



A.O. Smith Earnings of \$1.84 Per Share Set Record; Fourth Quarter Earnings Increase 18 Percent to \$.45 Per Share

MILWAUKEE, Wis., Jan. 19 -- Propelled by the performance of its two largest operating units, A.O. Smith Corporation (NYSE: AOS; Amex: SMCA) today announced record 1998 earnings of \$44.5 million or \$1.84 per share.

Per share earnings were more than 38 percent higher than the \$1.33 per share earned in 1997. Earnings from continuing operations increased nearly \$7 million from 1997's total of \$37.6 million. Sales for the year were \$917.6 million, more than 10 percent higher than 1997 sales of \$832.9 million.

For the fourth quarter, earnings from continuing operations were \$10.7 million or \$.45 per share, compared with fourth quarter 1997 earnings of \$9.7 million or \$.38 per share. Fourth quarter sales of \$224.7 million were more than nine percent higher than fourth quarter 1997 sales of \$205.8 million.

"Our Electric Motor Technologies platform achieved record sales and profits for the fourth consecutive year, while Water Systems Technologies' sales and profits improved over the prior year," Robert J. O'Toole, chairman and chief executive officer, observed. "Their performance enabled the company to overcome the difficulties we faced in our storage and fiberglass pipe markets in 1998."

Electric Motor Technologies, A.O. Smith's largest platform, benefited from the resurgence of the domestic air conditioning market in 1998, a full year of sales and profits from its UPPCO operations, acquired in March of 1997, and six months' sales and profits from its hermetic motor operations in Scottsville, Ky., acquired July 1, 1998. The platform's sales of \$480 million were more than \$89 million higher than the prior year, and operating profits increased more than 20 percent over the prior year.

A.O. Smith's sales of hermetic motors grew more than 48 percent over the prior year, benefiting from the record-setting performance of the domestic air conditioning industry as well as six months' sales from the Scottsville operation. Sales of fractional horsepower motors for the pump market segment and subfractional horsepower motors also grew over the prior year.

Water Systems Technologies' 1998 sales reached a record \$294.8 million, approximately three percent higher than the prior year. Operating profits improved over the prior year, as higher volumes in the commercial water heating segment of the market and cost reductions helped to overcome pricing pressure in the residential segment and losses associated with the start-up of the company's operation in China.

A.O. Smith strengthened its leading position in the commercial water heating segment in 1998, with sales of commercial water heaters and boilers increasing more than eight percent. Water Systems Technologies took advantage of increased demand for replacement water heaters and a strong commercial construction market, as well as benefiting from continued growth of new products such as the Cyclone XHE[®] water heater.

Weakness in the petroleum production, chemical, and agricultural markets contributed to lower sales and profits for the Storage & Fluid Handling Technologies Platform in 1998. Low oil and chemical prices had an adverse impact on capital spending, resulting in reduced demand for storage tanks and fiberglass pipe. Sales declined more than seven percent in 1998 to \$142.8 million. Operating profits were significantly lower than the prior year.

1999 Outlook

"Our outlook for the coming year remains the same as we have described it in prior public announcements," O'Toole said. "We believe the Electric Motors Technologies platform will have another good year, due to a full year of sales and profits from the Scottsville acquisition, the new Tier I agreement with York International, and the overall condition of the domestic air conditioning, heating, and refrigeration industry. We are cautiously optimistic about the domestic water heating market. The anticipated performance of these two units should help offset continued difficulties in Storage & Fluid Handling.

"We will continue to aggressively pursue acquisitions such as UPPCO and Scottsville in 1999 and consider that effort to be a very important element in our growth strategy. Although we believe 1999 per share earnings, excluding acquisitions, will increase over 1998, accretive acquisitions will be required to get us to our target of 15 percent annual growth in earnings per share," O'Toole concluded.

Forward-looking statements

This press release contains forward-looking statements. Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that its financial goals will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product, and such sales are therefore less volatile, numerous factors may affect actual results and cause results to differ materially from those expressed in forward-looking statements made by or on behalf of the company. Among such numerous factors, the company includes: the continued growth of the world-wide air conditioning, heating, and refrigeration market; the weather and its impact on the heating and air conditioning market; the pricing environment for residential water heaters; capital spending trends in the oil, petrochemical, and chemical markets; and the successful development of the company's business venture in China.

