



**2020 CORPORATE RESPONSIBILITY  
& SUSTAINABILITY REPORT**





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# A Letter from Our Chairman and CEO



Water is one of our most precious resources — and the world's growing population is creating greater urgency to access, heat, treat, conserve and distribute water efficiently, safely, equitably and environmentally thoughtfully.

At A. O. Smith Corporation, our products help meet many of these urgent needs by making water safe for consumption and use throughout the world. Our highly efficient water heating systems conserve energy and our water treatment products conserve water and reduce reliance on single-use plastics.

It is our core products, in other words, and not mere add-on programs, that promote key environmental and social goals. As a percentage of our revenue, 28 percent comes from products that reduce the impact on the environment throughout their lifecycle.

Our founding by the A. O. Smith family 146 years ago continues to reveal itself in our core values, which include doing business honestly and ethically, as well as being committed to high quality, innovative products and sustainable, growing returns. These values also show themselves in our commitment to steadily upping our game: for example, in this report we share our recent energy consumption data and our first-ever greenhouse gas emission-reduction goal.

Further, our core values laid the foundation during this pandemic, and we are honored and humbled by the way

our employees across the globe worked together quickly to ensure our essential products continued to reach customers in a manner that was safe and efficient.

A. O. Smith will continue to be a good place to work. In operating our Company, we will attract imaginative and competent people. We will emphasize teamwork and promote diversity in seeking our objectives. Our employees are engaged and willing to share their perspectives as demonstrated by 96 percent, best-in-class participation in our 2020 Global Employee Engagement Survey.

We have aligned our disclosures in this report with the SASB criteria material to our company, including product lifecycle and safety, energy management, materials sourcing and business ethics. And we welcome your input as we look to evolve our practices and disclosures.

Thank you for sharing our interest in helping people access safe and clean water, which protect their health and our planet. Whether you are doing so as a customer, an employee, an investor or a caring stakeholder, we work to earn your trust.

Sincerely,

**KEVIN J. WHEELER**

Chairman and Chief Executive Officer

“ At A. O. Smith Corporation our products help make water safe for consumption (a huge health issue in much of the world), help make water heating systems energy efficient and help reduce reliance on single-use plastics. ”



An aerial photograph of ocean waves, showing white foam and deep blue water, serving as the background for the text.

A. O. Smith Corporation is a global leader applying innovative technologies and energy-efficient solutions to products manufactured and marketed worldwide. The company is one of the world's leading manufacturers of residential and commercial water heating equipment and boilers, as well as a manufacturer of water treatment products for residential and light commercial applications.

A. O. Smith is headquartered in Milwaukee, Wisconsin, with approximately 15,100 employees in the United States, Canada, China, India, Mexico, the Netherlands, Turkey, the United Kingdom and Vietnam.

A. O. Smith Corporation is listed on the New York Stock Exchange and is part of the S&P 500 Index and the S&P 500 Dividend Aristocrat Index, which includes companies in the S&P 500 Index paying growing annual cash dividends for at least 25 years. The company has paid cash dividends on its common stock every year since 1940.

15,100

employees

26YRS

of paying growing annual  
cash dividends

80YRS

of paying cash dividends on  
common stock



## OUR BUSINESS & RESULTS

In 2019, A. O. Smith Corporation marked its 145th year in business. A. O. Smith achieved \$3.0 billion in sales and \$370 million in net earnings in 2019, or \$2.22 per share. A. O. Smith continues to be well-positioned for the future, with a strong balance sheet and liquidity position. In April 2019 we continued to expand our capabilities with the \$107-million acquisition of Water-Right, Inc., a family-founded provider of residential and commercial water quality solution products and systems for a wide variety of applications, including well water.

### BY THE NUMBERS

As a global leader in water heating and boilers, A. O. Smith Corporation has a track record of success and a well-established history of strong dividend payouts. The 5-year compound annual growth rate of A. O. Smith's dividend is 25 percent.

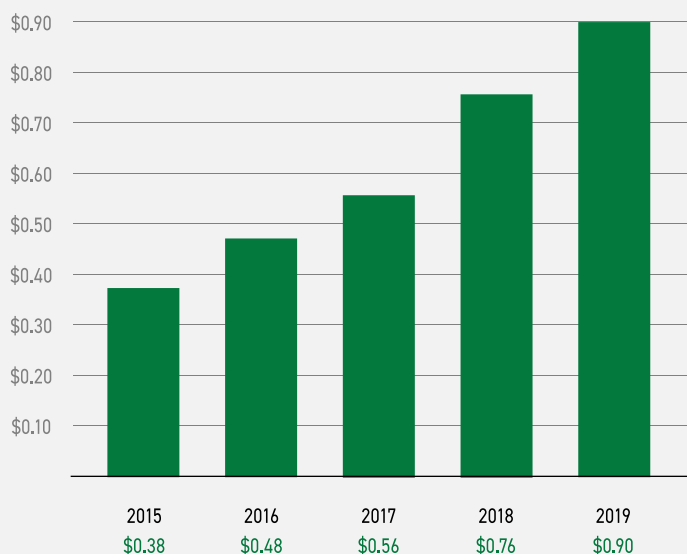
**25%** 5-year dividend compound annual growth rate

## OUR CORPORATE RESPONSIBILITY & SUSTAINABILITY PROGRAMS & REPORTING

Our corporate responsibility and sustainability programs support the long-term success of our business and the management of relevant environmental, social and governance (ESG) issues. Those programs, and relevant disclosures, are aligned with the following topics identified for our company by the Sustainability Standards Board (SASB):

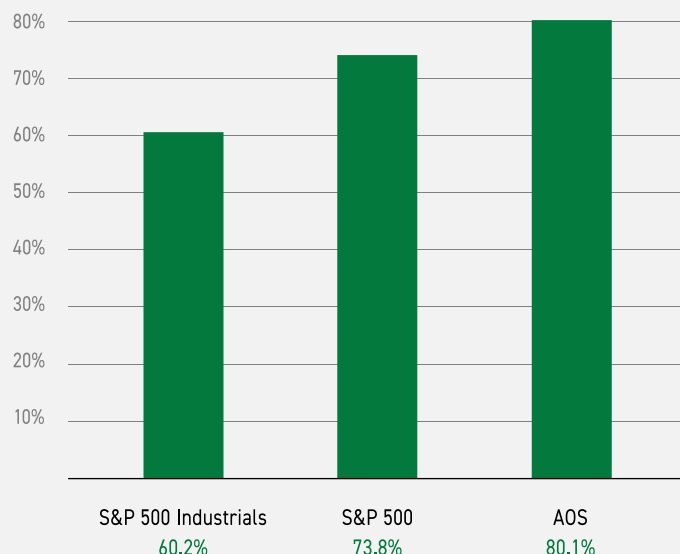
- Business Ethics
- Product Lifecycle
- Product Safety
- Energy Management
- Materials Sourcing

### DIVIDENDS



### TOTAL STOCK RETURN 5-YEAR CUMULATIVE

*As of December 31, 2019*



# 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.

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 (GUIDING PRINCIPLES)

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.

## ETHICS & COMPLIANCE OVERSIGHT

The Audit Committee of the Board has primary oversight of our Ethics & Compliance program. Our Ethics & Compliance program consists of the following seven categories:

- |                         |                  |
|-------------------------|------------------|
| 1 Training              | 5 Auditing       |
| 2 Communication         | 6 Reporting      |
| 3 Policies              | 7 Investigations |
| 4 Procedures & Controls |                  |

For our Guiding Principles, our Statement of Values and governance of our Ethics & Compliance program, the Nominating and Governance Committee is also involved. In addition, the Board receives an update on our Ethics & Compliance program at least once annually and more frequently as warranted.

From a management perspective, A. O. Smith’s General Counsel is primarily responsible for oversight and management of the Ethics & Compliance program. A. O. Smith’s Chief Executive Officer and other members of A. O. Smith’s senior leadership team actively oversee all aspects of the program.

