "one-size-fits-all" attitude. For example, the company commissioned a nine-month-long consumer insights study in 2017 to better understand the market needs for water treatment products in the United States. The study highlighted that, even if a consumer is aware of the risks of the presence of unhealthy contaminants in their water, such as lead, perfluorinated organic compounds (PFOAs) and Chromium 6, they are confused about how to select a proper water treatment product. With these insights, we created selection tools to educate consumers and simplify the purchase process.



## A. O. Smith water treatment products carried in Lowe's stores beginning in 2018

We have conducted similar user-forums and insight studies in China, India and Canada to ensure we are providing people with products that meet the needs of their markets. Furthermore, our China team visits more than 500 customer homes annually to better understand their needs and how to improve our products.

Corporate Technology Center Milwaukee, Wisconsin

## **Research & Development**

The foundation of our commitment to innovative, customer-centric and efficient products begins with our 800-person global engineering team operating in 10 engineering centers around the world, which includes our two flagship engineering centers—the Corporate Technology Center in Milwaukee, Wisconsin, and our Global Engineering Center in Nanjing, China. Among other things, this team dedicates their time to new product development, testing and simulation activity in the fields of electronics, sensor technology, combustion systems, coatings, water purification, robotics, machine design, lean manufacturing and process automation.

As a continuing commitment to this team, our company, our customers and our shareholders, we have made two significant investments that will allow us to continue to be an innovation leader. In late 2018, we will be opening our new state-of-the-art Corporate Technology Center adjacent to our World Headquarters in Milwaukee. The Lloyd R. Smith Corporate Technology Center (CTC) is a 42,700-square-foot research and technology facility that will focus on advanced research and development in the areas of potable and hydronic water heating, water treatment and air purification. Complementing the new CTC is our recently opened water treatment engineering and manufacturing facility in Lishui, China. This facility not only features state-of-the-art equipment and processes but also is the most advanced residential point-of-use water treatment manufacturing facility in the world. In addition, it houses a 30,000-square-foot research and development facility with world-class laboratories that will soon be certified by the National Sanitation Foundation (NSF) and Ministry of Health (MOH). These certifications will allow us to continue our technology and innovation leadership and, ultimately, bring new water treatment products to market more rapidly worldwide.





#### **R&D SPEND**

## **Efficient Products**

As energy and water demand increases, our customers and communities look to us to provide products that help reduce energy consumption and conserve water. Our commitment to innovation and engineering excellence has enabled us to be a leader in meeting our customers' demands, while at the same time manufacturing products that reduce the impact to the environment caused by their operation.

## Water Heating

Our water heaters and boilers are among the most innovative and energy efficient in the world. Leading the way are our best-in-class, high-efficiency commercial condensing storage water heaters, boilers and tankless water heaters. These products are among those that receive the highest efficiency ratings in the Environmental Protection Agency's (EPA) ENERGY STAR<sup>®</sup> program in the United States, which only certifies products that are far above minimum standards set by the federal government. Outside of the United States, our water heaters are consistently recognized as industry benchmarks for innovative design and the highest level of efficiency, including Tier 1 status in China and BEE 5 status in India

## Water Treatment

We manufacture industry leading water treatment solutions for households and light commercial installations that focus on efficiently delivering clean, potable water with low environmental impacts. Leading the way is our patented reverse osmosis (RO) membrane element technology that increases the output of fresh water from water treatment products by up to 200 percent. These best-in-class product offerings are affordable and effective solutions to address continuing concerns regarding water conservation, as well as emerging concerns about contaminants in drinking water.



India's Most Trusted Water Heater Brand (2018)

Most Innovative Home Appliance Brand of The Year, China Household Electric Appliance Research Institute (2017)

Aquasana, North American Company of the Year for Residential Water Treatment by Frost & Sullivan (2017)



#### Cyclone

An industry leader, the Cyclone is one of the highest efficiency commercial gas water heaters on the market with thermal efficiencies of up to 98 percent. Based on installations in 2017, Cyclone units help save 1,616 MM ft<sup>3</sup> of natural gas and avoid 96,700 tons of GHG emissions in the United States annually.

