

## A. O. SMITH CORPORATION

### PERSONNEL AND COMPENSATION COMMITTEE CHARTER

#### **Purpose**

The Personnel and Compensation Committee (the "Committee") shall be responsible for reviewing and making decisions with respect to salaries, bonuses, equity awards and other benefits for executive officers of A. O. Smith Corporation (the "Company") under a delegation of authority from the Board of Directors (the "Board"). In performing this function, it shall be the objective of the Committee to design programs that have the following characteristics:

(i) Attract and retain qualified executives through a total compensation opportunity that is competitive within the Company's industry as well as the various markets in which it competes for talent;

(ii) Encourage a pay-for-performance mentality by directly relating variable compensation elements to the achievement of financial and strategic objectives without encouraging undue risk taking. Incentive plans are designed to recognize, reward and encourage accomplishment of individual goals and the Company's long-term objectives;

(iii) Promote a direct relationship between executive compensation and the Company's stockholders with long-term incentive opportunities that link a significant portion of executive compensation to the Company's performance through restricted stock unit, stock options, Performance Awards, or other similar awards without encouraging undue risk taking.

#### **Composition of the Committee**

The Committee will be annually appointed by the Board and will consist of at least three directors, all of whom in the judgment of the Board will be independent in accordance with New York Stock Exchange listing standards, unless and to the extent the Board elects to exercise the "Controlled Company" exemption as it deems appropriate. Any such exemption will be disclosed in the Company's proxy statement. The chairperson of the Committee shall be designated by the Board. The Board may at any time remove one or more directors as members of the Committee. Additionally, the directors appointed to serve on the Committee shall be "non-employee directors" (within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended) and "outside directors" (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder)

unless the Committee has established a subcommittee consisting only of such “outside directors”.

### **Authority and Responsibilities**

The Committee shall have the following authority and responsibilities:

1. To assist the Board in developing and evaluating potential candidates for executive officer positions, including the chairman and chief executive officer, and to oversee the development of executive succession plans.
2. To review and approve the Company’s overall executive compensation philosophy and practices.
3. To annually conduct a risk assessment of the Company’s current compensation approach, governance processes, incentive plan provisions, and succession planning process, and as appropriate, take actions to review and approve any appropriate changes to the Company’s programs so as to reward performance while avoiding undue risk taking.
4. To establish and administer the Company’s compensation and benefit plans for its executive officers.
5. To approve, or in the case of the chief executive officer, recommend to the Board, offers of employment, employment agreements and other agreements that the Company enters into with its executive officers.
6. To review and approve on an annual basis the corporate goals and objectives with respect to compensation for the chairman and chief executive officer. The Committee shall evaluate at least once a year the chairman and chief executive officer’s performance in light of these established goals and objectives and, based upon these evaluations, shall make recommendations to the Board as to the chairman and chief executive officer’s annual compensation, including salary, bonus, incentive and equity-based compensation. The full Board, excluding the Chairman and Chief Executive Officer, shall review the recommendations of the Committee and approve the Chairman and Chief Executive Officer’s compensation.
7. To review and approve on an annual basis the chairman and chief executive officer’s performance reviews of, and compensation recommendations for, the Company’s other executive officers. The Committee shall approve the annual compensation, including salary, bonus, incentive and equity-based compensation, for such executive officers.
8. To review the Company’s incentive compensation and other stock-based plans and recommend changes in such plans to the Board as needed. The

Committee shall have and shall exercise any authority the Board may have with respect to the administration of such plans.

9. To review, approve, and monitor stock ownership guidelines for executive officers.
10. To review and discuss with the Company's management the Compensation Discussion and Analysis (CD&A) to be included in the Company's proxy statement, and approve the Committee's report in the Company's proxy statement, in accordance with applicable rules and regulations.

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as it may deem necessary or appropriate for the performance of its duties.

The Committee shall have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion, *provided* that the Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

The Committee shall have authority to retain and terminate or obtain the advice of such compensation consultants, outside legal counsel and other advisors as the Committee may deem appropriate in its sole discretion. However, the Committee shall not engage the Company's independent auditors to perform any services without the approval of the Audit Committee. Before selecting any compensation consultant, legal counsel or other advisor to the Committee, the Committee shall, in accordance with applicable requirements of law, the Securities and Exchange Commission and the New York Stock Exchange, take into consideration the recommendation of the Nominating and Governance Committee and all factors relevant to that person's independence from management and the Committee, including the factors specified by the New York Stock Exchange. The Committee also shall evaluate whether the work of any compensation and benefits consultant raises any conflict of interest. If a conflict of interest is identified, the Committee shall determine what measures, if any, shall be taken to address the conflict. The Committee shall have sole authority and direct responsibility to appoint and approve the fees and retention terms of, and oversee the work of, any compensation consultants, outside legal counsel or other outside advisors that the Committee retains. The Committee shall receive appropriate funding, as determined by the Committee, from the Company to pay any such consultants, outside counsel or other advisors that the Committee retains.

The Committee shall report its actions and any recommendations to the Board after each Committee meeting and shall conduct and present to the Board an annual performance evaluation of the Committee. The Committee shall keep

written minutes of its meetings, which minutes shall be maintained with the books and records of the Company, and provided to the Board.

The Committee shall review at least annually the adequacy of this charter and recommend any proposed changes to the Board for approval.