In 2020, the company’s Chief Executive Officer and General Counsel jointly provided 14 live training sessions to various levels of leadership of the company, entitled: “Reinforcing A Values Based Culture.” Also in 2020, A. O. Smith updated and reissued the Eighth Edition of the Guiding Principles, which included key messaging from the Chief Executive Officer celebrating and reinforcing our values and doing business the “SmithWay”.

## RISK ASSESSMENTS

Risk assessments of varying depth regarding a number of compliance areas, including bribery and corruption, are conducted regularly and at least once annually by our Ethics & Compliance program team. These risk assessments inform A. O. Smith’s compliance-related training, communication, policies, procedures and controls and auditing.

## ETHICS & COMPLIANCE TRAINING

Globally, new employees receive training on our Guiding Principles and key compliance-related policies including Anti-Bribery, Antitrust and Non-Retaliation. New employees in countries that are considered “high risk” under Transparency International’s Corruption Perceptions Index also receive training on the Gifts and Entertainment policies applicable to those countries.

Employees also receive regularly targeted compliance training that is relevant to their role or function. For example, sales personnel receive antitrust training, managers and supervisors receive anti-discrimination and anti-harassment training and finance personnel receive training on identifying questionable transactions.

All salaried employees annually certify that they have read, understand and agree to abide by our Guiding Principles and key policies including:

- Anti-Bribery
- Antitrust
- Conflict of Interest
- Equal Employment and Anti-Harassment
- Insider Trading
- Non-Retaliation

Salaried employees also identify any potential conflicts of interest on an annual basis.

## A. O. SMITH INTEGRITY HELPLINE

We encourage employees to speak up if they are not sure about an action or a decision. 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.

Our Guiding Principles contain a specific Non-Retaliation Policy, which we regularly communicate, and the company has a formal Investigation Protocol to address complaints in an appropriate manner.

## ETHICS AND COMPLIANCE MONITORING

Each year, we conduct compliance audits in various functions and operations of our business, with a key focus on compliance with our anti-bribery/anti-corruption policies and procedures as well as the U.S. Foreign Corrupt Practices Act. These audits are conducted each year in certain of our operations, with the remaining operations addressed on a rotational basis. These audits are undertaken by a skilled third party and are in addition to the regular auditing conducted by our Internal Audit function.

We actively review trends and issues within our company, including reporting and resolution of complaints made to

our Integrity Helpline. These trends are shared with our operations teams on a regular basis.

Our Ethics & Compliance program team monitors guidance and updates from regulators as well as trends in our industries. We regularly participate in regional, national and international compliance-related conferences to stay abreast of current thinking and developments.

Employees consistently rate our commitment to compliance and ethics and our receptiveness to concerns among the highest attributes in our biannual Global Employee Engagement Survey. This gives us confidence that our efforts are having the intended impact. Read more about this in the Employee Engagement section of this report.

## BOARD & EXECUTIVE LEADERSHIP

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 of our businesses. 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 many are recognized leaders in the global water industry.

Read more about our **Board of Directors** and governance on our website or in our **2020 Proxy**.

## BOARD & EXECUTIVE SUSTAINABILITY OVERSIGHT

The Board believes that its structure and composition of highly experienced and engaged independent directors provide effective oversight of the company's management.

The Board has an active role in the company's overall strategies. The Board frequently reviews the company's corporate governance practices and periodically reviews the company's environmental and social strategies, including our strategy as it relates to the management of climate change risks and realizing emerging opportunities. The Board is responsible for overall risk oversight of the company, which includes certain environmental, social, supply chain and governance matters and relevant climate change risks. The Board receives periodic updates regarding the company's environmental and social-related initiatives and progress.

A. O. Smith's management team, subject to Board oversight, structures, monitors and adjusts our sustainability efforts in a manner that best serves the interests of the company and all of its stakeholders. Senior management reviews the long-range plans of our business units on an ongoing basis, several times a year. These plans consider long-term sustainability implications and the ability to meet evolving customer needs related to climate change risk management and lower greenhouse gas emissions technology.

**At an operating level, the following leaders, reporting directly to the CEO, have ultimate responsibility for critical areas of our sustainability initiatives:**

- **Governance & Ethics** — Executive Vice President, General Counsel & Secretary
- **Product Quality & Safety** — Senior Vice President of Global Operations, and Senior Vice President & Chief Technology Officer
- **Supply Chain** — Senior Vice President of Global Operations
- **EHS** — Senior Vice President of Human Resources & Public Affairs
- **Human Capital** — Senior Vice President of Human Resources & Public Affairs
- **CRS** — Senior Vice President of Corporate Responsibility & Sustainability

Our EHS Council is a key part of our overall Environment, Health and Safety (EHS) governance, providing guidance and recommendations to senior management on how to manage EHS matters within our facilities.

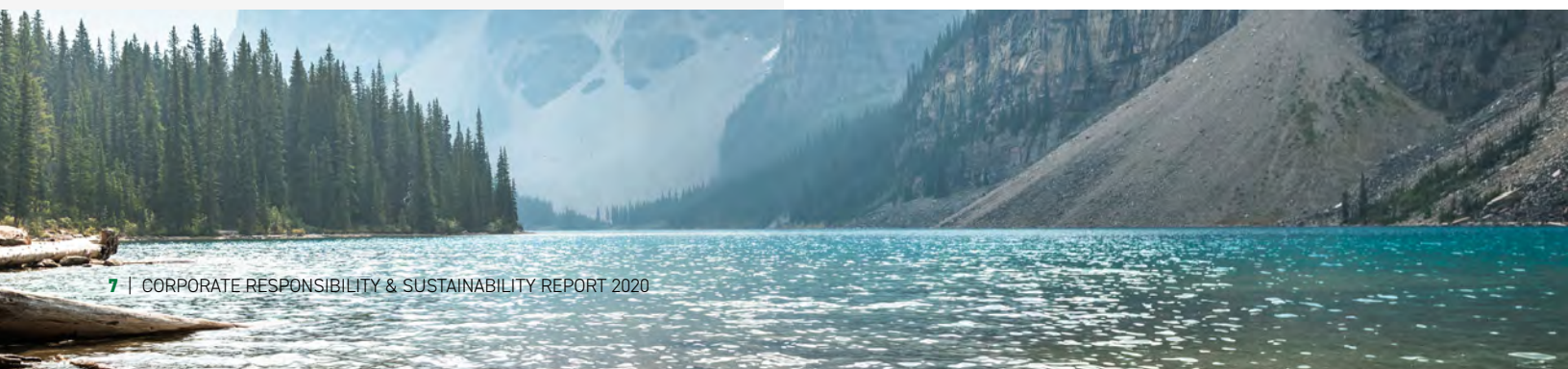
## IMAGINING OUR FUTURE

At A. O. Smith we recognize that the decarbonization of the global economy must be accelerated if we are to meet climate change goals.

We are committed to the further reduction of greenhouse gas emissions from the use of our products in residential and commercial buildings. We will continue to work with policymakers on empirical and pragmatic ways to achieve greenhouse gas emission reductions in buildings, without arbitrarily limiting technology solutions, sacrificing performance or increasing costs for our customers.

We have implemented environmental initiatives to reduce our contribution to global carbon emissions. Examples include, but are not limited to, exploring the opportunity for further energy and water savings, exploring the use of new renewable energy supplies and making environmentally friendly modifications to our facilities that use less water and energy to operate.

The design, sales and installation of our high-efficiency products contribute to decarbonization goals by reducing energy and water use, and in turn reducing greenhouse gas emissions. The "Our Products: Innovative, Customer-Centric & Efficient" section of this report provides the latest data on greenhouse gas emissions offsets achieved through the sale of A. O. Smith products.





# 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 energy 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" approach.

### WATER TREATMENT

In 2020, we continued our ongoing efforts to better understand the market needs for water treatment products in the United States, by commissioning research to build on the findings of an in-depth consumer insights study conducted in 2017. The 2017 study highlighted that, even if a consumer is aware of the risks of the presence of unhealthy contaminants in their water, such as lead, polyfluorinated substances (PFAS) 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. The 2020 research gauged consumer knowledge and concerns about the quality of their drinking water, with the ultimate goal of uncovering insights that will help people find water treatment solutions they can trust.

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 900 customers every year, including more than 400 water purifier customers, to better understand their needs and how to improve our products.