## **Heat Pump Water Heater**

Heat Pump Water Heaters are one of the most efficient water heating technologies for household use. Each year, based on 2017 installations, our Voltex units help homeowners save 93,400 MWH of energy and avoid 18,600 tons of GHG emissions in the United States, and save 151,100 MWH of energy and avoid 97,200 tons of GHG emissions in China.





#### **Gas Tankless Water Heater**

Our high-efficiency tankless products combine innovative technology with flexible configurations for residential and commercial applications. Based on installations in 2017, our ENERGY STAR® tankless units help save 346 MM ft<sup>3</sup> of natural gas and avoid 20,740 GHG emissions annually in the United States.

#### **Crest Boiler**

The CREST<sup>®</sup> Condensing Boiler from Lochinvar is a market leader for large commercial applications with thermal efficiencies up to 99% in low water temperature applications. Based on installations in 2017, CREST units save 2,012 MM ft<sup>3</sup> of natural gas and avoid 120,500 tons of GHG emissions each year in the United States.





## Max 4.0

Our AOS Green RO MAX products saves a typical household 8 gallons of water per day compared to a traditional RO water filter. In China, where A. O. Smith is the market-share leader for water filtration, our MAX products—based on 2017 sales—help conserve 1.3 billion gallons of water a year.

#### **Reducing Plastic Waste**

Water filtration products allow customers to "bottle their own" drinking water, which drastically reduces their plastic waste compared to single-use plastic water bottles. One Aquasana Clean Water Machine filter lasts 6 months and can avoid the use of 2,400 17-ounce plastic water bottles.

In addition, the packaging of the Aquasana 3-Stage Claryum<sup>®</sup> filter was redesigned so the outer plastic of the filtration system can be reused with future filters, significantly reducing plastic waste.

aquasana.





## **Product Stewardship**

We realize that our products can have significant environmental and societal impacts. Consistent with our business operations, we balance environmental stewardship in the areas of recyclability and end-of-life disposal in our material purchasing decisions without compromising product efficacy. We have, for example, worked with our suppliers on innovative ways to use and procure steel—our single largest material purchase—that meets our product standards while also reducing the associated environmental impacts from the production and transport of the material. Additionally, our water heaters, which are made of steel, are nearly 100 percent recyclable.



#### **Product BuyBack in India**

In India, we encourage customers to return their current, potentially outdated water purification system and upgrade to a higher-efficiency AOS system. This unique "buyback with a green touch" program engages local contractors who dispose of these old products in an environmentally responsible way. **CORPORATE RESPONSIBILITY & SUSTAINABILITY REPORT 2018** 

# Operational Discipline

Operating our manufacturing and distribution facilities responsibly is a priority for our company. Over the last 10 years, our company has invested heavily in capital improvement projects that have lessened the energy intensity and water use at many of our facilities. We continually strive to maximize facility efficiency and lessen the environmental impacts in our local communities, while at the same time providing a safe workplace that promotes and protects the health and safety of our people.

Daily safety inspection in Fergus, Canada

## **Management Approach**

Our Environment, Health and Safety (EHS) Council provides guidance and recommendations to our senior management team on how best to manage EHS matters within our facilities. The Council is composed of EHS professionals throughout our company and meets monthly to share best practices and discuss key topics.

Our Corporate EHS Policy sets the standard globally for our approach to operational discipline and responsibility. The Council, working alongside our company's operating personnel, has incorporated lean thinking into our manufacturing operations through a structured and scientific approach to problem solving. This approach to lean manufacturing drives us to look at the root cause, test solutions, evaluate the impact and adjust the approach to our operations, resulting in operational discipline and continuous improvement.

Consistent with our commitment to continuous improvement, we expect to complete our implementation of a harmonized global EHS management framework at our manufacturing and distribution facilities—started in 2016—that will be consistent with two key International Organization for Standardization (ISO) standards: ISO 14001 for environmental management and ISO 45001 for occupational health and safety. We expect to be nearly complete with the ISO rollout by the end of 2018.

