

TIMKEN CO
Form 10-Q
July 31, 2018

1

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style="font-family:Arial;font-size:10pt;">483.0</div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td></tr><tr><td style="vertical-align:top;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Machinery and equipment</div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:10pt;">1,915.0</div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:10pt;">1,922.6</div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td></tr><tr><td style="vertical-align:top;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-bottom:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Subtotal</div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">2,392.7</div></td><td style="vertical-align:bottom;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">2,405.6</div></td><td style="vertical-align:bottom;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td></tr><tr><td style="vertical-align:top;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Accumulated depreciation</div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:10pt;">(1,558.2</div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;padding-right:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid

#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:10pt;">(1,541.4</div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;padding-right:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"></div></td></tr><tr><td style="vertical-align:top;border-bottom:2px solid #000000;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Property, plant and equipment, net</div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">834.5</div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">864.2</div></td><td style="vertical-align:bottom;border-bottom:2px solid #000000;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td></tr></table></div><br clear="none"/></div><div style="line-height:120%;font-size:10pt;"><br clear="none"/></div><div style="line-height:120%;text-align:justify;font-size:10pt;">Total depreciation expense for the six months ended June 30, 2018 and 2017 was \$97.7 million and \$95.5 million, respectively.</div></div><div style="font-family:Times New Roman;font-size:10pt;"><div style="line-height:120%;padding-top:8px;font-size:10pt;">The components of property, plant and equipment at June 30, 2018 and December 31, 2017 were as follows:</div><div style="line-height:120%;font-size:10pt;"><div style="padding-left:0px;text-indent:0px;line-height:normal;padding-top:10px;"><table cellpadding="0" cellspacing="0" style="font-family:Times New

Roman;font-size:10pt;width:100%;border-collapse:collapse;text-align:left;"><tr><td colspan="7"
rowspan="1"></td></tr><tr><td style="width:72%;" rowspan="1" colspan="1"></td><td style="width:1%,"
rowspan="1" colspan="1"></td><td style="width:12%;" rowspan="1" colspan="1"></td><td style="width:1%,"
rowspan="1" colspan="1"></td><td style="width:1%," rowspan="1" colspan="1"></td><td style="width:12%,"
rowspan="1" colspan="1"></td><td style="width:1%," rowspan="1" colspan="1"></td></tr><tr><td
style="vertical-align:bottom;border-bottom:1px solid
#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;"
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style="font-family:inherit;font-size:10pt;"> </div></td><td colspan="3"
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clear="none"/>2018</div></td><td colspan="3" style="vertical-align:bottom;border-bottom:1px solid
#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;"
rowspan="1"><div style="text-align:center;font-size:9pt;"><font
style="font-family:Arial;font-size:9pt;">December 31, <br
clear="none"/>2017</div></td></tr><tr><td
style="vertical-align:top;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;"
rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;">Land and buildings</div></td><td
style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;"
rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;font-weight:bold;">\$</div></td><td
style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1"
colspan="1"><div style="text-align:right;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;font-weight:bold;">477.7</div></td><td
style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div
style="text-align:left;font-size:10pt;"><br
clear="none"/></div></td><td
style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;"
rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;">\$</div></td><td
style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1"
colspan="1"><div style="text-align:right;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;">483.0</div></td><td
style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div
style="text-align:left;font-size:10pt;"><br
clear="none"/></div></td></tr><tr><td
style="vertical-align:top;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"
colspan="1"><div style="text-align:left;font-size:10pt;">Machinery
and equipment</div></td><td colspan="2"
style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div
style="text-align:right;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;font-weight:bold;">1,915.0</div></td><td
style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
style="font-family:inherit;font-size:10pt;"><br clear="none"/></div></td><td colspan="2"
style="vertical-align:bottom;border-bottom:1px solid
#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div
style="text-align:right;font-size:10pt;">1,922.6</div></td><td
style="vertical-align:bottom;border-bottom:1px solid #000000;" rowspan="1" colspan="1"><div

style="text-align:left;font-size:10pt;"><br
 clear="none"/></div></td></tr><tr><td
 style="vertical-align:top;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;b
 solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">Subtotal</div></td><td
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 solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;font-weight:bold;">\$</div></td><td
 style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;border-top:1px solid
 #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;font-weight:bold;">2,392.7</div></td><td
 style="vertical-align:bottom;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1"
 colspan="1"><div style="text-align:left;font-size:10pt;"><br
 clear="none"/></div></td><td
 style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;border-top:1px
 solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">\$</div></td><td
 style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;border-top:1px solid
 #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">2,405.6</div></td><td
 style="vertical-align:bottom;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1"
 colspan="1"><div style="text-align:left;font-size:10pt;"><br
 clear="none"/></div></td></tr><tr><td style="vertical-align:top;border-bottom:1px solid
 #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;"
 rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">Accumulated depreciation</div></td><td colspan="2"
 style="vertical-align:bottom;border-bottom:1px solid
 #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div
 style="text-align:right;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;font-weight:bold;">(1,558.2</div></td><td
 style="vertical-align:bottom;border-bottom:1px solid
 #000000;padding-right:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"
 colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;font-weight:bold;">)</div></td><td colspan="2"
 style="vertical-align:bottom;border-bottom:1px solid
 #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div
 style="text-align:right;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">(1,541.4</div></td><td
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 #000000;padding-right:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"
 colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">)</div></td></tr><tr><td style="vertical-align:top;border-bottom:2px solid
 #000000;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;"
 rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;">Property, plant and equipment, net</div></td><td
 style="vertical-align:bottom;border-bottom:2px solid
 #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1"
 colspan="1"><div style="text-align:left;font-size:10pt;"><font
 style="font-family:Arial;font-size:10pt;font-weight:bold;">\$</div></td><td
 style="vertical-align:bottom;border-bottom:2px solid

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rowspan="1"><div style="text-align:center;font-size:10pt;">Corporate</div></td><td colspan="3" style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:center;font-size:10pt;">Total</div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Severance and related benefit costs</div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">—</div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">0.1</div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">0.1</div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">0.2</div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><br clear="none"/></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Exit costs</div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:10pt;">0.1</div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">0.1</div></td></tr>

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#8212;		#8212;	
0.1		Total	
\$			
0.1		\$	
\$			
0.1		\$	
\$			
0.1		\$	
\$			
0.1		\$	
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0.1		\$	
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\$			
0.1		\$	
\$			
0.1			

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[illegible]

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Corporate					
Total					
Severance and related benefit costs					
\$					
0.2					
\$					
0.1					
\$					
0.1					
\$					
0.4					
\$					
Exit costs					

[illegible]

[illegible]

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<div style="text-align: right; font-size: 10pt;">0.1</div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><br clear="none"/></div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; padding-left: 2px; padding-top: 2px; padding-bottom: 2px; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;">\$</div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; padding-top: 2px; padding-bottom: 2px; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: right; font-size: 10pt;">0.5</div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><br clear="none"/></div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; padding-left: 2px; padding-top: 2px; padding-bottom: 2px; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;">\$</div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; padding-top: 2px; padding-bottom: 2px; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: right; font-size: 10pt;">2.5</div><td style="vertical-align: bottom; border-bottom: 1.5px solid #000000; border-top: 1px solid #000000;" rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><br clear="none"/></div></tr></table><div style="font-family: inherit; font-size: 10pt;"><br clear="none"/></div><div style="line-height: 120%; padding-top: 6px; text-align: justify; font-size: 10pt;">The following discussion explains the impairment and restructuring charges recorded for the periods presented; however, it is not intended to reflect a comprehensive discussion of all amounts in the tables above.</div><div style="line-height: 120%; text-align: justify; font-size: 10pt;"><br clear="none"/></div><div style="line-height: 120%; text-align: justify; font-size: 10pt;">On September 29, 2016, the Company announced the closure of its bearing plant in Pulaski, Tennessee ("Pulaski"), which is expected to close during the fourth quarter of2018 and to affect approximately120 employees. During the three andsix months endedJune 30, 2018, the Company recognized severance and related benefit costs of\$0.2 million and\$1.3 million, respectively, related to this closure. During the three months endedJune 30, 2017, the Company recorded severance and related benefit costs of\$1.7 million related to this closure. The Company has incurred pretax costs related to this closure of\$8.1 million as ofJune 30, 2018, including rationalization costs recorded in cost of products sold.</div><div style="line-height: 120%; text-align: justify; font-size: 10pt;"><br clear="none"/></div><div style="line-height: 120%; text-align: justify; font-size: 10pt;">In August 2016, the Company completed the consultation process to close the manufacturing operations in Benoni, South Africa ("Benoni") affecting85</div></div>
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employees. Benoni will continue to recondition bearings and assemble rail bearings. During the three months ended June 30, 2017, the Company recorded impairment charges of \$0.5 million and severance and related benefit costs of \$0.8 million related to this closure.