#### Water Treatment Survey findings:

- Trust in municipal drinking water quality is on the decline
- 1 in 3 U.S. adults chose lead as their top water contaminant concern
- Awareness around PFAS is on the rise
- Most people think it's important for water filters to have third-party certifications, but the vast majority are not familiar with the leading organizations that test and certify these devices

### WATER HEATING

The very high efficiencies of commercial heat pump water heaters (HPWHs) for water and space heating loads lead not only to substantial utility cost savings for customers, but also to significant reductions in greenhouse gas emissions.

Thanks to long-standing and ongoing customer engagement efforts in our water heating business, we understand there is a current lack of effective commercial heat pump water heater (HPWH) sizing tools in the multifamily and commercial sectors. Current industry sizing uses assumptions based on estimated peak water usage with large safety factors and can greatly oversize systems.

For gas heaters, this is not a problem, as it encourages lower runtime and longer unit life. To control system cost, HPWH systems are designed to run longer and provide better matching of heating capacity with storage.

A. O. Smith is developing a new HPWH sizing tool that utilizes new methodologies to specifically optimize the best combination of HPWH capacity and storage volume to provide the customer with the best solution for their needs: never running out of hot water, while achieving the lowest cost and lowest emissions.

## RESEARCH & DEVELOPMENT

The foundation of our commitment to innovative, customer-centric and efficient products begins with our 750+ person global engineering team, operating in nine engineering centers around the world. 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.

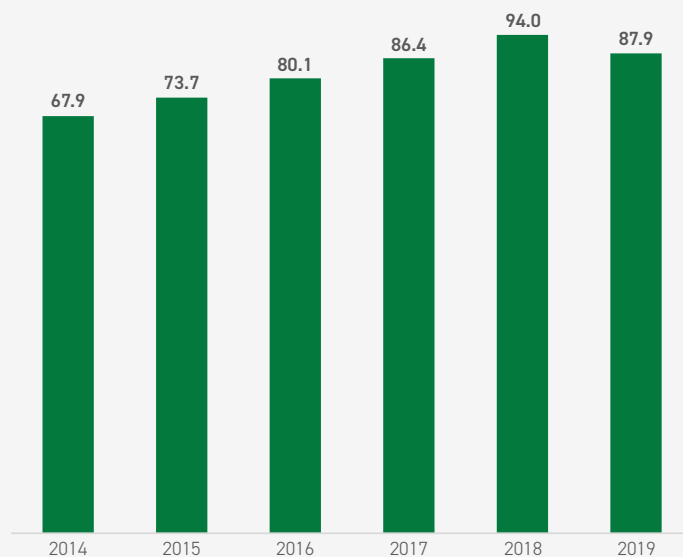
As a continuing commitment to this team, our company, our customers and our shareholders, we have made two significant investments that will allow us to continue to be an innovation leader.

In late 2018, we opened our new state-of-the-art Lloyd R. Smith Corporate Technology Center (CTC), adjacent to our World Headquarters in Milwaukee. The CTC is a 42,700-square-foot research and technology facility, focused

on advanced research and development in the areas of potable and hydronic water heating and water treatment.

Complementing the CTC is our 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. It houses a 30,000-square-foot research and development facility with world-class laboratories that are certified by CNAS (China National Accreditation Service for Conformity Assessment), are co-laboratories of Jiangsu Provincial Center for Disease Control and Prevention and are in the process of being approved by NSF International. 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 (\$M)



## Lloyd R. Smith Corporate Technology Center

is a 42,700-square-foot facility, focused on advanced research and development in the areas of potable and hydronic water heating and water treatment.



## EFFICIENT PRODUCTS

As energy and water demand increases, our customers and communities look to us to provide products that help reduce energy consumption and associated greenhouse gas emissions, conserve water and avoid single-use plastics. Our commitment to innovation and engineering excellence has enabled us to be a leader in meeting our customers' demands, while at the same time working towards manufacturing products that reduce the impact on the environment throughout their lifecycle.

28%

of 2019 sales were generated from products with a positive environmental impact<sup>1</sup>.

### 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, tankless water heaters and heat pump water heaters. These products are among those that receive the highest efficiency ratings in the Environmental Protection Agency's (EPA) ENERGY STAR® program in the United States, which only certifies products that are far above minimum standards set by the federal government.

29%

of 2019 sales in our North America Water Heating business were ENERGY STAR® qualified products.

In our North America Water Heating business, 17 out of 18 product development projects either "in development" or "pending resources" are either zero carbon or are high-efficiency (condensing) gas products, which typically support a **50% improvement in energy efficiency.**

222,790 tons

of GHG emissions were offset by the sales of high-efficiency products in our North America water heating business in 2019.

Outside of the United States, our water heaters are consistently recognized as industry leaders for innovative design and the highest level of efficiency, including Tier 1 status in China and BEE 5 status in India.

289,110 tons

of GHG emissions were offset by the sales of our high-efficiency boilers in North America in 2019.

### EFFICIENT PRODUCT EXAMPLES



#### 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.



#### Heat Pump Water Heater

Heat Pump Water Heaters are one of the most efficient water heating technologies for household use.



#### Gas Tankless Water Heater

Our high-efficiency tankless products combine innovative technology with flexible configurations for residential and commercial applications.



#### CREST Boiler

The CREST® Condensing Boiler from Lochinvar is a market leader for large commercial applications with thermal efficiencies up to 99% in low water temperature applications.

<sup>1</sup> Defined in relation to industry energy efficiency standards and other internal benchmarks

## 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, which decreases the amount of waste 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.

Water filtration brings healthy, great-tasting water to the entire home or at a single point of use. It can drastically reduce the plastic waste compared to single-use plastic bottles.



In 2019, our sales of systems and replacements in North America filtered approximately 154 million gallons of drinking water, which is the equivalent of eliminating over 1.2 billion plastic bottles of water.

## PRODUCT EXAMPLES

### Under-Sink Water Filter Claryum Direct Connect

Easy to install, fast-flowing water filter connects directly to existing faucet and removes up to 99% of 77 harmful contaminants including lead, PFOA/PFOS, pesticides, pharmaceuticals and chlorine.

### Aquasana 3-Stage Max Flow Under-Sink Filter

Reduces 99% of lead and 76 other contaminants, including PFOA/PFOS, asbestos, pharmaceuticals, chloramines, herbicides, pesticides, industrial solvents, volatile organic compounds (VOCs) and mercury, all while preserving healthy minerals like calcium, magnesium and potassium.

## PFAS CONTAMINATION

In 2019, Aquasana introduced the first whole-house filter available direct to consumers tested and certified for the reduction of perfluorooctanoic acid (PFOA), perfluorooctane sulfonate (PFOS), lead and cysts. Named one of the Best New Home Products of 2019 by [This Old House](#), the [Aquasana OptimH2O® whole-house filter](#) is certified to reduce more than 99% of lead and cysts and 98% of PFOA/PFOS, and also reduces 90% of chlorine/chloramines from every tap.

Identifying, assessing and reducing per- and polyfluorinated substances (PFAS) contamination is a critical environmental and public health issue in the United States. PFAS, and in particular PFOA and PFOS, are chemical compounds that have been used in many products for their fire retardant, non-stick and waterproof characteristics. PFAS has been shown to have detrimental impacts on human health, and in some cases, has shown a correlation to an increase in cancer. In 2016, before there was an official testing protocol in place for PFAS, our Aquasana business worked with the NSF (a U.S. product testing, inspection and certification organization) to develop and become the first in the market to receive certification for NSF P473: a proven method for the reduction of PFOA and PFOS from drinking water.

## AWARDS

For the fourth year in a row, our Aquasana **Clean Water Bottle** and our **Claryum® 3-Stage Max Flow** system won the *Natural Child World's Eco-Excellence Awards™*. We were recognized for our high-performance water filtration technology and "significant" role in helping reduce single-use plastic waste. Now in its ninth year, the natural and parenting-focused consumer product awards program recognizes excellence in social and environmental sustainability.