#### Nanjing Named Green Star Award Winner

In 2017, our Nanjing, China, Plant 1 was awarded the A. O. Smith Green Star Award. The site had zero environmental compliance incidents and was a leader in gas, electric and water consumption performance indicators. Nanjing's green manufacturing projects included:

- Introducing a new water heater tank insulation material, which replaces high-global warming potential hydrofluorocarbons (HFCs) with cyclopentane in our "foaming" process. This led to an elimination of nearly 250 tons of HFC emissions; and
- Modifications to its two gas furnaces to optimize performance efficiency, resulting in a reduction of 26 million cubic feet of natural gas annually and reduced greenhouse gas emissions by 3,152 pounds (1.6 tons) of CO<sub>2</sub>e.





#### **EHS Council Mission Statement**

The Environment, Health and Safety Council will provide proactive EHS leadership to internal and external stakeholders that upholds A. O. Smith's values and supports its business objectives. The Council will carry out its mission by developing and implementing a comprehensive EHS program that creates standardization and consistency, meets the Company's compliance objectives and leverages best management practices. Our goal is to continually review, improve and update our EHS program with innovative and sustainable practices throughout the company's worldwide operations.

## Environment

We recognize our responsibility to be good stewards of the resources we use in our operations. We are committed to minimizing our impacts so we can be good neighbors to our communities and provide the highest value to our customers.

Currently, we drive our facilities' environmental stewardship through our Chairman's Green Star Award program. This award is presented annually to the facility that has demonstrated significant year-over-year improvements in their environmental impacts. All of our global operations are eligible to participate in this competition which provides well-earned recognition to the winning facility. The Green Star Award criteria include:

- Clean environmental compliance record (no penalties, fines or notices of violation);
- Measured reduction in energy, gas and water consumption over the prior three years; and
- Green manufacturing projects the facility implemented to achieve sustainability benefits and operational cost savings.

We look forward to continuing our journey toward world-class environmental performance in our operations. Please see the section titled Our Products: Innovative, Customer-Centric & Efficient for a discussion of how the efficiency of our products and materials stewardship contribute to reducing environmental impacts in our communities.

In the near future, we will implement a common global platform to collect environmental performance data. Once implemented, we will establish baseline data, expand our metrics and report our environmental data, including greenhouse gas emissions. We are committed to improving our operational discipline and expect our ISO platform and lean initiatives to drive improvement throughout our operations. We will enhance our tracking and reporting of KPIs as global software systems are implemented.

## Safety

The safety of our people is always at the forefront of what we do. Our formal recognition of workplace safety began in 1954 when we initiated the annual President's Safety Award. This was long before the establishment of OSHA and associated U.S. safety regulations.



**Excellence in Safety Award, McBee, South Carolina** plant—South Carolina Chamber of Commerce (2017)

The criteria for receiving the President's Safety award include performance in:

- Total recordable incident rate (TRIR): significant work-related injuries or illnesses beyond first aid
- Days away, restricted duty, job transfer (DART): serious work-related injuries or illnesses that result in one or more lost work days, restricted duty or job transfer
- Lost workday incidence rate: number of lost work days

Our performance over the past several years shows that our commitment to safety is strong: the total recordable incident rate (TRIR) is less than half the industry average.



#### **GLOBAL AOS RECORDABLE INCIDENT RATE**



Beginning in 2018, we added a second safety award which recognizes sites for achieving OSHA total recordable incident rates that are better than industry standards. Awards were given in 2018 in three categories:

CRITERIA	2018 RECIPIENTS
<b>Gold</b> TRIR*< 25 percent of the industry standard	Nanjing Plant 1, Nanjing Plant 2, China Environmental Products Center, India, Corporate Technology Center
Silver TRIR*< 50 percent of the industry standard	El Paso, Fergus
Bronze TRIR*< 75 percent of the industry standard	Lebanon, McBee, Juarez

\*TRIR indicates Total Recordable Incident Rates

In 2019 and beyond, our focus will continue to be on the safety and well-being of our employees, including continuing ergonomic studies to reduce some of our more common injuries and implementing internal audit programs across our locations.

