



2005 ANNUAL REPORT

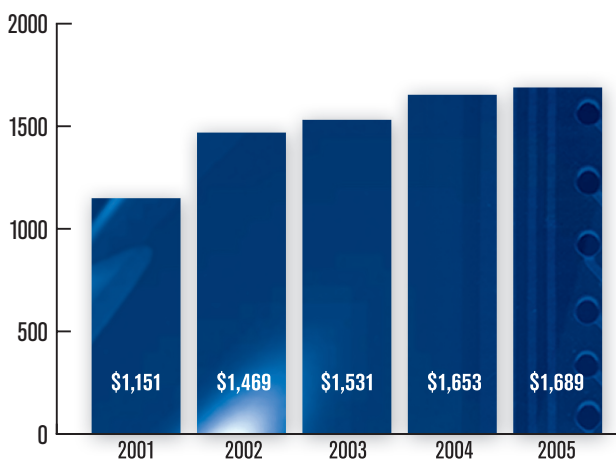
CORPORATE PROFILE

A. O. Smith products provide comfort, convenience, security and fun, improving the quality of life for millions of residential and commercial customers all over the world. The company's product lines include a comprehensive offering of fractional horsepower, hermetic, and integral horsepower electric motors; commercial and residential water heating equipment; and copper-tube boilers.

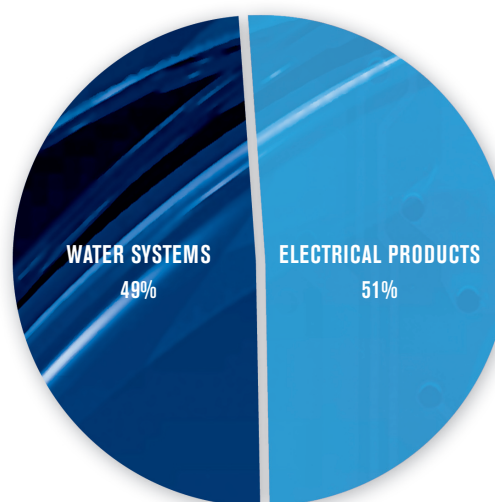
A. O. Smith Corporation is headquartered in Milwaukee, Wisconsin, and employs 17,650 people at 43 facilities in seven countries. The company has paid cash dividends on its common stock every year since 1940.

NET SALES

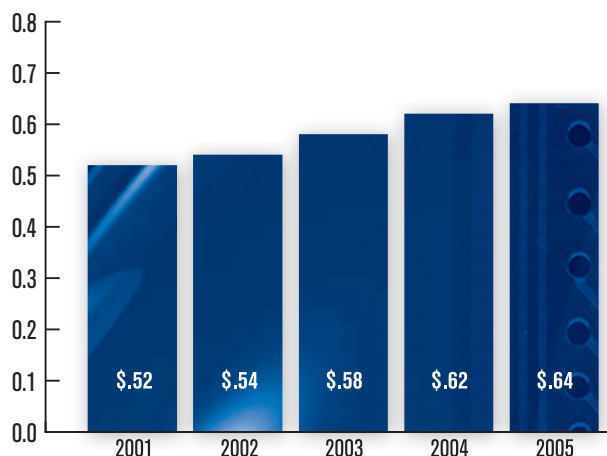
(dollars in millions)



SALES PROFILE



ANNUAL DIVIDENDS





The A. O. Smith leadership team (from left) Michael Cole, vice president—Asia; Steve Rettler, vice president—business development; John Kita, vice president, treasurer, and controller; Chris Mapes, senior vice president and president—Electrical Products Company; Ron Massa, senior vice president; Terry Murphy, senior vice president and chief financial officer; Paul Jones, chairman and chief executive officer; Chuck Bishop, vice president—Corporate Technology; Mark Petrarca, vice president—human resources & public affairs; Ajita Rajendra, senior vice president and president—Water Products Company; Dave Romoser, vice president, general counsel, and secretary; and Randy Bednar, vice president—Information Technology.