A.O. Smith Corporation is a diversified manufacturer with headquarters in Milwaukee, Wis. Its major product line include: fractional horsepower, hermetic, and subfractional horsepower electric motors; residential and commercial water heaters; municipal, industrial, and agricultural storage tanks; and fiberglass reinforced plastic pipe.

A.O. SMITH CORPORATION AND SUBSIDIARIES
(condensed consolidated financial statements --
\$000 omitted except per share data)

Continuing Sales	Statement of Earnings		Year ended	
	Three Months ended		December 31	
	December 31		December 31	
	1998	1997	1998	1997
Electric Motor Technologies	\$119,043	\$91,970	\$479,956	\$390,749
Water Systems Technologies	74,298	76,240	294,832	287,458
Storage & Fluid Handling Technologies	31,339	37,577	142,781	154,730
Net Sales	224,680	205,787	917,569	832,937
Costs and Expenses				
Cost of Products				
Sold	178,298	165,421	730,543	662,227
Selling, General and Administrative	26,017	24,748	106,622	106,999
Interest Expense	1,696	1,160	6,887	7,762
Interest Income	(549)	(2,665)	(3,828)	(9,035)
Other Expense	2,041	1,243	4,382	3,328
Tax Provision	5,696	5,356	25,283	21,359
Total Costs and Expenses	213,199	195,263	869,889	792,640
Earnings Before Equity in				
Loss of Joint Ventures	11,481	10,524	47,680	40,297
Equity in Loss of Joint Ventures	(771)	(779)	(3,189)	(2,744)
Earnings from Continuing Operations	10,710	9,745	44,491	37,553
Continuing Earnings Per Share of Common Stock (Diluted)	\$.45	\$.38	\$1.84	\$1.33
Average Common Shares Outstanding (000's omitted)	23,791	25,918	24,184	28,191

A.O. SMITH CORPORATION
Balance Sheet

	December 31 1998	December 31 1997
ASSETS:		
Cash and cash equivalents	\$37,666	\$145,896
Receivables	133,764	126,232
Inventories	99,984	79,049
Deferred income taxes	11,376	11,849
Other current assets	4,599	2,702

Total Current Assets	287,389	365,728
Net property, plant and equipment	248,770	207,756
Investments in and advances to joint ventures	2,449	25,605
Goodwill	146,901	51,783
Other assets	81,923	65,644
Total Assets	\$767,432	\$716,516

LIABILITIES AND STOCKHOLDERS' EQUITY:

Trade payables	\$57,429	\$61,299
Accrued payroll and benefits	31,385	26,397
Product warranty	7,892	7,972
Income taxes	6,786	6,607
Long-term debt due within one year	4,629	5,590
Other current liabilities	24,036	20,017
Total Current Liabilities	132,157	127,882
Long-term debt	131,203	100,972
Other liabilities	60,636	59,515
Deferred income taxes	42,343	28,442
Stockholders' equity	401,093	399,705
Total Liabilities and Stockholders' Equity	\$767,432	\$716,516

A.O. SMITH CORPORATION
STATEMENT OF CASH FLOWS

	Year ended December 31	
	1998	1997
Operating Activities		
Continuing		
Net earnings	\$44,491	\$37,553
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	30,105	26,286
Equity in loss of joint ventures	3,189	2,744
Net change in current assets and liabilities	(3,564)	7,212
Net change in noncurrent assets and liabilities	1,719	4,958
Other	1,659	1,495
Cash Provided by Operating Activities	77,599	80,248
Investing Activities		
Capital expenditures	(27,876)	(44,886)
Capitalized purchased software costs	(2,139)	(1,295)
Investment in joint ventures	(7,138)	(13,719)
Acquisition of business	(126,273)	(60,918)
Cash Used by Investing Activities	(163,426)	(120,818)
Cash Used by Continuing Operations before Financing Activities	(85,827)	(40,570)
Discontinued		
Cash Provided / (Used) by Discontinued Operations before Financing Activities	(2,941)	508,463
Financing Activities		
Long-term debt incurred	30,028	--
Long-term debt retired	(5,590)	(143,816)
Purchase of common stock held in treasury	(33,288)	(176,550)
Proceeds from common stock options exercised	271	3,757
Tax benefit from exercise of stock options	168	884
Dividends paid	(11,051)	(12,677)
Cash Used by Financing Activities	(19,462)	(328,402)
Net increase/(decrease) in cash and cash equivalents	(108,230)	139,491
Cash and cash equivalents - beginning of period	145,896	6,405

Cash and Cash Equivalents - End of Period	\$37,666	\$145,896
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