## **Supply Chain Integrity**

Sourcing materials from responsible suppliers that share our values is a priority for our company. We maintain compliance with all applicable laws and reporting requirements in the United States and other countries in which we operate, including, but not limited to, laws on human trafficking, conflict minerals and chemical and hazardous substances. We also comply with all expectations for trade compliance and Customs-Trade Partnership Against Terrorism (C-TPAT) that are required of a global corporation. Our company has a strong commitment to, and record of, compliance with respect to these laws and regulations and expects the same commitment from our suppliers.

#### **Bangalore Wins 2017 President's Safety Award**

Employees in Bangalore, India, were presented with the 2017 Lloyd B. Smith President's Safety Award in recognition of their outstanding work at the facility around safety matters. In 2017, the team established a special task force to work on safety initiatives, which included the creation of a robust system to identify hazards, analyze safety risks and promptly resolve issues.

To their credit, the plant achieved zero lost-time incidents, zero violations and zero work-related illnesses in 2017. Impressively, the plant logged a noteworthy 1.1 million safe man hours during the course of the year. Additionally, thanks to the work of the machine-guarding audit team and its efforts to maintain safe conditions around equipment, Bangalore has gone over 20 months without any machine-related incidents. This was the second time that the team in Bangalore was presented with the A. O. Smith President's Safety Award. The team received the recognition in 2014, as well.



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# A Good Place to Work

Our team is the strength of our company. Just as we listen to our customers to help adapt our products to their needs, we listen to our employees to identify opportunities to improve our processes.

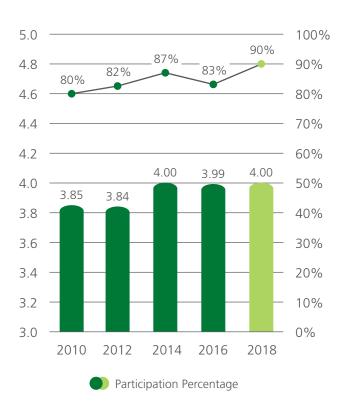
## **Employee Engagement**

We conduct global employee engagement surveys on a biannual basis. This third-party-managed survey measures employees' level of engagement against external norms and provides us with actionable feedback and improvement suggestions. Employees have consistently cited the company's commitments to ethics and compliance, innovation, customer focus and supervisor effectiveness as areas of strength. Employee feedback has led us to improve how we communicate with employees around their compensation and benefit programs and in our employee development focus groups. We feel our open and transparent culture is a strong differentiator.

Top 100 China Best Employer by Zhaopin.com and the Social Survey Research Center of Peking University

#### EMPLOYEE ENGAGEMENT SCORE

National norm for this survey is 3.62.





## **Performance Management**

To recruit and retain the best talent, we provide employees with market-competitive compensation, benefits for financial and physical well-being and career development opportunities. By making our company a good place to work, we have been rewarded with employee loyalty and high average tenure in our established markets. In the United States, our average tenure is 11.4 years compared to the average (according the Bureau of Labor Statistics) of 4.2 years. Our leadership team averages 20.6 years tenure with the company. Our development plans include on-the-job training, which we supplement with one-on-one coaching, and formal training to support employee-specific needs. Some of the formal development programs that employees have access to include:

- Tuition reimbursement for degree programs or trade schools;
- Function-specific skills training; and
- Leadership training for high-potential employees.

I have experienced so many parts of A. O. Smith over the 50 years I have been with the company. Throughout my career, I have been challenged by, and evolved with, this organization. Above all, it is the relationships I have formed with my fellow employees that has made my job so rewarding.

## LILY BEMBENEK





## **Diversity & Inclusion**

Diversity has been empirically shown to promote creativity and innovation and is a priority within our company. Our Leadership Team and Board of Directors strongly support diversity as a priority. We are focused on gender diversity, given the historic gender imbalances in the manufacturing sector. Our company's Women's Resource Network—organized in 2015 to promote the development of women and their careers in our company on a global basis—is a tremendous asset that is critical to helping our company achieve profitable growth. Among other activities, the Network sponsors professional development and networking opportunities, community service events, and opportunities to provide leadership experiences with visibility to senior managers. With the input and guidance of the Network, we recently completed an equal remuneration study in the United States and are satisfied that we have pay parity for men and women in similar roles. Notwithstanding this progress, we recognize that we have more work to do and will continue to collaborate with the Network, our senior managers and our Board to identify ways to improve our gender representation.