Aquasana, an A. O. Smith business, was selected by Frost & Sullivan as their 2019 North American Company of the Year in their Residential Water Treatment category, for the following achievements:

- Consistent demonstration of leadership within the category by introducing innovative, best-in-class water filtration solutions for the home.
- Leveraging a customer-driven approach to develop new products that tackle emerging contaminants.
- Becoming the first water filtration brand to receive certification from **NSF International** for the reduction of polyfluoroalkyl substances (PFAS).
- The introduction of our **OptimH2O® Whole House Filter**: the first whole-house water filtration system available direct to consumers tested and certified to reduce both PFAS, lead and cysts throughout the home.



# PRODUCT STEWARDSHIP

We take a holistic approach to product stewardship. We identify and action opportunities to reduce the environmental and social impact of our products, throughout the product lifecycle, from concept to disposal.

## 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.

3.7k

One Aquasana AQ-5200 under counter water filter lasts six months and can avoid the use of 3,700 16.9-ounce plastic water bottles.

## DESIGN FOR REDUCED IMPACT

The “packed bed technology” we use in our Hague water treatment systems (representing over 25% of total North America Water Treatment FY 2019 net sales), eliminates dead space inside the softener tank and produces three critical resource-saving advantages:

20–30%

shorter than traditional water softeners by design, reducing material use

30%

less water use

More efficient

salt consumption

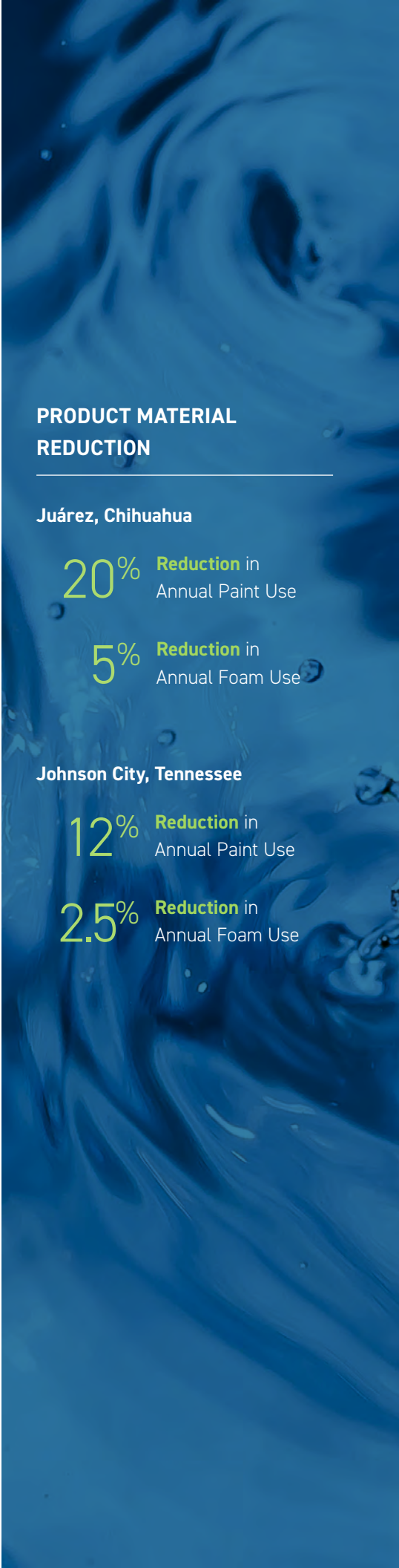
Many of our water filtration products are designed to use water pressure as their energy source, thus reducing energy use.

Optimizing the use of paint and foam in our water heating products in ways that reduce overall use in 2019 and 2020 as seen to the right.

## RAW MATERIALS

We balance environmental stewardship in the areas of recyclability and end-of-life disposal in our material purchasing decisions without compromising product efficacy.

- Our water heaters and boilers, which are made of steel, are nearly 100 percent recyclable
- We have 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. The steel we procure in our North America water heater business is composed of 55% recycled materials



## PRODUCT MATERIAL REDUCTION

### Juárez, Chihuahua

20% Reduction in Annual Paint Use

5% Reduction in Annual Foam Use

### Johnson City, Tennessee

12% Reduction in Annual Paint Use

2.5% Reduction in Annual Foam Use

# PRODUCT QUALITY & SAFETY MANAGEMENT

A. O. Smith is committed to achieving high standards of quality and safety in all aspects of our business.

Our commitment to superior product quality and safety development is documented and implemented within our Guiding Principles, Quality Policy, Quality Policy Manual, Supplier Quality Requirements Manual and throughout all levels of our Quality Management System (QMS).

All A.O. Smith sites have implemented our QMS based on ISO 9001:2015 standards.

Our Senior Vice President—Global Operations, a member of our Senior Leadership Team, has responsibility for quality management and safety at A. O. Smith.

The A.O. Smith quality management system considers product safety for the entire product lifecycle from design, manufacturing, installation, operations, maintenance and end of product life. Our approach integrates preventive processes from our product/process design methods, product risk assessments and training programs to field compliance reviews and suspect product response teams throughout the organization.

## A. O. SMITH QUALITY MANAGEMENT SYSTEM

Our QMS is designed to assure that our supply chain, design, development, manufacturing and distribution activities produce consistently safe and high-quality products that meet or exceed our customer's requirements, achieved through the monitoring, measurement, analysis and evaluation of our systems.

Our QMS is aligned with the requirements of the ISO 9001:2015 standard.

### Critical elements of our QMS include:

**Risk Assessment:** Product safety risk assessments are accomplished through Failure Mode Effects Analysis (FMEA) that we perform on all products and processes to assure we mitigate risks associated with product and process designs. Critical FMEA inputs are derived from the work of our Reliability teams, whose analysis also informs the Design Verification Plan and Report (DVP&R). The DVP&R documents the plan used to confirm that products meet their design specifications and performance requirements.

**Training:** We ensure that all personnel, including employees, contractors and consultants, have the appropriate education, training, competency and credentials.

### Product Testing and Audit:

- **Product Certification Testing:** Products are regularly tested by external, independent third parties to ensure they comply with specific safety regulations and standards, including but not limited to:  
Air-Conditioning, Heating, and Refrigeration Institute, Intertek, Underwriter Laboratories, Canadian Standards Association, Appliance Engineering, Kiwa, BR Labs, OneCIS (Bureau Veritas), Department of Energy, Korea Testing Laboratory, National Sanitation Foundation International, American Society of Mechanical Engineers, specifically referencing BPVC (Boiler and Pressure Vessel Code), China Compulsory Certification
- **Ongoing product audit:** Product audits are conducted periodically to assure we are meeting relevant quality and safety standards. Auditors include but are not limited to:  
Underwriter Laboratories, Canadian Standards Association, Department of Energy, Kiwa, Saudi Standards Metrology and Quality Organization, Norma Oficial Mexicana, Technical Standards and Safety Authority

**Objectives and Targets:** Within the production environment we have set and track product quality KPIs through developed inspection plans during the manufacturing process at all facilities. Product quality improvement targets are set for each facility annually. We continually monitor progress against targets.



**Incident Investigation and Corrective Action:** In the event of a product incident or nonconformity, we have procedures in place to ensure that outputs that do not conform to their requirements are identified and controlled to prevent their unintended use or delivery. We take appropriate action based on the nature of the nonconformity and its effect on our products.

**Monitoring and Analysis:** We evaluate the performance and the effectiveness of our QMS. The results of this monitoring are used to evaluate the following:

- Conformity of products and services;
- The degree of customer satisfaction;
- The performance and effectiveness of the QMS;
- If planning has been implemented effectively;
- The effectiveness of actions taken to address risks and opportunities;
- The performance of external providers;
- The need for improvements to the quality management system.

**Audit:**

- **Internal:** We have a QMS audit program, applied at all facilities, including the frequency, methods, responsibilities, planning requirements, and reporting, which takes into consideration the importance of the processes concerned, changes affecting A. O. Smith, and the results of previous audits.
- **External:** Facilities that have secured third party certification are audited in line with relevant external standards.

## CERTIFICATION

We take a tailored approach to QMS certification, to align with specific business needs.