LETTER TO SHAREHOLDERS

A. O. Smith's financial performance was much improved in 2005, with substantially higher earnings and record sales of \$1.69 billion. Our operating units overcame higher material and energy costs and created positive momentum that we believe will carry over into the new year. Among the highlights:

- Water Systems significantly improved its performance, setting sales, operating earnings, and cash flow records;
- Volume from Electrical Products' low-cost operations in China increased 35 percent as we continue to increase our ability to manufacture our complete line of electric motors in that country;
- Water heater sales in China increased to \$86 million, more than 45 percent higher than the prior year;
- In November, we completed the acquisition of Yueyang Zhongmin Special Electrical Machinery Co., Ltd., further enhancing our ability to supply the growing market for commercial hermetic motors in China;
- A. O. Smith's cash flow from operations more than doubled last year to \$187 million, the result of higher earnings and a \$71.4 million reduction in working capital.

FINANCIAL SUMMARY

(dollars in millions, except share and per share amounts)	2005	2004	CHANGE
Net sales	\$1,689.2	\$1,653.1	+2.2%
Net earnings	46.5	35.4	+31.4%
Diluted earnings per common share	1.54	1.18	+30.5%
Cash dividends per common share	.64	.62	+3.2%
Capital expenditures	50.6	48.4	+4.5%
Book value per common share as of December 31	20.15	19.91	+1.2%
Common shares outstanding as of December 31	30.4	29.7	+2.4%

LETTER TO SHAREHOLDERS continued

Another accomplishment in 2005 was that each of our units made major improvements in their operating capabilities through the use of continuous improvement, lean manufacturing, Kaizan, and other initiatives. These actions will help make each of our businesses more agile and better able to respond to our customers' needs.

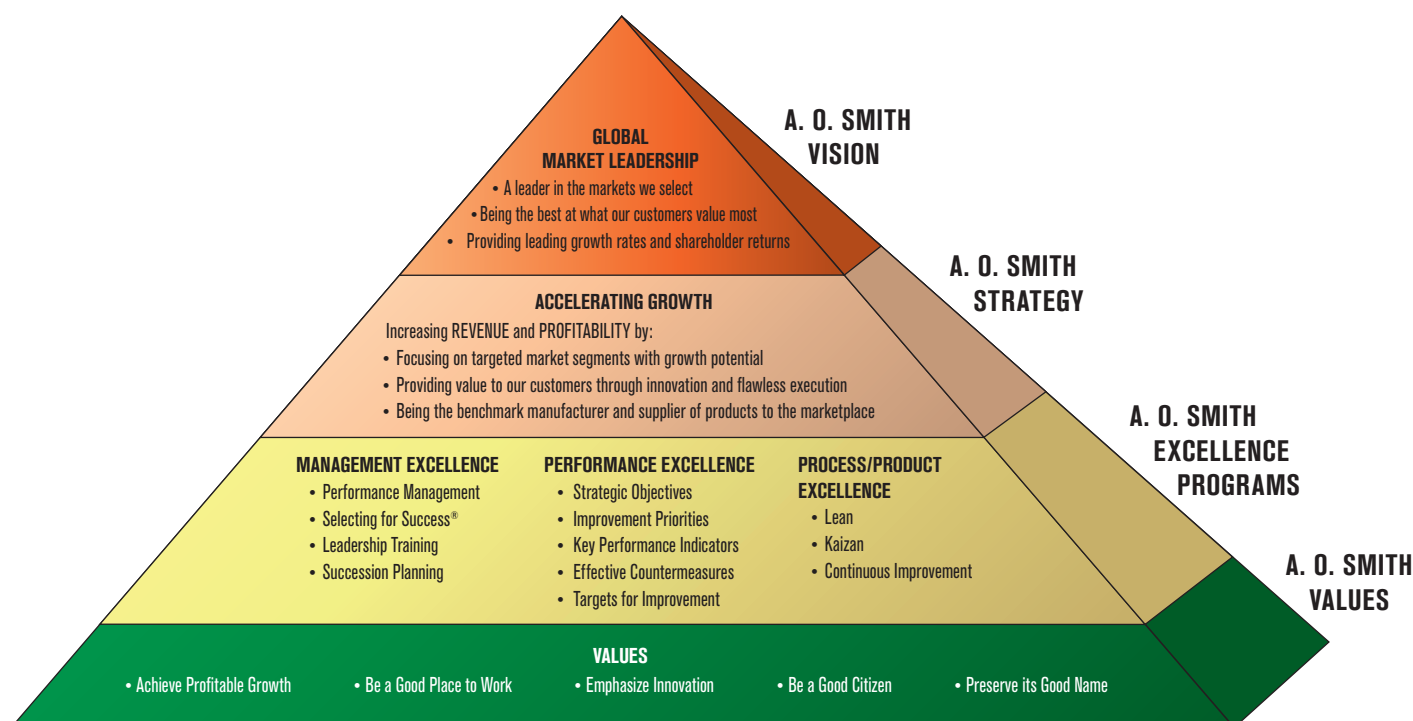
The goals of the senior leadership team and our employees are to profitably grow our businesses, deliver improved returns to our shareholders, and continually find ways to add value to the company. Over the last 18 months, the leadership team and our Board of Directors have been taking a fresh look at the company's strategy. The result of this work is the A. O. Smith Integrated Business Model, a comprehensive guide to how we, as a company, can achieve our vision of becoming the global leader in the markets we serve.