On March 17, 2016, the Company announced the closure of its bearing plant in Altavista, Virginia ("Altavista"). The Company completed the closure of this manufacturing facility on March 31, 2017. During the three months ended June 30, 2017, the Company recorded impairment charges of \$0.7 million and severance and related benefit costs of \$0.2 million related to this closure. During the six months ended June 30, 2017, the Company recorded impairment charges of \$3.1 million and severance and related benefit costs of \$1.7 million in connection with this closure. The Company has incurred pretax costs related to this closure of \$11.5 million as of June 30, 2018, including rationalization costs recorded in cost of products sold.

During the three months and six months ended June 30, 2018, the Company recognized \$0.7 million and \$1.5 million, respectively, of severance and related benefit costs to eliminate approximately 50 positions in the aggregate. The amounts recognized for the three months and six months ended June 30, 2018, primarily related to the Mobile Industries segment. During the six months ended June 30, 2017, the Company recognized \$7.7 million of severance and related benefit costs to eliminate approximately 175 positions. Of the \$7.7 million charge for the first six months of

2017

\$2.9 million related to the Mobile Industries segment and \$4.8 million related to the Process Industries segment.

Consolidated Restructuring Accrual:

The following is a rollforward of the consolidated restructuring accrual for the six months ended June 30, 2018 and the twelve months ended December 31, 2017

	June 30, 2018	December 31, 2017
Beginning balance, January 1		
	\$	

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#000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;"><font
style="font-family:Arial;font-size:10pt;">10.1</font></div></td><td
style="vertical-align:bottom;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1"
colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br
clear="none"/></font></div></td></tr><tr><td
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style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td colspan="2"
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style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td
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style="font-family:Arial;font-size:10pt;">Payments</font></div></td><td colspan="2"
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style="font-family:Arial;font-size:10pt;">></font></div></td></tr><tr><td
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```


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Severance and related benefit costs	
>\$	
>&#8212;	
<br clear="none">	
>\$	
>0.1	
<br clear="none">	
>\$	
>0.1	
<br clear="none">	
>\$	
>0.2	
<br clear="none">	
Exit costs	
>0.1	
<br clear="none">	
>&#8212;	
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[illegible]

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[illegible]

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[illegible]

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[illegible]

Total			
Severance and related benefit costs			
\$			
0.2			
\$			
0.1			
\$			
0.1			
\$			
0.4			
Exit costs			
0.1			
0.1			

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[illegible]

Edgar Filing: TIMKEN CO - Form 10-Q

[illegible]

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[illegible]

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1.9	
Exit costs	
0.1	
0.5	
0.6	
Total	
1.9	
0.1	

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 style="font-family:inherit;font-size:10pt;"><br clear="none"/></div></td><td colspan="2"
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-1169

THE TIMKEN COMPANY

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

34-0577130

(I.R.S. Employer
Identification No.)

**4500 Mount Pleasant Street NW
North Canton, Ohio**

(Address of principal executive offices) (Zip Code)
234.262.3000

44720-5450

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to

such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the

registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ ☐

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Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date.

Class	Outstanding at June 30, 2018
-------	------------------------------

Common Shares, without par value	77,107,246 shares
----------------------------------	-------------------

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THE TIMKEN COMPANY
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS
THE TIMKEN COMPANY AND SUBSIDIARIES****Consolidated Statements of Income
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions, except per share data)				
Net sales	\$906.3	\$750.6	\$1,789.4	\$1,454.4
Cost of products sold	638.9	549.5	1,257.1	1,071.1
Gross Profit	267.4	201.1	532.3	383.3
Selling, general and administrative expenses	141.8	123.9	290.4	241.5
Impairment and restructuring charges	0.3	0.8	0.5	2.5
Operating Income	125.3	76.4	241.4	139.3
Interest expense	(10.7)	(8.5)	(20.7)	(16.4)
Interest income	0.5	0.7	0.9	1.3
Other income, net	7.0	5.3	9.3	3.3
Income Before Income Taxes	122.1	73.9	230.9	127.5
Provision (benefit) for income taxes	30.2	(8.1)	58.5	7.4
Net Income	91.9	82.0	172.4	120.1
Less: Net income (loss) attributable to noncontrolling interest	0.9	(0.5)	1.2	(0.6)
Net Income Attributable to The Timken Company	\$91.0	\$82.5	\$171.2	\$120.7
Net Income per Common Share Attributable to The Timken Company Common Shareholders				
Basic earnings per share	\$1.18	\$1.06	\$2.21	\$1.55
Diluted earnings per share	\$1.16	\$1.04	\$2.17	\$1.53
Dividends per share	\$0.28	\$0.27	\$0.55	\$0.53

See accompanying Notes to the Consolidated Financial Statements.

**Consolidated Statements of Comprehensive Income
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Net Income	\$91.9	\$82.0	\$172.4	\$120.1
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(46.6)	11.5	(38.2)	31.9
Pension and postretirement liability adjustment	—	—	—	0.1
Change in fair value of derivative financial instruments	3.6	(1.4)	4.4	(2.2)
Other comprehensive (loss) income, net of tax	(43.0)	10.1	(33.8)	29.8
Comprehensive Income, net of tax	48.9	92.1	138.6	149.9
Less: comprehensive (loss) income attributable to noncontrolling interest	(1.4)	(1.1)	(1.7)	1.4

Comprehensive Income Attributable to The Timken Company

\$50.3 \$93.2 **\$140.3** \$148.5

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents**Consolidated Balance Sheets**

	(Unaudited)	
	June 30, 2018	December 31, 2017
(Dollars in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 145.2	\$ 121.6
Restricted cash	1.4	3.8
Accounts receivable, less allowances (2018 – \$19.1 million; 2017 – \$20.3 million)	530.2	524.9
Contract assets	127.5	—
Inventories, net	777.4	738.9
Deferred charges and prepaid expenses	25.3	29.7
Other current assets	92.8	81.2
Total Current Assets	1,699.8	1,500.1
Property, Plant and Equipment, net	834.5	864.2
Other Assets		
Goodwill	493.7	511.8
Non-current pension assets	26.0	19.7
Other intangible assets	389.0	420.6
Deferred income taxes	55.1	61.0
Other non-current assets	29.9	25.0
Total Other Assets	993.7	1,038.1
Total Assets	\$ 3,528.0	\$ 3,402.4
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	\$ 162.3	\$ 105.4
Current portion of long-term debt	2.7	2.7
Accounts payable, trade	253.2	265.2
Salaries, wages and benefits	111.4	127.9
Income taxes payable	15.1	9.8
Other current liabilities	166.5	160.7
Total Current Liabilities	711.2	671.7
Non-Current Liabilities		
Long-term debt	881.4	854.2
Accrued pension cost	165.7	167.3
Accrued postretirement benefits cost	122.2	122.6
Deferred income taxes	40.4	44.0
Other non-current liabilities	54.8	67.7
Total Non-Current Liabilities	1,264.5	1,255.8
Shareholders' Equity		
Class I and II Serial Preferred Stock, without par value:		
Authorized – 10,000,000 shares each class, none issued	—	—
Common shares, without par value:		
Authorized – 200,000,000 shares		
Issued (including shares in treasury) (2018 – 98,375,135 shares; 2017 – 98,375,135 shares)		
Stated capital	53.1	53.1
Other paid-in capital	907.2	903.8
Earnings invested in the business	1,545.3	1,408.4