### FEMALE PERCENTAGE OF WORKFORCE

## **Rewards & Recognition**

Recognizing our employees for their great work is central to who we are as a company. Our global Values Recognition program is designed to recognize individuals and teams who personify the company's values in action. Each operating unit may submit one nomination in each of the seven Values Recognition categories:

- Administrative Process Improvement
- Community Involvement
- Customer Satisfaction
- Environmental Initiatives
- Operations Process Improvement
- Product Innovation
- Workplace Safety

Members of the leadership team, as well as fellow employees, can nominate peers who excel in any of these categories.



## **Recognizing Employees for Living Our Values**

The 2017 recipient in the category of Community Involvement went to Sam Kolleh, a Liberian immigrant who created a better life for himself in the United States and for fellow Liberians. Sam has not only supported a medical clinic in his home village in Africa, but has also improved the lives of Liberian immigrants in his adopted home of Johnson City, Tennessee, by providing funding and opportunities for students. Employees volunteering for United Way Day of Caring

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# A Good Citizen

Beyond providing clean, safe and heated water, we have a history of giving back to the communities in which we operate, live and work.

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## A. O. Smith Foundation

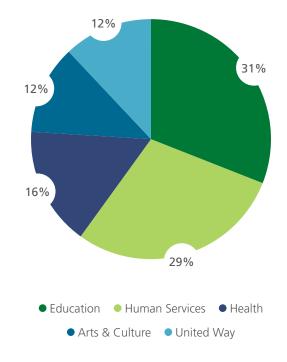
Established in 1955, the A. O. Smith Foundation has been supported by donations from our company and has provided \$42 million in financial support to worthwhile community organizations, institutions and programs.

In 1985, the Foundation initiated the Matching Gift Program to financially support education at high schools, qualified colleges and universities. Employee contributions are matched dollar-for-dollar up to \$3,000 per school year. Scholarships are also available for children of employees for higher education, including vocational-technical school and college.

In 2017, the A. O. Smith Foundation partnered with 183 organizations and donated \$1.6 million. We focus our efforts in four primary areas: education, human services, art and culture, and health. Some of our community partners include Alverno College, Boys & Girls Club, Grand River Conservation Authority, Habitat for Humanity, The Water Council, United Way and the Zoological Society.

### **2017 FOUNDATION CONTRIBUTIONS**

100% = \$1.6M



To learn more about the A. O. Smith Foundation, please visit our website or read our 2017 Community Impact Report.



We're grateful for the A. O. Smith Foundation's commitment to our zoo, our education programs and the incredible lessons and memories the company has helped the society provide to local youth.

## PENNY GUTEKUNST, ZOOLOGICAL SOCIETY'S VICE PRESIDENT OF DEVELOPMENT





#### Supporting Milwaukee's Boys & Girls Club

One of our Foundation's priorities is supporting K–12 education, which is why we partnered with the local Boys & Girls clubs to build the SPARK Early Literacy program. SPARK focuses on children in kindergarten through third grade to improve reading comprehension with one-on-one tutoring. Members of the Smith family (pictured here) have long supported the Boys & Girls Club. A. O. Smith continues to support the Boys & Girls Club of Greater Milwaukee and looks forward to further continuing our partnership.



## **Supporting Communities**

As a water technology company, we have been proud to contribute to communities combatting unsafe levels of lead in drinking water. In 2016, we partnered with United Way and the City of Milwaukee to donate Aquasana-branded water filtration products to Milwaukee residents whose homes have a connection to lead service lines.

Our company has also enjoyed a long-standing partnership with Habitat for Humanity chapters in the communities in which we operate by donating water heaters for new homes and providing our employees an opportunity to volunteer for the build events.