The strategy we will employ to achieve this vision is to accelerate the company's sales and profit growth. We will be diligent in seeking profitable growth from a number of sources:

- Gaining share in our existing markets by designing and developing innovative new products and services and by offering our customers a compelling value proposition;

- Entering new domestic markets. There are segments of the motor and water heater markets we do not serve, and we believe we have the ability to bring new products to these untapped markets;
- Growing globally. We will identify and penetrate new international markets using the enormously successful experience of our China water heater business as a template;
- Expanding through acquisitions and joint ventures. We will continue to seek companies that bring us new customers, allow us to enter new markets, or offer innovative new technologies.

Among the excellence programs that support our growth strategy is the new Performance Excellence Program which we introduced last fall. Performance Excellence is a proven program that serves as a catalyst to bridge the gap between strategy and tactics, so that we can consistently achieve our targets and establish new, higher levels of performance. Each of our operating units has embraced the discipline of Performance Excellence, and it promises to become a way of life at our company. You can expect to hear more about this program in the future.



THE INTEGRATED BUSINESS MODEL

On January 20, we announced an agreement with the majority shareholders of GSW Inc. to acquire the Canadian-based water heater and building products company. This represents the largest acquisition in company history, and we are very excited about combining GSW's strength in the U.S. retail water heater channel and the Canadian residential market with our strength in the domestic wholesale channel and growing global presence. The acquisition promises to make A. O. Smith the leading supplier in this industry. We expect to complete the transaction by the end of the first quarter.

One of my expectations for A. O. Smith is that we will deliver on our promises and meet our commitments. To our customers, that means reliably delivering high-quality products on time and providing them with valuable, personalized service. To our employees, this means continuing to treat each other with respect and dignity so that we can work together to achieve our goals. As you no doubt noticed, the A. O. Smith Values represent the foundation of our business model, and we remain committed to living those values every day.

Finally, we expect to meet our financial commitments to you, our shareholders, by consistently achieving our financial plan, increasing shareholder value, and continually delivering better returns on your investment in A. O. Smith Corporation. I think 2006 will be an exciting year with numerous challenges and many opportunities for accomplishment, and I look forward to reporting our progress to you in the future.



Paul W. Jones
Chairman and Chief Executive Officer

A SALUTE TO ROBERT J. O'TOOLE



December 31, 2005, marked the end of an era with the retirement of Robert J. O'Toole. Bob O'Toole's career spanned 42 years with A. O. Smith, and he retired as one of the most successful chairmen in the history of our company. The size, scope, and structure of A. O. Smith are largely the result of Bob's vision and efforts.

He was integral in building Electrical Products Company into the business it is today through five domestic acquisitions from 1986 until 2001 and the company's expansion into Mexico in the 1980s and China beginning in the 1990s. In 1985, Electrical Products was a \$142 million company; at the end of last year it was an \$861 million business and one of the three largest electric motor manufacturers in North America.

Bob also played a major role in growing the Water Systems business into one of the two largest water heater manufacturers in North America and a leading global competitor. He foresaw the tremendous potential of the China market and helped establish the company's China water heater operation in 1995. In 2001, he was responsible for the acquisition of State Industries, Inc., a transaction that doubled the size of Water Systems. When Bob was first named president of A. O. Smith, Water Systems' sales were \$147 million; last year that unit achieved record sales of \$833 million.