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Accumulated other comprehensive loss	(69.9	) (38.3	)
Treasury shares at cost (2018 – 21,267,889 shares; 2017 – 20,672,133 shares)	(913.9	) (884.3	)
Total Shareholders' Equity	1,521.8	1,442.7	
Noncontrolling Interest	30.5	32.2	
Total Equity	1,552.3	1,474.9	
Total Liabilities and Equity	\$ 3,528.0	\$ 3,402.4	

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Cash Flows
(Unaudited)**

**Six Months
Ended
June 30,
2018 2017**

(Dollars in millions)

CASH PROVIDED (USED)**Operating Activities**

Net income attributable to The Timken Company	\$171.2	\$120.7
Net income (loss) attributable to noncontrolling interest	1.2	(0.6)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	70.8	66.8
Loss (gain) on sale of assets	0.9	(1.1)
Deferred income tax provision	0.1	7.7
Stock-based compensation expense	17.8	10.4
Pension and other postretirement expense	1.6	9.9
Pension contributions and other postretirement benefit contributions	(8.8)	(12.2)
Changes in operating assets and liabilities:		
Accounts receivable	(86.4)	(46.0)
Contract assets	(27.8)	—
Inventories	(79.9)	(38.1)
Accounts payable, trade	(8.4)	50.5
Other accrued expenses	(2.4)	2.0
Income taxes	(3.8)	(56.7)
Other, net	11.7	1.2
Net Cash Provided by Operating Activities	57.8	114.5

Investing Activities

Capital expenditures	(39.6)	(39.9)
Acquisitions, net of cash received	—	(64.1)
Proceeds from disposal of property, plant and equipment	0.2	2.5
Investments in short-term marketable securities, net	3.1	(7.1)
Other	0.3	(0.3)
Net Cash Used in Investing Activities	(36.0)	(108.9)

Financing Activities

Cash dividends paid to shareholders	(42.7)	(41.4)
Purchase of treasury shares	(49.6)	(27.0)
Proceeds from exercise of stock options	10.6	25.7
Shares surrendered for taxes	(5.0)	(9.4)
Accounts receivable facility borrowings	52.1	46.1
Accounts receivable facility payments	(18.6)	(12.1)
Proceeds from long-term debt	130.0	478.3
Payments on long-term debt	(94.2)	(186.4)
Short-term debt activity, net	26.3	6.2
Other	(1.0)	—
Net Cash Provided by Financing Activities	7.9	280.0
Effect of exchange rate changes on cash	(8.5)	10.7
Increase in Cash, Cash Equivalents and Restricted Cash	21.2	296.3
Cash, cash equivalents and restricted cash at beginning of year	125.4	151.6

Cash, Cash Equivalents and Restricted Cash at End of Period

\$146.6 \$447.9

See accompanying Notes to the Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollars in millions, except per share data)

Note 1 - Basis of Presentation

The accompanying Consolidated Financial Statements (unaudited) for The Timken Company (the "Company") have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to the Consolidated Financial Statements and accompanying Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Note 2 - Significant Accounting Policies

The Company's significant accounting policies are detailed in "Note 1 - Significant Accounting Policies" of the Annual Report on Form 10-K for the year ended December 31, 2017. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", which was adopted by the Company on January 1, 2018. Also, in March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Significant changes to the Company's accounting policies as a result of adopting ASU 2014-09 (the "new revenue standard") and ASU 2017-07 are discussed below:

Revenue:

A contract exists when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectibility of consideration is probable.

Revenue is recognized when performance obligations under the terms of a contract with a customer of the Company are satisfied. A majority of the Company's revenue is from short-term, fixed-price contracts and continues to be recognized as of a point in time when products are shipped from the Company's manufacturing facilities or at a later point in time when control of the products transfers to the customer. Revenue was previously recognized for services and certain sales of customer-specific product at the point in time when the shipping terms were satisfied. Under the new revenue standard, the Company now recognizes revenue over time as it satisfies the performance obligations because of the continuous transfer of control to the customer, supported as follows:

For certain service contracts, this continuous transfer of control to the customer occurs as the Company's service enhances assets that the customer owns and controls at all times and the Company is contractually entitled to payment for work performed to date plus a reasonable margin.

For United States ("U.S.") government contracts, the customer is allowed to unilaterally terminate the contract for convenience, and is required to pay the Company for costs incurred plus a reasonable margin and take control of any work in process.

For certain non-U.S. government contracts involving customer-specific products, the customer controls the work in process based on contractual termination clauses or restrictions of the Company's use of the product and the Company possesses a right to payment for work performed to date plus a reasonable margin.

As a result of control transferring over time for these products and services, revenue is recognized based on progress toward completion of the performance obligation. The selection of the method to measure

progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company has elected to use the cost-to-cost input measure of progress for these contracts because it best depicts the transfer of goods or services to the customer based on incurring costs on the contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

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The pricing and payment terms for non-U.S. government contracts is based on the Company's standard terms and conditions or the result of specific negotiations with each customer. The Company's standard terms and conditions require payment 30 days from the invoice date, but the timing of payment for specific negotiated terms may vary. The Company also has both prime and subcontracts in support of the provision of goods and services to the U.S. government. Certain of these contracts are subject to the Federal Acquisition Regulation ("FAR") and are priced commercially based on a competitive market. Under the payment terms of those U.S. government fixed-price contracts, the customer pays the Company performance-based payments, which are interim payments of up to 80% of the contract price for costs incurred to date based on quantifiable measures of performance or on the achievement of specified events or milestones. Because the customer retains a portion of the contract price until completion of such contracts, certain of these U.S. government fixed-price contracts result in revenue recognized in excess of billings, which is presented within "Contract assets" on the Consolidated Balance Sheet. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. As a practical expedient, the Company may not assess whether promised goods or services are performance obligations, if they are immaterial in the context of the contract with the customer, and combine these with other performance obligations. The Company has elected to recognize incremental costs incurred to obtain contracts, which primarily represent commissions paid to third-party sales agents where the amortization period would be less than one year, as "Selling, general and administrative ("SG&A") expenses" in the Consolidated Statement of Income as incurred. The Company has also elected not to adjust the promised amount of consideration for the effects of any significant financing component where the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Finally, the Company's policy is to exclude performance obligations resulting from contracts with a duration of one year or less from its disclosures related to remaining performance obligations.

The amount of consideration to which the Company expects to be entitled in exchange for the goods and services is not generally subject to significant variations. However, the Company does offer certain customers rebates, prompt payment discounts, end-user discounts, the right to return eligible products, and/or other forms of variable consideration. The Company estimates this variable consideration using the expected value amount, which is based on historical experience. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company adjusts the estimate of revenue at the earlier of when the amount of consideration the Company expects to receive changes or when the consideration becomes fixed. The Company recognizes the cost of freight and shipping when control of the products or services has transferred to the customer as an expense in "Cost of products sold" on the Consolidated Statement of Income, because those are costs incurred to fulfill the promise recognized, not a separate performance obligation. To the extent certain freight and shipping fees are charged to customers, the Company recognizes the amounts charged to customers as revenues and the related costs as an expense in "Cost of products sold" when control of the related products or services has transferred to the customer.

Contracts are occasionally modified to account for changes in contract specifications, requirements, and pricing. The Company considers contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Substantially all of the Company's contract

modifications are for goods or services that are distinct from the existing contract. Therefore, the effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates is generally recognized on a prospective basis.