Our facilities in India and the Netherlands, all finished goods manufacturing facilities in China, and our Protective Coatings Division facility in the U.S. have secured ISO 9001 certification of their QMS.

Our commercial manufacturing facilities are certified by the American Society of Mechanical Engineers (ASME). We have full-time ASME inspectors onsite at relevant facilities.

## QUALITY AND SAFETY REPORTING

We are subject to various consumer product regulations which require that any product quality or safety incidents are reported.



# Operational Discipline

Operating our manufacturing and distribution facilities responsibly is a priority and strength for our company. Over the last 10 years, we have 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.

## MANAGEMENT APPROACH

Our company-wide EHS Global Policy sets the standard for our approach to operational discipline and responsibility. Our EHS Council provides guidance and recommendations to our senior management team on how best to meet the expectations of our EHS policy, and 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. 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.

Our 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, since 2016, we have developed and are implementing a harmonized global EHS management framework at our manufacturing and distribution facilities that is consistent with International Organization for Standardization (ISO) standards: ISO 14001 for environmental management and ISO 45001 for occupational health and safety. Where customers and/or market standards require it, operating facilities have secured ISO 14001 and ISO 45001 certification. Certified facilities include our three China plants and those in India and the Netherlands.

The A. O. Smith EHS Management System (EHSMS) provides the framework to reduce risks and improve performance. It establishes a continuous improvement process for policy implementation, leadership expectations and core values. The EHSMS guides our entire workforce, including contractors and subcontractors.

## 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.



Environmental, health and safety training is a core requirement of our EHSMS. Training is managed on a plant-by-plant basis, depending on the specific nature of operations at each individual plant. Training is designed to, at a minimum, meet the requirements of our various environmental permits and the environmental, health and safety regulations with which we must comply. Developing competence and raising awareness are also key objectives of our EHSMS training programs.

With the implementation of our EHSMS, A. O. Smith sites now have EHS controls and practices, along with EHS management and staff dedicated to excellence and risk mitigation (we are continuing to implement the EHSMS at some of our smaller and newer facilities). Our Director of EHS has direct responsibility for the EHSMS and reports to the Senior Vice President of Human Resources, who reports directly to the CEO. EHS considerations are embedded into every task and business decision.

## PLAN

DO



The logo consists of a circular gear-like border divided into four segments of different shades of blue and green. In the center of the circle, the text "EHS Continuous Improvement" is written in a bold, black, sans-serif font, with "EHS" on the top line, "Continuous" on the second line, and "Improvement" on the third line.

## ACT

## CHECK

Measure results/  
performance – audit

## PLAN

- Risk Assessment
- Legal Requirements and Standards of Operation
- Strategic Planning, Goals and Objectives

## DO

- Structure and Responsibility
- Programs and Procedures
- Emergency Preparedness Awareness, Training and Competency
- Non-Conformance, Incident and Near-Miss Investigation and Corrective Action Communications
- Document Control and Records

## CHECK

- Measuring and Monitoring Audits

# ACT

- Review



CORPORATE RESPONSIBILITY AND SUSTAINABILITY SCORECARD

In support of our commitment to responsibility and sustainability, we have developed a “CRS Impact to Capital” scorecard in our manufacturing operations. The scorecard provides a framework by which facilities can assess capital projects for their impact on our energy, greenhouse gas emissions, water and waste footprints. The scorecard has been deployed in North America with all 2020 capital projects having been assessed for their environmental impact vs. a 2019 baseline. The next step is to implement the scorecard across all global operations.

Specific scorecard metrics include:

- Safety risk assessment scores
- Greenhouse gas emissions
- Water consumption
- Waste
- Electricity consumption

CONTRACTORS

We have developed and maintain a dedicated set of EHS guidelines for all contractors and vendors. The guidelines confirm that every contractor and vendor must sign off on

the A. O. Smith EHS Policy and guidelines before commencing work for A. O. Smith, confirming that they understand the content and expectations.

Critical elements of the guidelines include:

- Responsibility and oversight of contractor EHS compliance
- Reporting of incidents
- Enforcement
- Training
- Emergency response

ENVIRONMENT

We recognize our responsibility to be good stewards of the resources we use in our operations and to mitigate the impact we have on the environment. Through this work, we can be good neighbors to our communities and provide the highest value to our customers.

We track and report various metrics to ensure our efforts are effective, including greenhouse gas emissions (scope 1 and scope 2) and emissions intensity, energy intensity and green power usage. Relevant data is provided in the Environmental Performance Data section of this report.



Environment Case Study: LLOYD R. SMITH CORPORATE TECHNOLOGY CENTER

Our Lloyd R. Smith Corporate Technology Center (CTC) is dedicated to the development of new energy-efficient products and processes. The 42,700-square-foot research and development lab, located adjacent to our world headquarters in Milwaukee, serves as the company’s global innovation hub. Here, our teams of engineers concept, test and finalize core technologies to be used in A. O. Smith products around the globe.

The CTC was designed to minimize environmental impact, with sustainable features that include:

Good Design Practice:

- Low-flow fixtures for bathrooms and locker rooms
- Low-voltage LED lights throughout, controlled by occupancy sensors and daylighting controls, automating the lighting to its fullest extent
- Office Area Rooftop Unit to utilize outside air for “free cooling”

Building Specific Sustainable Features:

- High-efficiency boilers and hot water heaters
- Process hot water recovery and reuse, reducing both water and natural gas usage
- Process hot water heat recovery for building services, in some cases eliminating the need to operate boilers for heating

## GREENHOUSE GAS EMISSIONS (GHG) REDUCTION TARGETS

In 2020 we adopted our first GHG emissions reduction goal.

**10%** GHG Emissions Reduction Goal — 10% GHG Emissions Intensity Reduction by 2025\*

This goal was developed as the result of a strategic GHG emissions reduction initiative. Working alongside ERM, a leading global provider of sustainability consulting services, we systematically identified opportunities in manufacturing operations, that will reduce and conserve water, gas and electricity consumption and associated GHG emissions.

### RESOURCE EFFICIENCY

The A. O. Smith Chairman's Green Star Award program is the primary driver for resource efficiency improvements across our business. This award is presented annually to the facility that has demonstrated significant year-over-year improvements in their environmental impacts. All of our global manufacturing 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.

### WASTE MANAGEMENT

In our water treatment business, plastic accounts for approximately 90% of total product weight. Therefore, managing the plastic waste associated with our manufacturing processes is our biggest waste management opportunity.

We have incorporated two critical steps into our manufacturing processes to reduce plastic waste:



Plastic waste is ground back into pellets for reuse in plastic injection molding machines



Surplus reground pellets are donated to third parties for recycling elsewhere

These steps have helped us to substantially eliminate plastic waste from our manufacturing process and almost eliminate the cost of plastic waste management.

\*Note: Baseline is 2019 and scope 1 & 2 GHG emissions.



### GHG Case Study:

#### SOLAR POWER SYSTEM INSTALLED AT VELDHOVEN FACILITY IN THE NETHERLANDS

A solar panel system installed at our Veldhoven facility in the Netherlands generated 27% of total facility electrical energy consumption in 2019. The system also exported 40.39 MWh back to the grid. In total this reduced energy costs by 32%, more than enough to offset the installation cost (which was integrated into the building lease). Opportunities to expand the installation are being considered.



### Resource Efficiency Case Study: JUÁREZ NAMED GREEN STAR AWARD WINNER

In 2019, our Juárez facility was awarded the A. O. Smith Green Star Award for the first time. The site was identified as a leader in green manufacturing initiatives, including:

- Powder paint waste project resulted in a waste reduction of 29 tons (0.32 lbs/unit down to 0.22 lbs/unit) and a 20% reduction in disposal cost
- Forklifts changed from gas to electric resulting in reductions of 814 tons of CO<sub>2</sub>/year
- Plastic bottle and polystyrene cup reductions of 93kg/year

The site is also preparing for third-party ISO 14001 environmental certification.