Under the leadership of Bob O'Toole, A. O. Smith experienced 20 years of significant growth including more than \$900 million in earnings, nine dividend increases, and two stock splits. Equally as important, he strongly believed in conducting business with the highest ethics and was a consistent proponent of the A. O. Smith Values.

On a more personal note, over the last two years, Bob has been unfailingly generous with his time, knowledge, and experience. He was committed to a smooth transition of leadership, and in that effort, made a final contribution to A. O. Smith's success. The senior leadership team and I look forward to his continued contributions as a member of our Board of Directors.



ELECTRICAL PRODUCTS

Electrical Products' sales of \$861 million were unchanged from the prior year, as improved pricing and continued growth in the pump and distribution market segments were offset by lower unit volumes. Operating earnings of \$42.3 million reflect the impact of \$12.4 million (before tax) of restructuring expenses primarily related to factory closings. The company's operating margin, on an adjusted basis, improved to 6.4 percent, due to improved pricing and enhanced manufacturing efficiency.

In the second quarter, the company announced plans to close its Bray, Ireland, plant as well as accelerate a number of product repositioning programs in its U.S. operations. Bray's production was consolidated into existing hermetic



(Top left) Gustavo Navarro from Juarez and Heidi McRae and Becky Easterling from Tipp City gather poolside with A. O. Smith's new motor equipped with eMod load-sensing electronics. (Above) New fan designs for appliances and similar applications, such as the one held by engineer Jevon Reynolds, offer significantly improved efficiency and quieter operation than conventional axial fan products.

ELECTRICAL PRODUCTS MARKETS SERVED

- HVAC
- Pumps
- General purpose
- Appliances
- Distribution

motor plants in North America and China. The product repositioning actions, part of an ongoing initiative to rationalize our component fabrication operations, included the closing of the Upper Sandusky, Ohio, plant during the third quarter and the announced closing of the Owosso, Michigan, plant in the second quarter of 2006. We expect annual pre-tax savings of approximately \$8 million from these actions.

Material costs remained an issue throughout the year. In addition to steel, energy costs rose again in 2005, and the price of copper increased throughout the year. To mitigate these increased costs, Electrical Products took a number of actions last year, including new initiatives in procurement and logistics. For example, the company expanded its low-cost country sourcing initiative, significantly expanding its procurement activities in China. Electrical Products also began an "E-sourcing"

program to purchase a number of commodities and services via an internet-based auction process. Results were encouraging, with savings of 15 percent or more on some items, and the company plans to expand this program in 2006.