Accounts Receivable, Less Allowances:

"Accounts receivable, less allowances" on the Consolidated Balance Sheet include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts, which represents an estimate of the losses expected from the accounts receivable portfolio, to reduce accounts receivable to their net realizable value. The allowance is based upon historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk. The Company extends credit to customers satisfying pre-defined credit criteria. The Company believes it has limited concentration of credit risk due to the diversity of its customer base.

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Prior to the adoption of the new revenue standard, the Company recognized a portion of its revenues on the percentage-of-completion method measured on the cost-to-cost basis. As of December 31, 2017, revenue recognized in excess of billings of \$67.3 million related to these revenues were included in "Accounts receivable, less allowances" on the Consolidated Balance Sheet. In accordance with the new revenue standard, \$82.4 million of revenue recognized in excess of billings related to these revenues are included in "Contract assets" on the Consolidated Balance Sheet at June 30, 2018.

Contract Assets:

"Contract assets" on the Consolidated Balance Sheet primarily include unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized, the revenue recognized exceeds the amount billed to the customer and the right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value.

Pension and Other Postretirement Benefits:

With the adoption of ASU 2017-07 on January 1, 2018, service cost is included in other employee compensation costs within operating income and is the only component that may be capitalized when applicable. The other components of net periodic benefit cost are presented separately outside of operating income. Also, actuarial gains and losses are excluded from segment results, while all other components of net periodic benefit cost will continue to be included within segment results.

Recent Accounting Pronouncements:**New Accounting Guidance Adopted:***Revenue recognition*

The new revenue standard introduces a five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue standard also requires disclosures sufficient to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. For further information about the Company's revenues from contracts with customers, refer to *Note 11 - Revenue*.

On January 1, 2018, the Company adopted the new revenue standard and all of the related amendments using the modified retrospective method and applied those provisions to all open contracts. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of changes made to the balance sheet as of January 1, 2018 for the adoption of the new revenue standard was as follows:

	Balance at Effect of December 31, 2017	Accounting Change	Balance at January 1, 2018
ASSETS			
Accounts receivable, less allowances	\$ 524.9	\$ (67.3)	) \$ 457.6
Contract assets	—	100.5	100.5
Inventories, net	738.9	(22.9)	) 716.0

Other current assets	81.2	3.0	84.2
Deferred income taxes	61.0	(2.6)	) 58.4
LIABILITIES			
Other current liabilities	160.7	3.0	163.7
EQUITY			
Earnings invested in the business	1,408.4	7.7	1,416.1

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The tables below reflect changes to financial statement line items as a result of adopting the new revenue standard. The adoption of the new revenue standard did not have an impact on "Net cash used in operating activities" on the Consolidated Statement of Cash Flows for the six months ended June 30, 2018.

Consolidated Statement of Income for the three months ended June 30, 2018:

	Previous Accounting Method	Effect of Accounting Change	As Reported
Net sales	\$ 899.0	\$ 7.3	\$ 906.3
Cost of products sold	634.5	4.4	638.9
Selling, general, and administrative expenses	141.3	0.5	141.8
Income before income taxes	119.7	2.4	122.1
Provision for income taxes	29.6	0.6	30.2
Net income	90.1	1.8	91.9
Net income attributable to The Timken Company	\$ 89.2	\$ 1.8	\$ 91.0
Basic earnings per share	\$ 1.16	\$ 0.02	\$ 1.18
Diluted earnings per share	\$ 1.14	\$ 0.02	\$ 1.16

Consolidated Statement of Income for the six months ended June 30, 2018:

	Previous Accounting Method	Effect of Accounting Change	As Reported
Net sales	\$ 1,778.1	\$ 11.3	\$ 1,789.4
Cost of products sold	1,251.0	6.1	1,257.1
Selling, general, and administrative expenses	289.3	1.1	290.4
Income before income taxes	226.8	4.1	230.9
Provision for income taxes	57.5	1.0	58.5
Net income	169.3	3.1	172.4
Net income attributable to The Timken Company	\$ 168.1	\$ 3.1	\$ 171.2
Basic earnings per share	\$ 2.17	\$ 0.04	\$ 2.21
Diluted earnings per share	\$ 2.13	\$ 0.04	\$ 2.17

Consolidated Balance Sheet as of June 30, 2018:

	Previous Accounting Method	Effect of Accounting Change	As Reported
ASSETS			
Accounts receivable, less allowances	\$ 614.3	\$ (84.1)	\$ 530.2
Contract assets	—	127.5	127.5
Inventories, net	806.4	(29.0)	777.4
Other current assets	89.4	3.4	92.8
Deferred income taxes	58.7	(3.6)	55.1
LIABILITIES			
Other current liabilities	163.1	3.4	166.5
EQUITY			
Earnings invested in the business	1,534.5	10.8	1,545.3

Table of Contents*Pension and other postretirement benefits*

As mentioned above, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," in March 2017. The Company adopted ASU 2017-07 on January 1, 2018 on a retrospective basis, which resulted in the reclassification of certain amounts from "Cost of products sold" and "Selling, general and administrative expenses" to "Other income (expense)" in the Consolidated Statement of Income. As a result, prior period amounts impacted have been revised accordingly.

The following tables reflect the changes to financial statement line items resulting from the adoption of ASU 2017-07:

For the three months ended June 30, 2017:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 548.8	\$ 0.7	\$ 549.5
Selling, general, and administrative expenses	123.8	0.1	123.9
Operating income	77.2	(0.8)	76.4
Other income, net	4.5	0.8	5.3

For the six months ended June 30, 2017:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 1,072.1	\$ (1.0)	\$ 1,071.1
Selling, general, and administrative expenses	243.4	(1.9)	241.5
Operating income	136.4	2.9	139.3
Other income (expense), net	6.2	(2.9)	3.3

For the year ended December 31, 2017:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 2,193.4	\$ (1.7)	\$ 2,191.7
Selling, general, and administrative expenses	521.4	(13.1)	508.3
Operating income	284.7	14.8	299.5
Other income (expense), net	9.4	(14.8)	(5.4)

For the year ended December 31, 2016:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 2,001.3	\$ (37.8)	\$ 1,963.5
Selling, general, and administrative expenses	470.7	(30.5)	440.2
Pension settlement charges	1.6	(1.6)	—
Operating income	174.5	69.9	244.4
Other expense, net	(0.9)	(69.9)	(70.8)

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For the year ended December 31, 2015:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$2,052.8	\$ 15.7	\$2,068.5
Selling, general, and administrative expenses	457.7	26.9	484.6
Pension settlement charges	119.9	(119.9)	—
Operating income	255.9	77.3	333.2
Other expense, net	(7.5)	(77.3)	(84.8)

Other new accounting guidance adopted

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." ASU 2016-18 requires that a statement of cash flows explain the change in the total of cash, cash equivalents, and restricted cash during the period. On January 1, 2018, the Company adopted the provisions of ASU 2016-18 on a retrospective basis, which resulted in the addition of restricted cash balances and movements in the Company's Statement of Cash Flows for all periods presented. As a result, for the six months ended June 30, 2018 and 2017, restricted cash balances of \$1.4 million and \$2.9 million, respectively, were included in the Company's ending balance on the Statement of Cash Flows.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows for certain tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform") to be reclassified from accumulated other comprehensive income (or loss) to retained earnings. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Also, ASU 2018-02 may be applied in the period of adoption or retrospectively to each period in which the effect of the change in the statutory income tax rate in the U.S. Tax Reform is recognized. On January 1, 2018, the Company early adopted the provisions of ASU 2018-02, with the related impact applied in the period of adoption. In doing so, the Company elected to reclassify \$0.7 million of related income tax effects from accumulated other comprehensive loss to retained earnings in the first quarter of 2018.