## ENVIRONMENTAL PERFORMANCE DATA\*

Metric	Unit	2017	2018	2019
<b>Greenhouse Gas Emissions Intensity</b>	<b>Metric Tons CO<sub>2</sub>e/\$MM Revenue</b>	<b>49.7</b>	<b>45.1</b>	<b>46.3</b>
Total Greenhouse Gas Emissions	Metric Tons CO <sub>2</sub> e	148,917	143,745	138,754
Scope 1 Greenhouse Gas Emissions	Metric Tons CO <sub>2</sub> e	66,233	66,201	65,841
Scope 2 Greenhouse Gas Emissions	Metric Tons CO <sub>2</sub> e	82,683	77,543	72,913
<b>Energy Intensity</b>	<b>MWh/\$MM Revenue</b>	<b>175.6</b>	<b>165.7</b>	<b>173.0</b>
Total Energy	MWh	526,353	528,378	518,589
Direct Energy (Gas)	MWh	365,366	365,187	363,201
Indirect Energy (Electricity)	MWh	160,987	163,191	155,387
<b>Water Intensity</b>		<b>92.5</b>	<b>79.9</b>	<b>70.1</b>
Total Water Use	Gallons '000s	277,095	254,752	210,073

We look forward to continuing our journey toward world-class environmental performance in our operations. Please see the earlier 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.

### Case Study: A. O. SMITH CHINA A “MODEL ENTERPRISE” FOR ENVIRONMENTAL PROTECTION

Three government agencies for Jiangsu Province earlier this year jointly issued the first series of guidelines for measuring the impact of a company's environmental protection efforts. The group also defined a “model enterprise” — an organization that plays the role of environmental protection pacesetter, makes outstanding contributions to ecological environmental protection and has a positive influence on society's environmentalism.

After a rigorous five-month evaluation process across the province, A. O. Smith was the only company in Nanjing's Economic and Technological Development Zone to achieve the rating of “model enterprise.” The Zone encompasses more than 200km<sup>2</sup> (77mi<sup>2</sup>) of industry, bonded warehouses, financial trade and comprehensive service businesses.

Reviewers scored the plants' performance each year since 2016 in the highest category possible and applauded A. O. Smith China for:

- Reduction of water pollutants by more than 20%
- Reduction of air pollutants by more than 20%
- Reduction of sludge by more than 50%
- 100% recycling of glassing powder
- 100% online monitoring of wastewater
- Zero environmental penalties

As a result of this significant honor, A. O. Smith has been placed in a special “green channel,” which includes environmental protection subsidies, expedited approvals and priority treatment for administrative licensing.

\*Note: Data provided for all manufacturing operations, excluding two small water treatment operations and one small water systems manufacturing operation, which represent substantially all of our energy and water use and greenhouse gas emissions.



## 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 Lloyd B. Smith President's Safety Award. This was long before the establishment of OSHA and associated U.S. safety regulations.

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

- Total recordable incident rate (TRIR)<sup>2</sup>
- Days away, restricted duty, job transfer (DART)<sup>3</sup>
- Lost workday incidence rate<sup>4</sup>

Our Excellence in Safety Awards recognize sites for achieving OSHA total recordable incident rates that are better than industry standards. Awards were given in 2019 in three categories:

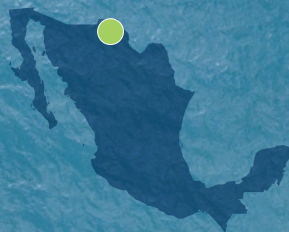
- **Gold TRIR: <25 percent of the industry standard**
  - 2019 Recipients: Haltom City, Cookeville, El Paso, Franklin, Lebanon, Stratford, Veldhoven, Nanjing (3 plants), Bengaluru, Milwaukee
- **Silver TRIR: <50 percent of the industry standard**
  - 2019 Recipient: Juárez
- **Bronze TRIR: <75 percent of the industry standard**
  - 2019 Recipients: Ashland City, Fergus, Johnson City

### OUR TRIR AWARD-WINNING SITES

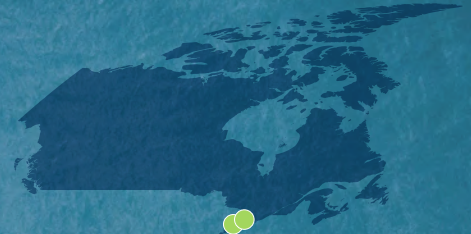
#### United States



#### Mexico



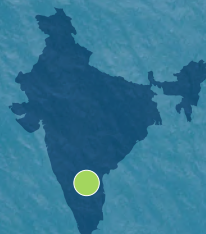
#### Canada



#### China



#### India



#### Netherlands



Our commitment to safety is unwavering, and our strong performance proves it: the total recordable incident rate (TRIR) is less than half the industry average and has declined year-on-year every year since 2012.

<sup>2</sup> TRIR defined as significant work-related injuries or illnesses beyond first aid, calculated per OSHA formula (Number of Incidents x 200,000 / total number of hours worked in a year)

<sup>3</sup> DART defined as serious work-related injuries or illnesses that result in one or more lost work days, restricted duty or job transfer, calculated per OSHA formula (Total number of incidents or illnesses resulting in either the worker missing work, being on restricted duty, or being transferred to another job within the organization x 200,000) / total number of hours worked in a year)

<sup>4</sup> Lost Workday Incident Rate defined as number of lost work days, calculated per OSHA formula (Number of days lost due to injury/illness x 200,000) / total number of hours worked in a year)

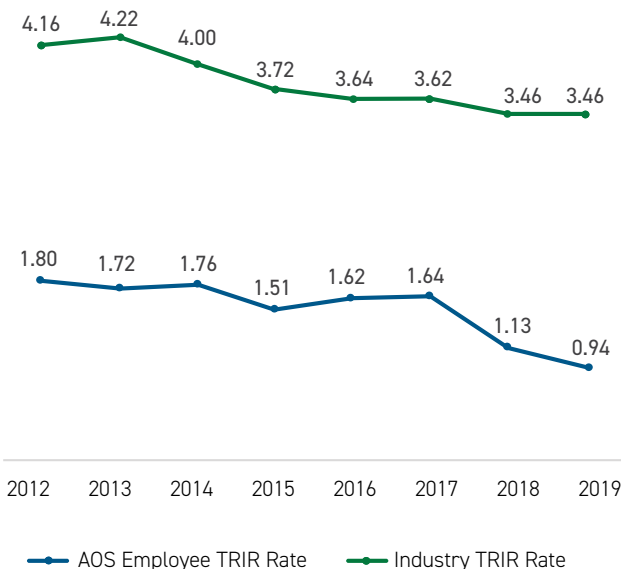
## Case Study: BENGALURU WINS 2019 PRESIDENT'S SAFETY AWARD

For the third time in eight years, employees in Bengaluru, India, were presented with the 2019 Lloyd B. Smith President's Safety Award in recognition of their outstanding work at the facility around safety matters. In 2019, the team set out to implement a three-part strategy to identify hazards, analyze risks, determine controls and monitor their effectiveness.

As a result of these efforts throughout 2019, the plant achieved 100% compliance, zero work-related illness and 1.33 million working hours without a lost-time incident, continuing a 3.74 million hour streak dating back to August 2016. Additionally, the team earned the ISO 14001 & ISO 45001 integrated management system certifications.

### GLOBAL SAFETY PERFORMANCE

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 and has declined year-on-year every year since 2012.



### EMERGENCY PREPAREDNESS

While we strive to eliminate incidents, we are prepared to respond to emergencies. Our Emergency Response Management System provides a model for building and maintaining crisis management and emergency response plans.

Each plant has a written emergency response plan that includes a process for identifying potential emergencies and planning for mitigation and control. Employees are trained for their responsibilities and assignments under each scenario. Emergency response plans and documents are fully reviewed each year.

At the corporate level, the company maintains a Crisis Management Protocol with personnel identified to provide useful, prompt support in response to an emergency.

# Supply Chain

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.

## RESPONSIBLE SUPPLY CHAIN MANAGEMENT

We expect suppliers to adhere to our Guiding Principles, which include our expectations with regards to working conditions, minimum wages, maximum working hours, provisions of social benefits and sustainability reporting. Every new vendor receives a copy of our Guiding Principles and is required to acknowledge receipt and adherence. We are in the process of obtaining confirmation of adherence to our Guiding Principles from 90% of our suppliers based on dollar spend.