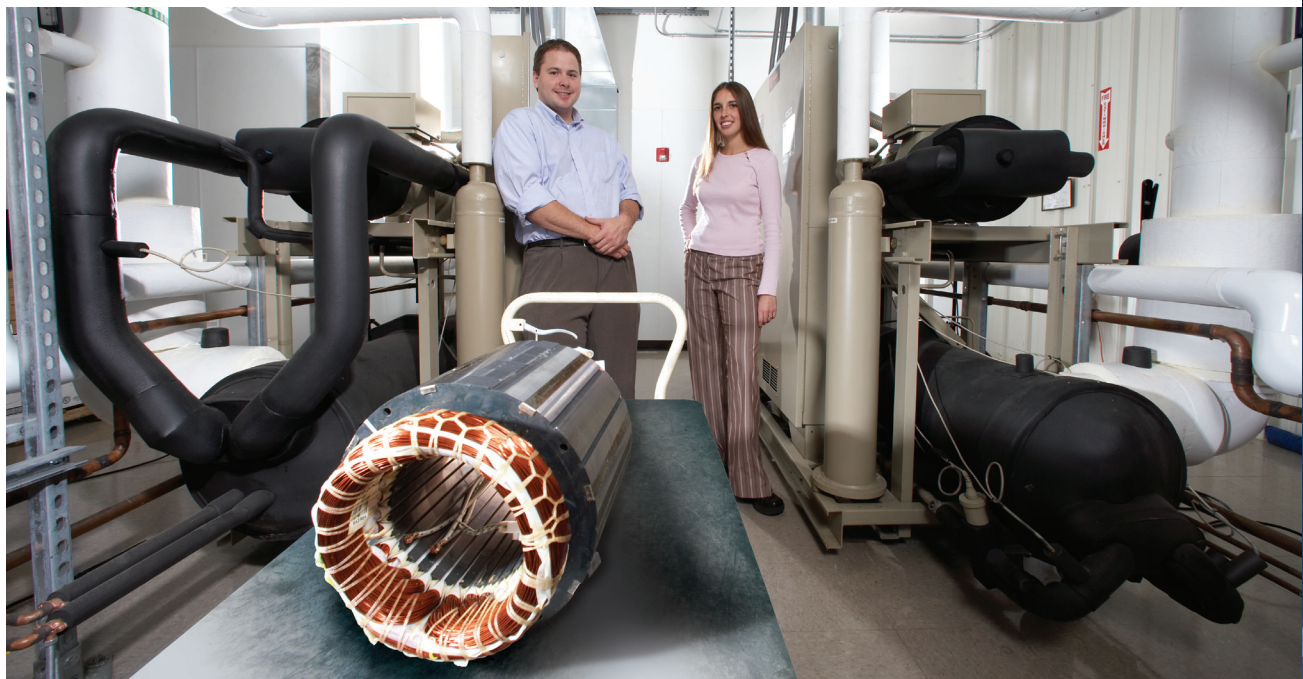
In addition, Electrical Products' manufacturing operations made notable progress in reducing costs and improving efficiency through the use of continuous improvement and lean manufacturing techniques. In June, the company introduced Value Process our lean manufacturing program for EPC; this initiative makes extensive use of employee teams taking part in Kaizen events to reduce in-process inventories, material handling, floor space requirements, and lead times while improving responsiveness. The company plans to expand these efforts in 2006, focusing on continued manufacturing and process-driven improvements.

The company's China operations increased their volume more than 35 percent in 2005 as we continue to expand the capabilities of these low-cost plants to manufacture our complete line of motors in that country. In addition to manufacturing, we expanded our engineering capabilities in China, announcing the development of fractional horsepower and hermetic motor test labs and a material lab. In November, Electrical Products acquired Yueyang Zhongmin Special Electrical Machinery Co., Ltd., a manufacturer of hermetic motors located in Hunan Province, China. In addition to hermetic motors for commercial applications, Yueyang Zhongmin manufactures high-voltage motors, a product line Electrical Products did not offer in the past. In addition, Yueyang Zhongmin complements our existing commercial hermetic motor operations in Suzhou and further enhances our ability to serve the growing number of global HVAC customers located in Asia. We also expect to be able to increase exports of commercial hermetic motors to HVAC customers in North America. We anticipate the Yueyang acquisition will immediately contribute increased earnings in 2006.

New energy efficiency regulations promise to have a major impact on the U.S. heating and cooling industry in 2006. The 13 SEER (Seasonal Energy Efficiency Ratio) went in effect in January 2006, and many HVAC customers reacted by purchasing motors and manufacturing their products ahead of the deadline, with much of that activity concentrated in the fourth quarter of 2005. While EPC was impacted by the standard, the majority of our products are sold in the commercial segment of the market which is not affected by 13 SEER. These regulations should have a positive influence on sales of higher efficiency motors, including a new electronically controlled variable-speed fan and blower motor that went into production in the fourth quarter. In the important pool and spa market, the company has reached an agreement to supply pump motors equipped with the eMod™ electronic control to one of North America's leading swimming pool pump manufacturers. The patented eMod control monitors a number of operating conditions in a residential swimming pool including clogged drains, decreased fluid flow, and suction blockage, and automatically shuts down the pump to prevent damage. Electrical Products also plans to introduce motors with the eMod load-sensing control in the replacement market during 2006.

Electrical Products expects to achieve higher sales and profits in 2006 as a result of new program wins, the acquisition of the Yueyang Zhongmin commercial hermetic motors business in China, and the benefits from last year's restructuring initiatives. We are projecting approximately \$60 million in sales from new business, including between \$10 and \$15 million from Yueyang Zhongmin. With global low-cost capabilities and improved operating efficiencies, Electrical Products is in a good position to grow in 2006 and beyond.

(Below) A. O. Smith is a leading supplier of hermetic motors for commercial applications such as this industrial air conditioning system. Shown are Joe Minoque and Carla Chaney from Tipp City.