New Accounting Guidance Issued and Not Yet Adopted:

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", which impacts both designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 amends and clarifies the requirements to qualify for hedge accounting, removes the requirement to recognize changes in fair value from certain hedges in current earnings, and specifies the presentation of changes in fair value in the income statement for all hedging instruments. ASU 2017-12 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including in any interim period for which financial statements have not yet been issued, but the effect of adoption is required to be reflected as of the beginning of the fiscal year of adoption. The Company currently does not expect the adoption of ASU 2017-12 to materially impact the Company's results of operations and financial condition.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Prior to the issuance of this new accounting guidance, entities first assessed qualitative factors to determine whether a two-step goodwill impairment test was necessary. When entities bypassed or failed the qualitative analysis, they were required to apply a two-step goodwill

impairment test. Step 1 compared a reporting unit's fair value to its carrying amount to determine if there is a potential impairment. If the carrying amount of a reporting unit exceeded its fair value, Step 2 was required to be completed. Step 2 involved determining the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to measure the impairment loss, if any. ASU 2017-04 eliminates Step 2 of the current goodwill impairment test, and instead will require that a goodwill impairment loss be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for public companies for years beginning after December 15, 2019, with early adoption permitted, and must be applied prospectively. While the actual effect of adopting ASU 2017-04 will not be known until the period of adoption, the Company currently does not expect it to materially impact the Company's results of operations and financial condition.

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In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance will replace the current incurred loss approach with an expected loss model. The new expected credit loss impairment model will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt instruments, net investments in leases, loan commitments and standby letters of credit. Upon initial recognition of the exposure, the expected credit loss model requires entities to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider historical information, current information and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. ASU 2016-13 does not prescribe a specific method to make the estimate, so its application will require significant judgment. ASU 2016-13 is effective for public companies in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of ASU 2016-13 will have on the Company's results of operations and financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. ASU 2016-02 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company plans to adopt the new standard on January 1, 2019 using the modified retrospective transition method and has created a cross-functional implementation team to identify all leases involved, determine which, if any, practical expedients to utilize, and perform all data gathering required. Additionally, the Company is implementing an enterprise-wide lease management system to assist in the related accounting and is evaluating additional changes to the related processes and internal controls to ensure requirements are met for reporting and disclosure purposes. While the assessment of the impact this new standard will have on the consolidated financial statements is ongoing, the Company expects to recognize a material right-to-use asset and lease liability for its operating lease commitments on the Consolidated Balance Sheet, but does not expect the new standard to have a material impact on its consolidated results of operations or cash flows.

Table of Contents*Note 3 - Acquisitions*

The Company completed three acquisitions in 2017. On July 3, 2017, the Company completed the acquisition of Groeneveld Group ("Groeneveld"), a leading provider of automatic lubrication solutions used in on- and off-highway applications. On May 5, 2017, the Company completed the acquisition of the assets of PT Tech, Inc. ("PT Tech"), a manufacturer of engineered clutches, brakes, hydraulic power take-off units and other torque management devices used in the mining, aggregate, wood recycling and metals industries. On April 3, 2017, the Company completed the acquisition of Torsion Control Products, Inc. ("Torsion Control Products"), a manufacturer of engineered torsional couplings used in the construction, agriculture and mining industries.

Certain measurement period adjustments were recorded in 2018, resulting in a \$3.2 million reduction to Goodwill. The following table presents the purchase price allocation for the 2017 acquisitions:

	Initial Purchase Price Allocation	Adjustment	Purchase Price Allocation
Assets:			
Accounts receivable, net	\$ 27.6		\$ 27.6
Inventories, net	29.4		29.4
Other current assets	3.3	\$ 2.7	6.0
Property, plant and equipment, net	31.5		31.5
Goodwill	149.7	(3.2)	146.5
Other intangible assets	173.6		173.6
Other non-current assets	1.8		1.8
Total assets acquired	\$ 416.9	\$ (0.5)	\$ 416.4
Liabilities:			
Accounts payable, trade	\$ 9.5		\$ 9.5
Salaries, wages and benefits	5.8		5.8
Other current liabilities	8.6	\$ (0.1)	8.5
Short-term debt	0.1		0.1
Long-term debt	2.9		2.9
Deferred income taxes	42.2	(0.7)	41.5
Other non-current liabilities	1.0	0.3	1.3
Total liabilities assumed	\$ 70.1	\$ (0.5)	\$ 69.6
Net assets acquired	\$ 346.8	\$ —	\$ 346.8

Table of Contents*Note 4 - Inventories*

The components of inventories at June 30, 2018 and December 31, 2017 were as follows:

	June 30,	December 31,
	2018	2017
Manufacturing supplies	\$30.4	\$ 29.0
Raw materials	98.7	90.4
Work in process	264.9	245.2
Finished products	418.4	404.3
Subtotal	812.4	768.9
Allowance for obsolete and surplus inventory	(35.0)	(30.0)
Total Inventories, net	\$777.4	\$ 738.9

Inventories are valued at the lower of cost or market, with approximately 54% valued by the first-in, first-out ("FIFO") method and the remaining 46% valued by the last-in, first-out ("LIFO") method. The majority of the Company's domestic inventories are valued by the LIFO method and all of the Company's international inventories are valued by the FIFO method.

The LIFO reserves at June 30, 2018 and December 31, 2017 were \$165.0 million and \$167.6 million, respectively. An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation.

Table of Contents*Note 5 - Goodwill and Other Intangible Assets*

The changes in the carrying amount of goodwill for the six months ended June 30, 2018 were as follows:

	Mobile Industries	Process Industries	Total
Beginning balance	\$ 254.3	\$ 257.5	\$511.8
Acquisitions	(3.2)	) —	(3.2)
Foreign currency translation adjustments and other changes	(14.0)	) (0.9)	(14.9)
Ending balance	\$ 237.1	\$ 256.6	\$493.7

The \$3.2 million reduction of goodwill from acquisitions for the Mobile Industries segment resulted from certain measurement period adjustments recorded in 2018. Refer to *Note 3 - Acquisitions* for further information.

The following table displays intangible assets as of June 30, 2018 and December 31, 2017:

	Balance at June 30, 2018			Balance at December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	\$315.0	\$ 113.2	\$201.8	\$324.6	\$ 103.0	\$221.6
Technology and know-how	127.4	37.0	90.4	128.7	33.8	94.9
Trade names	7.7	4.5	3.2	8.6	4.3	4.3
Capitalized software	261.8	231.8	30.0	261.5	226.5	35.0
Other	10.1	6.2	3.9	10.3	6.2	4.1
	\$722.0	\$ 392.7	\$329.3	\$733.7	\$ 373.8	\$359.9
Intangible assets not subject to amortization:						
Trade names	\$51.0		\$51.0	\$52.0		\$52.0
FAA air agency certificates	8.7		8.7	8.7		8.7
	\$59.7		\$59.7	\$60.7		\$60.7
Total intangible assets	\$781.7	\$ 392.7	\$389.0	\$794.4	\$ 373.8	\$420.6

Amortization expense for intangible assets was \$21.2 million and \$18.2 million for the six months ended June 30, 2018 and 2017, respectively. Amortization expense for intangible assets is projected to be \$40.7 million in 2018; \$35.3 million in 2019; \$30.6 million in 2020; \$26.7 million in 2021; and \$22.6 million in 2022.

Table of Contents*Note 6 - Financing Arrangements*

Short-term debt at June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018	December 31, 2017
Variable-rate Accounts Receivable Facility with an interest rate of 2.93% at June 30, 2018 and 2.15% at December 31, 2017	\$96.4	\$ 62.9
Borrowings under variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 0.32% to 1.10% at June 30, 2018 and 0.32% to 2.22% at December 31, 2017	65.9	42.5
Short-term debt	\$162.3	\$ 105.4

The Company has a \$100 million Amended and Restated Asset Securitization Agreement ("Accounts Receivable Facility") that matures on November 30, 2018. The Company is exploring opportunities to refinance the facility prior to its maturity. Under the terms of the Accounts Receivable Facility, the Company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly owned consolidated subsidiary that, in turn, uses the trade receivables to secure borrowings that are funded through a vehicle that issues commercial paper in the short-term market. Borrowings under the Accounts Receivable Facility may be limited by certain borrowing base limitations; however, the Accounts Receivable Facility was not reduced by any such borrowing base limitations at June 30, 2018. As of June 30, 2018, there were outstanding borrowings of \$96.4 million under the Accounts Receivable Facility, which reduced the availability under this facility to \$3.6 million. The cost of this facility, which is the prevailing commercial paper rate plus facility fees, is considered a financing cost and is included in "Interest expense" in the Consolidated Statements of Income. The outstanding balance under the Accounts Receivable Facility was classified as short term because the agreement matures in less than one year.

The lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to \$285.5 million in the aggregate. Most of these lines of credit are uncommitted. At June 30, 2018, the Company's foreign subsidiaries had borrowings outstanding of \$65.9 million and bank guarantees of \$0.5 million, which reduced the aggregate availability under these facilities to \$219.1 million.

Long-term debt at June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018	December 31, 2017
Fixed-rate Medium-Term Notes, Series A, maturing at various dates through May 2028, with interest rates ranging from 6.74% to 7.76%	\$154.6	\$ 154.5
Fixed-rate Senior Unsecured Notes, maturing on September 1, 2024, with an interest rate of 3.875%	347.3	346.9
Variable-rate Senior Credit Facility with a weighted-average interest rate of 2.26% at June 30, 2018 and 1.83% at December 31, 2017	94.6	52.0
Fixed-rate Euro Senior Unsecured Notes, maturing on September 7, 2027, with an interest rate of 2.02%	174.6	179.3
Variable-rate Euro Term Loan with an interest rate of 1.13% at June 30, 2018 and December 31, 2017	109.1	119.7
Other	3.9	4.5
	884.1	856.9
Less: Current maturities	2.7	2.7
Long-term debt	\$881.4	\$ 854.2

The Company has a \$500 million Amended and Restated Credit Agreement ("Senior Credit Facility"), which matures on June 19, 2020. At June 30, 2018, the Company had \$94.6 million of outstanding borrowings

under the Senior Credit Facility, which reduced the availability under this facility to \$405.4 million. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At June 30, 2018, the Company was in full compliance with both of these covenants.

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On September 7, 2017, the Company issued €150 million of fixed-rate 2.02% senior unsecured notes that mature on September 7, 2027 (the "2027 Notes"). On September 18, 2017, the Company entered into a €100 million variable-rate term loan that matures on September 18, 2020 ("2020 Term Loan"). On June 14, 2018, the Company repaid €6.5 million reducing the principal balance to €93.5 million as of June 30, 2018. Proceeds from the 2027 Notes and 2020 Term Loan were used to repay amounts drawn from the Senior Credit Facility to fund the acquisition of Groeneveld, which closed on July 3, 2017. These debt instruments have two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. These covenants are similar to those in the Senior Credit Facility. At June 30, 2018, the Company was in full compliance with both of these covenants.

Note 7 - Contingencies

The Company and certain of its subsidiaries have been identified as potentially responsible parties for investigation and remediation under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), known as the Superfund, or similar state laws with respect to certain sites. Claims for investigation and remediation have been asserted against numerous other entities, which are believed to be financially solvent and are expected to fulfill their proportionate share of the obligation.

On December 28, 2004, the United States Environmental Protection Agency ("USEPA") sent Lovejoy, Inc. ("Lovejoy") a Special Notice Letter that identified Lovejoy as a potentially responsible party, together with at least 14 other companies, at the Ellsworth Industrial Park Site, Downers Grove, DuPage County, Illinois (the "Site"). The Company acquired Lovejoy in 2016. Lovejoy's Downers Grove property is situated within the Ellsworth Industrial Complex. The USEPA and the Illinois Environmental Protection Agency ("IEPA") allege there have been one or more releases or threatened releases of hazardous substances, allegedly including, but not limited to, a release or threatened release on or from Lovejoy's property, at the Site. The relief sought by the USEPA and IEPA includes further investigation and potential remediation of the Site and reimbursement of response costs. Lovejoy's allocated share of past and future costs related to the Site, including for investigation and/or remediation, could be significant. All previously pending property damage and personal injury lawsuits against Lovejoy related to the Site have been settled or dismissed.

The Company had total environmental accruals of \$5.1 million and \$5.0 million for various known environmental matters that are probable and reasonably estimable as of June 30, 2018 and December 31, 2017, respectively, which includes the Lovejoy matter discussed above. These accruals were recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

In addition, the Company is subject to various lawsuits, claims and proceedings, which arise in the ordinary course of its business. The Company accrues costs associated with legal and non-income tax matters when they become probable and reasonably estimable. Accruals are established based on the estimated undiscounted cash flows to settle the obligations and are not reduced by any potential recoveries from insurance or other indemnification claims. Management believes that any ultimate liability with respect to these actions, in excess of amounts provided, will not materially affect the Company's Consolidated Financial Statements.

In October 2014, the Brazilian government antitrust agency announced that it had opened an investigation of alleged antitrust violations in the bearing industry. The Company's Brazilian subsidiary, Timken do Brasil Comercial Importadora Ltda, was included in the investigation. While the Company is unable to predict the ultimate length, scope or results of the investigation, management believes that the outcome will not have a material effect on the Company's consolidated financial position. However, any such outcome may be

material to the results of operations of any particular period in which costs, if any, are recognized. Based on current facts and circumstances, the low end of the range for potential penalties, if any, would be immaterial to the Company.

Table of Contents**Product Warranties:**

In addition to the contingencies above, the Company provides limited warranties on certain of its products. The following table is a rollforward of the warranty liability for the six months ended June 30, 2018 and the twelve months ended December 31, 2017:

	June 30, December 31,	
	2018	2017
Beginning balance, January 1	\$ 5.8	\$ 6.9
Additions	1.3	2.7
Payments	(1.0)	(3.8)
Ending balance	\$ 6.1	\$ 5.8

The product warranty liability at June 30, 2018 and December 31, 2017 was included in "Other current liabilities" on the Consolidated Balance Sheets.

The Company currently is evaluating claims raised by certain customers with respect to the performance of bearings sold into the wind energy sector. Accruals related to this matter are included in the table above. Management believes that the outcome of these claims will not have a material effect on the Company's consolidated financial position; however, the effect of any such outcome may be material to the results of operations of any particular period in which costs in excess of amounts provided, if any, are recognized.

Note 8 - Equity

The changes in the components of equity for the six months ended June 30, 2018 were as follows:

	The Timken Company Shareholders						
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive (Loss)	Treasury Stock	Non-controlling Interest
Balance at December 31, 2017	\$1,474.9	\$53.1	\$903.8	\$1,408.4	\$ (38.3)	\$(884.3)	\$ 32.2
Cumulative effect of the new revenue standard (net of income tax benefit of \$2.6 million)	7.7			7.7			
Cumulative effect of ASU 2018-02	—			0.7	(0.7)		
Net income	172.4			171.2			1.2
Foreign currency translation adjustment	(38.2)				(35.3)		(2.9)
Change in fair value of derivative financial instruments, net of reclassifications	4.4				4.4		
Dividends – \$0.55 per share	(42.7)			(42.7)			
Stock-based compensation	17.8		17.8				
Stock purchased at fair market value	(49.6)					(49.6)	
Stock option exercise activity	10.6		(3.1)			13.7	
Restricted share activity	—		(11.3)			11.3	
Shares surrendered for taxes	(5.0)					(5.0)	
Balance at June 30, 2018	\$1,552.3	\$53.1	\$907.2	\$1,545.3	\$ (69.9)	\$(913.9)	\$ 30.5