## **Employee Giving & Volunteering**

We encourage our employees around the world to live the company's values through volunteerism and community involvement.

In July of 2018, volunteers from the A. O. Smith Women's Resource Network partnered with the A. O. Smith Foundation to help support the Salvation Army Milwaukee Chapter's Feed the Kids meal program. Volunteers worked together with Salvation Army employees to pack and deliver 1,200 nutritious lunches to hungry children in Milwaukee's neighborhoods.

In 2018, the Women's Resource Network of Eastern Tennessee hosted a community service event to lend a helping hand to the Good Samaritan Ministries of Johnson City, Tennessee. The mission of the Good Samaritan Ministries is to "provide acceptance, inner healing, fellowship and hope to those who are poor in spirit." Thirty-five volunteers were an integral part of collecting and sorting donated toys for holiday gifts, sorting clothes and houseware items for the thrift store and completing landscaping and beautification projects on the grounds of the donation center.

Globally, our employee volunteers identify their local communities' needs and then deliver solutions to support their communities by leveraging their customer service mentality.

I am so very grateful for the donations, hard work and organizational talents of A. O. Smith's Johnson City team. Their group of "super volunteers" sees the communities need, organizes themselves and gets the job done.

VICKI BRADSHAW, DIRECTOR OF GOOD SAMARITAN MINISTRIES, JOHNSON CITY, TN

#### A. O. Smith Partners with Local School in China

One example of our employees identifying and driving local action is in Nanjing, China. We partnered with the community to establish the A. O. Smith Friendship School. The elementary school was built with the support of employee donations, volunteer assistance and product donation and installation.



## **Industry Engagement**

Consistent with our core value of being a good corporate citizen, we take our responsibility seriously to be an engaged industry leader. Along those lines, we participate in a number of key trade associations, partner with non-governmental organizations that share our values and provide our employees with an opportunity to participate in the civic affairs of the company.

## **Non-Governmental Organizations**

Our company has enjoyed many long-standing working relationships with non-governmental organizations over its history. These partnerships foster innovation, accelerate technology adoption and facilitate thought leadership on issues that impact our industry and our company. Of the many organizations we have partnered with, two are of particular significance—The Water Council and the American Council for an Energy-Efficient Economy (ACEEE).

## The Water Council

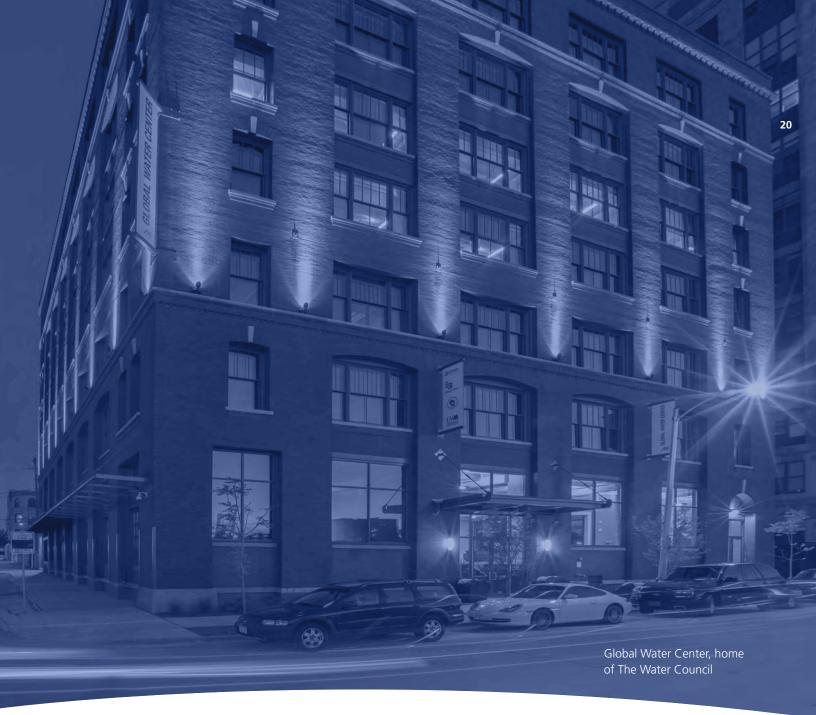
Our company is a founding member of The Water Council, a nonprofit organization composed of public, private and academic organizations that drives economic, technology and talent development to support the global water industry. Through this partnership, our company—along with the Council—has helped make Milwaukee a global freshwater technology cluster, according to the Brookings Institution. Our former CEO and current board member, Paul Jones, serves as co-chair of the Council, and our EVP/GC, Jim Stern, serves on the Council's Board of Directors and chairs the advocacy committee.