WATER SYSTEMS

Water Systems enjoyed a very strong second half of 2005, allowing us to achieve sales, operating earnings, and cash flow records. Sales increased approximately five percent to \$833 million due primarily to the ongoing success of the company's China operation, which reported a 41 percent sales increase in 2005. Operating profit was more than double the prior year at \$79 million, the result of improved gross profit margins, increased operating efficiency, and the higher sales in China. Operating margins improved substantially over the prior year, increasing to 9.5 percent.



(Top left) A. O. Smith provided 22 custom-designed hot water generators for Fort Jackson, South Carolina. The units supply 400 gallons of water per minute to the barracks at the military installation. Shown with one unit are Steve Drinkwater and Chad Johnson from Water Systems' Product Engineering Center. (Above) A. O. Smith's patented Blue Diamond® glass offers significantly improved corrosion resistance over conventional glass. Ralph Davis of the Protective Coatings Division examines a sample.

WATER SYSTEMS MARKETS SERVED

- Residential water heating
- Commercial water heating and hydronic heating
- International residential and commercial water heating
- Pump tanks

With its manufacturing rationalization program complete, Water Systems' operations were able to focus on cost improvement, productivity, and inventory reduction throughout 2005. Raw material and work-in-process inventories decreased more than 13 percent last year, the result of new lean manufacturing initiatives in the company's domestic operations. These actions and improved on-time performance also contributed to reduced finished goods inventory levels, and inventory days on hand declined 10 percent at year-end 2005.

Among the company's growing international markets, China continues to stand out as the biggest success story. A. O. Smith's line of residential water heaters is widely accepted by the growing Chinese middle class, helping to make us one of the leading brands in that country's major metropolitan areas. To meet the rapidly escalating demand, the China operation began a project last year to double the size of its manufacturing facility in Nanjing. This expansion will also give us added capacity to meet demand as the company expands its sales and marketing efforts to other parts of the country. The first phase of the project is scheduled for completion during the second quarter of 2006. In March 2005, the company opened the Robert J. O'Toole Global Engineering Center on the Nanjing campus to develop new residential and commercial products for the China market as well as provide engineering support to Water Systems' business. The Center also houses the company's Chinese Customer Care Center.

Although we made significant progress in 2005, raw material and freight costs and pricing remain areas of concern going into this year. While improved manufacturing efficiency can help to offset a portion of these cost increases, Water Systems has begun to address certain specific issues, such as freight costs, by investing in new transportation management software that will enable it to reduce cost through better load planning and routing.



(Above) Zhou Xiangyi and Wang Liang of our Nanjing operation with some of A. O. Smith's extensive line of residential water heaters designed for the China market. (Below left) McBee's Walter Wilds is shown with the new Cyclone HE™, a 90 percent efficient high-recovery unit designed for small restaurants and other light commercial applications.

Water Systems plans a number of actions that promise to further improve its operations and help better serve its customers. The most significant is a customer satisfaction initiative that addresses the many needs of Water Systems' broad array of customers, ranging from consumers to wholesalers, plumbing contractors, specifying engineers, and architects. The company plans to invest in new systems to better manage customer interactions and analyze market data. The company is also conducting extensive surveys with customers to identify market trends and evolving product requirements. In operations, Water Systems plans to invest in a number of new projects designed to significantly enhance manufacturing processes and improve flexibility. One project scheduled for 2006 is focused on introducing new technologies and processes in water heater tank fabrication to enhance quality, tank consistency, and throughput.

We expect the North American water heater market will grow modestly in 2006, and we anticipate China will continue its strong growth. The most significant change, however, will come about when we successfully close the pending acquisition of GSW, which will dramatically increase the size and scope of our North American business. With productive, flexible operations, a growing domestic and international presence, and an outstanding reputation for quality and engineering leadership, Water Systems is well equipped to remain a leader in delivering the world's hot water.



Residential



Commercial



Industrial

A. O. SMITH AT A GLANCE

A. O. Smith Corporation makes electric motors and water heaters for a wide range of consumer, commercial, and industrial applications. Our products make customers' lives more convenient...more comfortable...and, in many cases, more fun. We invite you to look at the many ways you come in contact with quality products from A. O. Smith...and often never even know it.