Table of Contents*Note 9 - Accumulated Other Comprehensive Income (Loss)*

The following tables present details about components of accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017, respectively:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at March 31, 2018	\$ (26.1)	\$ (0.4)	\$ (2.7)	\$(29.2)
Other comprehensive (loss) income before reclassifications and income taxes	(46.6)	—	4.4	(42.2)
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	—	0.4	0.4
Income tax benefit	—	—	(1.2)	(1.2)
Net current period other comprehensive (loss) income, net of income taxes	(46.6)	—	3.6	(43.0)
Noncontrolling interest	2.3	—	—	2.3
Net current period comprehensive (loss) income, net of income taxes and noncontrolling interest	(44.3)	—	3.6	(40.7)
Balance at June 30, 2018	\$ (70.4)	\$ (0.4)	\$ 0.9	\$(69.9)
	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at December 31, 2017	\$ (35.1)	\$ (0.3)	\$ (2.9)	\$(38.3)
Cumulative effect of ASU 2018-02	—	(0.1)	(0.6)	(0.7)
Balance at January 1, 2018	(35.1)	(0.4)	(3.5)	(39.0)
Other comprehensive (loss) income before reclassifications and income tax	(38.2)	—	4.0	(34.2)
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	—	1.8	1.8
Income tax benefit	—	—	(1.4)	(1.4)
Net current period other comprehensive (loss) income, net of income taxes	(38.2)	—	4.4	(33.8)
Noncontrolling interest	2.9	—	—	2.9
Net current period comprehensive (loss) income, net of income taxes, noncontrolling interest and cumulative effect of accounting change	(35.3)	(0.1)	3.8	(31.6)
Balance at June 30, 2018	\$ (70.4)	\$ (0.4)	\$ 0.9	\$(69.9)

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	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at March 31, 2017	\$ (62.0)	\$ 1.6	\$ (0.4)	\$(60.8)
Other comprehensive income (loss) before reclassifications and income taxes	11.5	—	(2.0)	9.5
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.1	(0.3)	(0.2)
Income tax expense (benefit)	—	(0.1)	0.9	0.8
Net current period other comprehensive income (loss), net of income taxes	11.5	—	(1.4)	10.1
Noncontrolling interest	0.6	—	—	0.6
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	12.1	—	(1.4)	10.7
Balance at June 30, 2017	\$ (49.9)	\$ 1.6	\$ (1.8)	\$(50.1)
	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at December 31, 2016	\$ (79.8)	\$ 1.5	\$ 0.4	\$(77.9)
Other comprehensive income (loss) before reclassifications and income taxes	31.9	—	(3.1)	28.8
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.2	(0.5)	(0.3)
Income tax expense (benefit)	—	(0.1)	1.4	1.3
Net current period other comprehensive income (loss), net of income taxes	31.9	0.1	(2.2)	29.8
Noncontrolling interest	(2.0)	—	—	(2.0)
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	29.9	0.1	(2.2)	27.8
Balance at June 30, 2017	\$ (49.9)	\$ 1.6	\$ (1.8)	\$(50.1)

Other comprehensive income (loss) before reclassifications and income taxes includes the effect of foreign currency.

Table of Contents*Note 10 - Earnings Per Share*

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the three and six months ended June 30, 2018 and 2017, respectively:

	Three Months Ended June 30, 2018		2017		Six Months Ended June 30, 2018		2017	
Numerator:								
Net income attributable to The Timken Company	\$91.0		\$	82.5	\$171.2		\$	120.7
Less: undistributed earnings allocated to nonvested stock	—		—		—		—	
Net income available to common shareholders for basic and diluted earnings per share	\$91.0		\$	82.5	\$171.2		\$	120.7
Denominator:								
Weighted average number of shares outstanding - basic	77,360,753			81,576	77,544,365			81,438
Effect of dilutive securities:								
Stock options and awards - based on the treasury stock method	1,136,139			1,397,821	1,207,586			1,299,991
Weighted average number of shares outstanding, assuming dilution of stock options and awards	78,496,892			829,397	78,751,951			83,738,429
Basic earnings per share	\$1.18		\$	1.06	\$2.21		\$	1.55
Diluted earnings per share	\$1.16		\$	1.04	\$2.17		\$	1.53

The exercise prices for certain stock options that the Company has awarded exceeded the average market price of the Company's common shares during each period presented. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding during the three months ended June 30, 2018 and 2017 were 933,465 and 465,826, respectively. During the six months ended June 30, 2018 and 2017, the antidilutive stock options outstanding were 816,684 and 556,683, respectively.

Note 11 - Revenue

The following table presents details deemed most relevant to the users of the financial statements about total revenue for the three and six months ended June 30, 2018 and 2017, respectively:

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Mobile	Process	Total	Mobile	Process⁽¹⁾	Total⁽¹⁾
United States	\$261.7	\$190.0	\$451.7	\$246.9	\$165.0	\$411.9
Americas excluding United States	53.5	42.4	95.9	41.9	37.6	79.5
Europe / Middle East / Africa	100.3	92.4	192.7	66.5	64.9	131.4
Asia-Pacific	73.6	92.4	166.0	53.1	74.7	127.8
Net sales	\$489.1	\$417.2	\$906.3	\$408.4	\$342.2	\$750.6
	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Mobile	Process	Total	Mobile	Process⁽¹⁾	Total⁽¹⁾
United States	\$519.1	\$368.6	\$887.7	\$475.6	\$327.0	\$802.6
Americas excluding United States	108.7	89.1	197.8	85.2	72.5	157.7
Europe / Middle East / Africa	203.2	180.4	383.6	129.6	126.0	255.6

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Asia-Pacific	146.6	173.7	320.3	101.0	137.5	238.5
Net sales	\$977.6	\$ 811.8	\$ 1,789.4	\$791.4	\$ 663.0	\$ 1,454.4

(1) Prior period amounts have not been adjusted under the modified retrospective adoption method.

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When reviewing revenues by sales channel, the Company separates net sales to original equipment manufacturers from sales to distributors and end users. The following table presents the percent of revenues by sales channel for the six months ended June 30, 2018:

	Six Months Ended June 30, 2018
Revenue by sales channel	
Original equipment manufacturers	57%
Distribution/end users	43%

In addition to disaggregating revenue by segment and geography and by sales channel as shown above, the Company believes information about the timing of transfer of goods or services, type of customer and distinguishing service revenue from product sales is also relevant. During the six months ended June 30, 2018, approximately 9% of total net sales were recognized on an over-time basis because of the continuous transfer of control to the customer, with the remainder recognized as of a point in time. The payment terms with the U.S. government or its contractors, which represented approximately 7% of total net sales, differ from those of non-government customers. Finally, approximately 5% of total net sales represented service revenue.

Remaining Performance Obligations:

Remaining performance obligations represent the transaction price of orders meeting the definition of a contract in the new revenue standard for which work has not been performed and excludes unexercised contract options. Performance obligations having a duration of more than one year are concentrated in contracts for certain products and services provided to the U.S. government or its contractors. The aggregate amount of the transaction price allocated to remaining performance obligations for such contracts with a duration of more than one year was approximately \$174 million at June 30, 2018.

Contract Assets:

The following table contains a rollforward of contract assets for the six months ended June 30, 2018:

	June 30, 2018
Beginning balance, January 1	\$ 100.5
Additional unbilled revenue recognized	159.0
Less: amounts billed to customers	(132.0)
Ending balance	\$ 127.5

There were no impairment losses recorded on contract assets for the six months ended June 30, 2018.

Table of Contents*Note 12 - Segment Information*

The primary measurement used by management to measure the financial performance of each segment is earnings before interest and taxes ("EBIT").

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2018	2017	2018	2017
Net sales:				
Mobile Industries	\$489.1	\$408.4	\$977.6	\$791.4
Process Industries	417.2	342.2	811.8	663.0
Net sales	\$906.3	\$750.6	\$1,789.4	\$1,454.4
Segment EBIT:				
Mobile Industries	\$54.5	\$34.4	\$105.6	\$67.0
Process Industries	90.6	60.2	172.2	104.3
Total EBIT, for reportable segments	\$145.1	\$94.6	\$277.8	\$171.3
Corporate expenses	(15.2)	(12.9)	(29.5)	(24.3)
Pension actuarial gains (losses), net	2.4	—	2.4	(4.4)
Interest expense	(10.7)	(8.5)	(20.7)	(16.4)
Interest income	0.5	0.7	0.9	1.3
Income before income taxes	\$122.1	\$73.9	\$230.9	\$127.5

Table of Contents*Note 13 - Retirement Benefit Plans*

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension plans. The amounts for the three and six months ended June 30, 2018 are based on calculations prepared by the Company's actuaries and represent the Company's best estimate of the respective period's proportionate share of the amounts to be recorded for the year ending December 31, 2018.