New suppliers are systematically reviewed and rated to evaluate their long-term ability to support our businesses sustainably going forward. We have developed a supplier assessment with a focus on product quality and safety.

We use a third-party risk assessment program to identify bribery and corruption risks in our supply chain. We do not do business with any company that is on a restricted list or has been involved with bribery or corruption.

With select suppliers, we conduct site visits to review operations and management practices. The Global Quality team is responsible for auditing both new and current suppliers as well as assessing opportunities for product and supply chain improvement. In 2019, the team undertook 118 international supplier audits.

## CONFLICT MINERALS

We are committed to supporting responsible sourcing of our materials from suppliers that share our values, including our commitment toward human rights and environmental responsibility. We are committed to responsible sourcing of conflict minerals throughout our supply chain and to continuing to comply with the underlying SEC rules and regulations surrounding conflict minerals. As part of our efforts, we expect all suppliers of components for our products to annually assess their entire supply chain and provide us with detailed information about their use and source of conflict minerals.

We train new suppliers on our conflict minerals reporting requirements, as necessary.

More information is available in our [Conflict Minerals Report](#) and in our [Conflict Minerals Statement](#).



# 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. Our human capital goal is to create a highly capable, values-based organization that is aligned and engaged to deliver outstanding performance.

## EMPLOYEE ENGAGEMENT

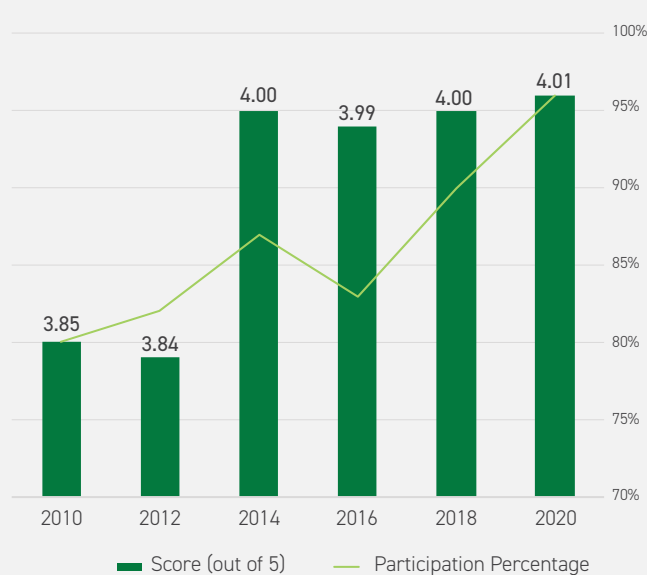
We conduct a Global Employee Engagement Survey on a biannual basis. This third-party-managed survey measures employees' level of engagement against external norms and provides us with actionable feedback that drives improvement priorities. Employee feedback from the survey provides opportunities to improve, and we take that seriously (as shown by our high participation levels and overall scores). According to our survey vendor, a participation rate of 96% is rare and among the highest they had seen, indicating a willingness of our employees to share their perspectives and a commitment to continuous improvement.

Employees have consistently cited the company's commitment towards ethics & compliance, customer focus, diversity & inclusion, innovation and workforce alignment

as areas of strength on the survey. We believe our high performance in these areas directly aligns with our human capital goal.

This measure of engagement demonstrates a high level of employee loyalty, which, in turn, allows us to retain the critical talent we need to be successful. In the United States, our average workforce tenure is 11.3 years compared to the average of 4.1 years (according to the Bureau of Labor Statistics). Long-term tenure is also seen at the senior management levels, providing leadership continuity to help grow our business and keep our culture and values ingrained in how we do business. Our executive leadership has an average tenure of 22 years, while our senior management team averages 14 years of service with the company.

## EMPLOYEE ENGAGEMENT SCORES



NOTE: Per HSD Metrics, 86% participation rate is considered strong.

	U.S.		Rest of World		Global	
	2018	2020	2018	2020	2018	2020
Ethics & Compliance	78%	81%	89%	90%	86%	87%
Customer Focus	73%	76%	87%	87%	83%	84%
Diversity & Inclusion	71%	74%	89%	90%	85%	86%
Innovation	67%	69%	88%	88%	83%	83%
Workforce Alignment	77%	78%	90%	90%	87%	87%

NOTE: Per HSD Metrics, 70% is considered an area of strength.

## DEVELOPING CAPABILITIES

The development of individual and organizational capabilities is a foundational building block for our success. In order to attract and retain the best talent, we believe in investing in our employees' development and growth.

Our learning strategy is based on the research-based 70-20-10 model to optimize individual development:

70%

### Experiential

job-related experiences  
& challenging  
assignments

20%

### Social

interaction, coaching,  
& mentoring from  
others

10%

### Formal

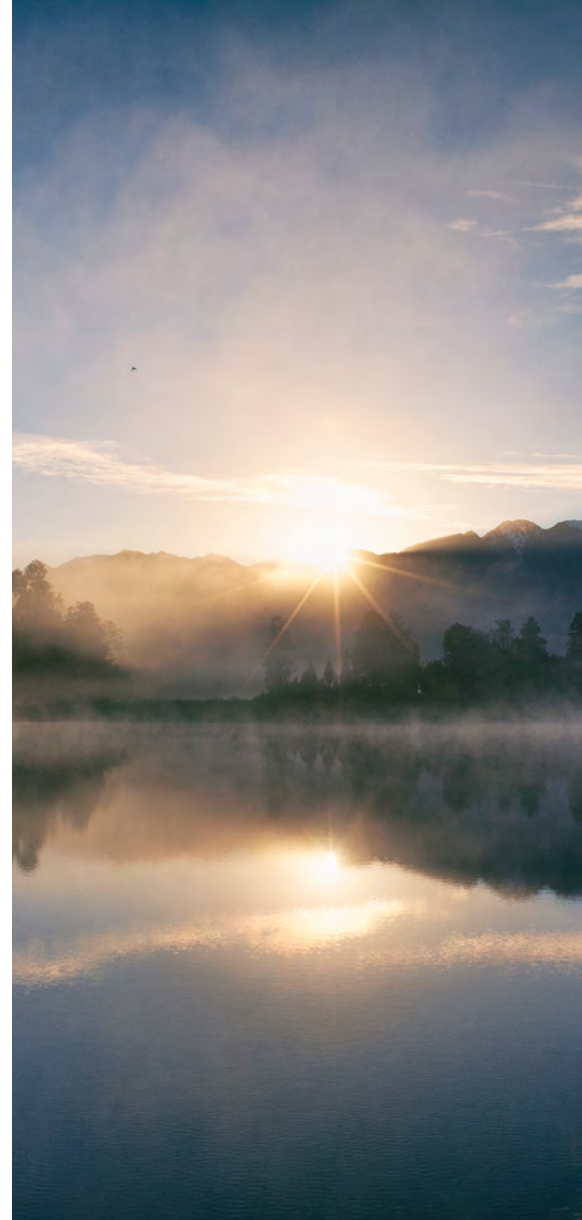
training events  
& activities



Some of the formal development programs that employees have access to include:

- Early-career leadership development programs
- Front-line leadership development programs
- Continuous Improvement skill-building programs
- Core process technology councils (e.g., foaming, glassing, plastic processing, welding)
- Tuition reimbursement for degree programs or trade schools
- Function-specific skills development activities
- Leadership training for high-potential employees

It is expected that managers work closely with their employees to ensure performance feedback and development discussions take place on a regular basis. Globally, 100% of office and professional employees have a formal performance review and a development plan logged in our global talent management system in 2020.



### Case Study:

## TALENT AND MANAGEMENT TRAINEE PROGRAMS IN CHINA

Our sales talent program and management trainee programs in China have been in place since 1999 and 2004, respectively. Both development programs have been a critical component towards building the leadership capability and retention needed for business growth. Collectively, these programs have graduated 590 leaders, including 40% of our current sales team and 20% of our management team.