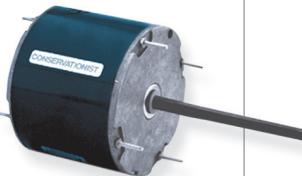
RESIDENTIAL



Manufacturers of swimming pool pumps use dependable A. O. Smith and Century® two-compartment **switched and switchless pump motors**



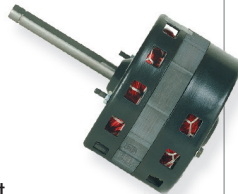
Dependable **fractional horsepower fan and blower motors** for furnaces, air conditioners, and heat pumps



A. O. Smith makes **single-speed and two-speed motors** for whirlpools, spas, and jetted tubs



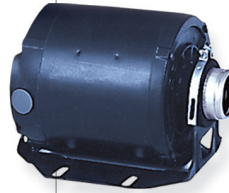
Reversible garage door opener motors designed for frequent cycles in all types of weather and jetted tubs



A. O. Smith has the right product and the right efficiency **residential water heater** for any size home. Water heaters may be vented conventionally or, for today's energy-efficient houses, direct vented or power vented



COMMERCIAL



Specialty motors for carbonated dispenser pumps and vending machines



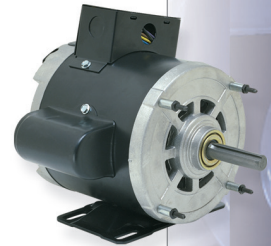
A. O. Smith manufactures a comprehensive line of **commercial gas and electric water heaters**



A. O. Smith supplies **integral horsepower and fractional horsepower electric motors** for commercial washing machines and dryers



Durable, reversible **fractional horsepower motors** for commercial gate openers



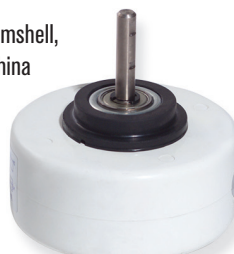
High-efficiency **copper-tube boilers** are used for large-volume hot water applications or for hydronic heating



INTERNATIONAL

ELECTRIC MOTORS

A. O. Smith makes plastic encased, clamshell, and other specialized motors for the China HVAC market as well as supplying motors built to IEC standards for other international customers.



WATER HEATERS

Residential and commercial water heaters and boilers specifically designed to comply with specifications in China (above), Europe, the Middle East, and other international applications.



COMPANY SECURITIES AND OPERATING COMPANIES



A. O. Smith Corporation's Common Stock
is listed on the New York Stock Exchange
under the trading symbol AOS.

CORPORATE DATA

WORLD HEADQUARTERS

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INVESTOR RELATIONS

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REGISTRAR, STOCK TRANSFER AGENT, DIVIDEND REINVESTMENT AGENT (for both classes of stock)

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(800) 468-9716
[www.wellsfargo.com/
shareownerservices](http://www.wellsfargo.com/shareownerservices)

ANNUAL MEETING

The 2006 annual meeting
of shareholders will be
held on April 10, 2006, at:
Hotel du Pont
11th & Market Streets
Wilmington, DE

DIVISIONS

ELECTRICAL PRODUCTS COMPANY

Christopher L. Mapes, President

Tipp City, OH (Headquarters)
Acuña, Mexico
Budapest, Hungary
Changzhou, China
Gainsborough, England
Juarez, Mexico
LaVergne, TN
McMinnville, TN
Mebane, NC
Monterrey, Mexico
Mt. Sterling, KY
Owosso, MI
Scottsville, KY
Shenzhen, China
Suzhou, China
Taizhou, China
Winchester, KY
Yueyang, China

WATER PRODUCTS COMPANY

Ajita G. Rajendra, President

Ashland City, TN (Headquarters)
Charlotte, NC
Cookeville, TN
El Paso, TX
Florence, KY
Franklin, TN
Juarez, Mexico
McBee, SC
Nanjing, China
Renton, WA
Stratford, Canada
Veldhoven, The Netherlands

CERTIFICATIONS

The company has filed as exhibits to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, the certifications of its Chairman and Chief Executive Officer and Senior Vice President and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. The company submitted to the New York Stock Exchange during 2005 the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.



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