## American Council for an Energy-Efficient Economy

Our company is a proud Ally member of ACEEE, a nonprofit organization with which the company has a twenty-year relationship. ACEEE plays a leading role in advancing energy-efficiency policies, programs, technologies, investments and behaviors in the United States. We have been honored to co-host ACEEE's annual Hot Water Forum, a premier industry conference that is wholly dedicated to water heating technology and thought leadership.





A. O. Smith has been an important partner to our organization's efforts to advance energy-efficient technologies in the U.S. that save consumers and businesses money. The company's emphasis on innovation is key to those efforts as well as providing its strong support and thought leadership at our events, including our annual Hot Water Forum.

STEVE NADEL EXECUTIVE DIRECTOR, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY (ACEEE)



## **Trade Associations**

Our company is an active participant in a number of trade associations that help advance our business goals and objectives in the governmental and regulatory arena. These organizations also afford company executives ongoing opportunities to engage with industry peers to exchange ideas, best practices, advocate for public policies that benefit our industry and serve as a resource to policy makers. Our company holds leadership positions in the following associations: The Business Roundtable, the National Association of Manufacturers, the Water Quality Association and the Air-Conditioning, Heating, and Refrigeration Institute.





#### **BREW Water Accelerator**

As part of our involvement with The Water Council, we have sponsored the organization's Business, Research, Entrepreneurship in Wisconsin (BREW) water technology accelerator program since 2016. BREW aims to support 75 start-up companies over five years. In 2017, A. O. Smith and The Water Council named Nanolytix—a pioneer in artificial intelligence and sensor technologies for water quality detection applications—its winner of the BREW Corporate Challenge, which comes with a minimum investment of \$75,000 from A. O. Smith.

THE WATER COUNCIL BREW ACCELERATOR



#### **Supporting Research to Improve Water Challenges**

Our company was a leading contributor to the U.S. Council on Competitiveness' study, Leverage: Water and Manufacturing, about the challenges faced by water users in the manufacturing sector. The study found that, to meet increasing water demand, innovation in infrastructure, technology, investment and talent are needed to overcome challenges resulting from urbanization and population growth. Our Executive Chairman co-chaired this study.





If you have any questions or comments about this Report, please share it with our Corporate Responsibility & Sustainability Council by reaching out to CRS@AOSmith.com;

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21

Or contact any of the following members of our leadership team:

- Patricia Ackerman, Vice President Investor Relations and Treasurer (packerman@aosmith.com)
- Josh Greene, Vice President of Government and Industry Affairs (jgreene@aosmith.com)
- Tami Kou, Director of Corporate Communications (tlkou@aosmith.com)



This filing contains statements that the company believes 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," "forecast," "guidance" or words of similar meaning. All 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 filing. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: a further slowdown in the growth rate of the Chinese economy and/or a decline in the growth rate of consumer spending in China; potential slower rate of conversion in the high efficiency boiler segment in the U.S.; significant volatility in raw material prices; our inability to implement or maintain pricing actions; potential weakening in U.S. residential or commercial construction or instability in our replacement markets; foreign currency fluctuations; our inability to successfully integrate or achieve our strategic objectives resulting from acquisitions; competitive pressures on our businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the impact of U.S. Tax Reform for effective income tax rates and one-time expenses under the new law and adverse developments in general economic, political and business conditions in key regions of the world. Forward-looking statements included in this filing are made only as of the date of this release, 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.