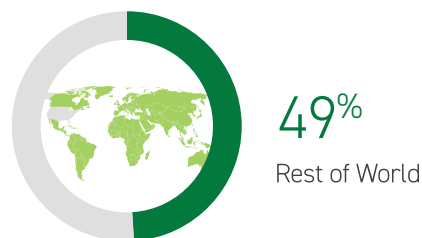
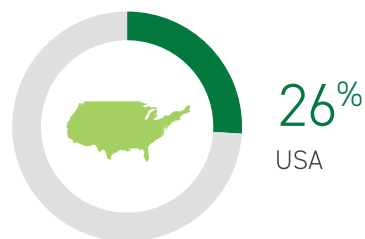
## DIVERSITY & INCLUSION

Diversity has been empirically shown to promote creativity and innovation and is a priority within our company, driven by our Chief Executive Officer and with full support from our Leadership Team and Board of Directors. Our Women's Resource Network was organized in 2015 to improve company performance through activities that promote personal and professional development of employees in a community of support. 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.

In the United States, a senior management scorecard has been developed to increase visibility and monitor progress specific to gender diversity. With this insight, several improvements have been made to the talent acquisition process to help increase the number of qualified female candidates in the pipeline for professional-level 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 gender and other areas of diversity. To that end, we are currently applying the learning from our gender diversity scorecard process to racial diversity in the U.S.

Three of our 10 directors and three of our 13 executive officers are diverse by gender or race/ethnicity.

### FEMALE PERCENTAGE OF TOTAL WORKFORCE



### Case Study: RECOGNIZING EMPLOYEES FOR LIVING OUR VALUES

#### China Water Heating: Glassing Treatment & Recycling

The team identified waste in the daily cleaning of the glassing sprayer, in the form of added cleaning agents, lost glassing material and solid hazardous waste treatment costs. To improve the recycling of glassing, reduce the use of agents and the volume of solid hazardous waste, the team made two simple changes. First, they modified the recycling pipe to collect liquid glassing in one dense mesh filter press instead of two waste pipes. Second, they used real-time online

sewage quality detection to optimize the cleaning agent concentration and reaction tank pH, and then added flow meter and regulator to set a steady dosing flow rate of <85L/hour. From May through October 2019, 48.5 tons of sludge were produced, 50.6% less than the same period in 2018, for a cost saving of over \$100,000. Based on 2019's output, the team anticipates a total solid hazardous waste reduction of 120 tons per year, a saving of \$215,000.



## REWARDS & RECOGNITION









Our total compensation programs are designed to be market-competitive and internally equitable to attract, retain, motivate and reward a high-performance workforce. Regular internal and external analysis is performed to ensure this market alignment.

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.

### EXAMPLES OF THE QUALITY BENEFITS PROVIDED TO EMPLOYEES AND ELIGIBLE DEPENDENTS IN THE U.S.

- |  |   |
|--|---|
|  Medical, Dental and Vision |  Employee Assistance Program (mental health, financial, legal) |
|  Health Savings Accounts    |  Paid Time Off Benefits  |
|  Disability Plans           |  Retirement Programs   |
|  Life Insurance             |  Identity Protection   |

### AWARDS

China’s leading career website [zhaopin.com](http://zhaopin.com) issues an annual ranking of the “**Best Employers in China**,” from among 58,700 non-governmental employers nationwide. For the sixth consecutive year, A. O. Smith China has been ranked in the Top 30. In addition, our China company was recognized among nine “**Exceptional Employers**” in the first year for the award. Only companies that rank consistently in the Top 30 are eligible. Organizers describe the winners as “constantly advancing the evolution of the employee-employer relationship,” by implementing clear, practical actions.

# 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.

## A. O. SMITH FOUNDATION

Established in 1955, the A. O. Smith Foundation has been supported by donations from our company and has provided \$46 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 year. Renewable scholarships are also available for children of employees for higher education, including vocational-technical school and college.

In 2019, the A. O. Smith Foundation partnered with 199 organizations and donated \$1.6 million. We focus our efforts on four primary areas: education, human services, art and culture, and health.

To learn more about the A. O. Smith Foundation, please visit our [website](#) or read our [2018 Community Impact Report](#).

### Case Study: ALVERNO COLLEGE GREENHOUSE

The A. O. Smith Foundation is partnering with Alverno College in Milwaukee, Wisconsin, to construct a greenhouse on campus, offering students an exciting new opportunity to engage in hands-on learning and explore new career paths.

The 1,400-square-foot facility will feature an aquaponics system and a classroom space. Hundreds of undergraduate students, as well as area high school students, will participate in learning opportunities and research projects in preparation for careers in the food, agricultural, natural resources and human sciences industries. Construction on the facility is expected to be complete in December 2020.

As lead sponsor of the project, the A. O. Smith Foundation has committed \$250,000 in funding over five years to cover expenses, including initial startup, maintenance and staff.

The program will provide Alverno with additional opportunities to recruit, retain and graduate women in a wide variety of STEM majors, including underrepresented minority students, and to create a pipeline to new career opportunities.



## SUPPORTING COMMUNITIES, EMPLOYEE GIVING & VOLUNTEERING

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

We encourage our employees around the world to live the company's values through volunteerism and community involvement. Globally, our employee volunteers identify their local communities' needs and then deliver solutions to support their communities by leveraging their customer service mentality.

## 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. In 2019 our Executive Vice President/General Counsel was appointed to serve as Co-Chair to the Council's Board of Directors. Our former Chief Executive Officer was Co-Chair for nearly a decade previously. Currently, the company is participating in a task force led by The Water Council to develop a Corporate Water Stewardship certification standard.

### **Community Case Study:** **TENNESSEE EMPLOYEES** **STUFF THE BUS WITH 2,000+** **NEW CRAYON BOXES DONATED** **FOR STUDENTS**

In 2019, thanks to A. O. Smith's APCOM employees in Franklin, Tennessee, 2,184 local students started their school year with a new, colorful box of crayons.

The crayons were collected as part of the United Way Stuff the Bus Day of Action. The United Way of Williamson County drive had a goal of collecting 2,500 crayons to stuff in 2,500 backpacks for students in the area, so A. O. Smith employees accounted for 87 percent of the entire county's crayon goal.

Along with the crayons, the United Way collected a variety of school supplies to fill the 2,500 backpacks for local students.





## 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 20-year relationship. ACEEE plays a leading role in advancing energy efficiency policies, programs, technologies, investments and behaviors in the United States. In 2019 we had the honor of once again co-hosting ACEEE's annual Hot Water Forum, a premier industry conference that is wholly dedicated to water heating technology and thought leadership, as well as serving on its 40 Year Anniversary Committee.

## 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 policymakers. Our company continues to hold board and leadership positions in the following associations: The National Association of Manufacturers, the Water Quality Association and the Air-Conditioning, Heating, and Refrigeration Institute.



### Industry Engagement Case Study: THE WATER COUNCIL TECH CHALLENGE

A. O. Smith joined The Water Council and fellow corporate sponsors Badger Meter and Zurn Industries to award \$25,000 to innovation winners of the 2020 Spring Tech Challenge. The competition drew a field of 20 applications from seven countries.

Launched in 2017 and held twice annually, Tech Challenge is an open innovation contest designed to connect program sponsors to those with novel solutions for emerging freshwater technologies with a high potential for commercialization. The spring 2020 challenge, which ran from April 2 to May 3, sought water technology solutions for energy harvesting and leak detection.

The following winners each garnered awards of \$10,000 each:

- Pydro: Based in Rostock, Germany, and winner of the energy harvesting challenge category, Pydro's solutions contribute to a sustainable water supply by providing more visibility into the operation of smart water networks with self-powered monitoring and control solutions.
- SMART FLOW: Based in Dublin Ireland, and winner of the leak detection challenge category, SMART FLOW'S real-time water monitoring and leak detection system provides instant alerts and notifications to any system issues, such as excessive water usage and leaks, along with automatic and remote water shutoff via a user's mobile app or dashboard.



#### **About A. O. Smith Corporation**

A. O. Smith Corporation is a global leader applying innovative technology and energy-efficient solutions to products manufactured and marketed worldwide. The company is one of the world's leading manufacturers of residential and commercial water heating equipment and boilers, as well as a manufacturer of water treatment products for residential and light commercial applications.