	U.S. Plans		International Plans		Total	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017	2018	2017
Components of net periodic benefit cost:						
Service cost	\$3.2	\$3.0	\$0.4	\$0.4	\$3.6	\$3.4
Interest cost	5.8	6.1	1.8	1.9	7.6	8.0
Expected return on plan assets	(7.3)	(7.0)	(2.9)	(2.7)	(10.2)	(9.7)
Amortization of prior service cost	0.4	0.4	—	—	0.4	0.4
Recognition of actuarial gains	(2.4)	—	—	—	(2.4)	—
Net periodic benefit cost	\$(0.3)	\$2.5	\$(0.7)	\$(0.4)	\$(1.0)	\$2.1

	U.S. Plans		International Plans		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017	2018	2017
Components of net periodic benefit cost:						
Service cost	\$6.4	\$6.1	\$0.8	\$0.8	\$7.2	\$6.9
Interest cost	11.7	12.3	3.7	3.7	15.4	16.0
Expected return on plan assets	(14.6)	(14.0)	(5.9)	(5.4)	(20.5)	(19.4)
Amortization of prior service cost	0.8	0.7	—	—	0.8	0.7
Recognition of actuarial (gains) losses	(2.4)	4.4	—	—	(2.4)	4.4
Net periodic benefit cost	\$1.9	\$9.5	\$(1.4)	\$(0.9)	\$0.5	\$8.6

During the three months ended June 30, 2018, the Company recognized actuarial gains of \$2.4 million. During the six months ended June 30, 2017, the Company recognized actuarial losses of \$4.4 million. The remeasurements were required in each period as a result of lump sum payments to new retirees exceeding service and interest costs for one of the Company's U.S. defined benefit pension plans.

Note 14 - Other Postretirement Benefit Plans

The following table sets forth the net periodic benefit cost for the Company's other postretirement benefit plans. The amounts for the three and six months ended June 30, 2018 are based on calculations prepared by the Company's actuaries and represent the Company's best estimate of the respective period's proportionate share of the amounts to be recorded for the year ending December 31, 2018.

Three Months Ended June 30,	Six Months Ended June 30,
------------------------------------	----------------------------------

	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$0.1	\$0.1	\$0.1	\$0.1
Interest cost	1.9	2.2	3.7	4.5
Expected return on plan assets	(1.0)	(1.4)	(1.9)	(2.8)
Amortization of prior service credit	(0.4)	(0.3)	(0.8)	(0.5)
Net periodic benefit cost	\$0.6	\$0.6	\$1.1	\$1.3

Table of Contents*Note 15 - Income Taxes*

The Company's provision for income taxes in interim periods is computed by applying the estimated annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items are recorded during the period(s) in which they occur.

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2018	2017	2018	2017
Provision (benefit) for income taxes	\$30.2	\$(8.1)	\$58.5	\$7.4
Effective tax rate	24.7	% (11.0)	25.3	% 5.8

The income tax expense for the three and six months ended June 30, 2018 was calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the projected mix of earnings in international jurisdictions with relatively higher tax rates, losses in jurisdictions with no tax benefit due to valuation allowances and U.S. state and local income taxes.

The effective tax rate of 24.7% for the three months ended June 30, 2018 is higher than the three months ended June 30, 2017 primarily due to the 2017 reversal of accruals for uncertain tax positions (including related interest) based on the expiration of various statutes of limitation.

The effective tax rate of 25.3% for the six months ended June 30, 2018 is higher than the six months ended June 30, 2017 primarily due to the reversal of accruals for uncertain tax positions, partially offset by the net benefits of U.S. Tax Reform, which reduced the statutory rate from 35% to 21% on U.S. earnings beginning in 2018.

U.S. Tax Reform was enacted on December 22, 2017 and reduced the U.S. federal corporate rate from 35% to 21%. It requires companies to pay a one-time net charge related to the taxation of unremitted foreign earnings and creates new taxes, including a tax on certain foreign sourced earnings known as the global intangible low-taxed income ("GILTI") tax. Also on December 22, 2017, SEC Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of U.S. Tax Reform. In accordance with SAB 118, the accounting for the tax effects of U.S. Tax Reform is not complete as of June 30, 2018; however, reasonable estimates have been made.

Provisional estimates of \$25.2 million for the one-time net charge related to the taxation of unremitted foreign earnings and \$10.1 million related to the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate were recognized as components of income tax expense in the year ended December 31, 2017. Reasonable estimates have also been made for the effects of other provisions of U.S. Tax Reform, but they do not have a material impact on the Company's consolidated financial statements. Changes totaling a benefit of \$2.8 million have been made to these provisional estimates during the six months ended June 30, 2018 as a result of additional federal and state regulatory guidance issued and for adjustments to finalize the purchase accounting for Groeneveld. Additional information and evaluation of U.S. Tax Reform is still needed to prepare a more detailed analysis of the Company's deferred tax assets and liabilities, as well as historical foreign earnings and profits and potential correlative adjustments. Any subsequent adjustments to the Company's provisional estimates will be recorded to current tax expense in the quarter of 2018 when such further analysis is complete. These changes could be

material to income tax expense.

A provisional estimate for the GILTI provisions was not recognized as a component of income tax expense in the year ended December 31, 2017 as the Company had not completed its assessment or made an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to record it as a period cost if and when incurred. At June 30, 2018, given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and determining projections of future taxable income that is subject to the GILTI provisions. The Company has included GILTI related to current-year operations only in the forecasted annual effective tax rate and has not provided additional GILTI as a deferred amount.

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No additional income tax provision has been made on any remaining undistributed foreign earnings not subject to the one-time net charge related to the taxation of unremitted foreign earnings or any additional outside basis difference as these amounts continue to be indefinitely reinvested in foreign operations. The Company is still evaluating whether to change its indefinite reinvestment assertion in light of U.S. Tax Reform and considers this conclusion to be incomplete. If the Company subsequently changes its assertion, it will account for the change in the quarter when the analysis is complete.

Note 16 - Fair Value

Fair value is defined as the price that would be expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The FASB provides accounting rules that classify the inputs used to measure fair value into the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 – Unobservable inputs for the asset or liability.

The following tables present the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

June 30, 2018

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$129.7	\$126.0	\$ 3.7	\$ —
Cash and cash equivalents measured at net asset value	15.5			
Restricted cash	1.4	1.4	—	—
Short-term investments	12.9	—	12.9	—
Short-term investments measured at net asset value	0.2			
Foreign currency hedges	7.9	—	7.9	—
Total Assets	\$167.6	\$127.4	\$ 24.5	\$ —
Liabilities:				
Foreign currency hedges	\$1.6	\$—	\$ 1.6	\$ —
Total Liabilities	\$1.6	\$—	\$ 1.6	\$ —

December 31, 2017

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$108.5	\$107.3	\$ 1.2	\$ —
Cash and cash equivalents measured at net asset value	13.1			
Restricted cash	3.8	3.8	—	—
Short-term investments	16.2	—	16.2	—
Short-term investments measured at net asset value	0.2			
Foreign currency hedges	1.3	—	1.3	—
Total Assets	\$143.1	\$111.1	\$ 18.7	\$ —

Liabilities:

Foreign currency hedges

\$7.1 \$— \$ 7.1 \$ —

Total Liabilities

\$7.1 \$— \$ 7.1 \$ —

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Cash and cash equivalents are highly liquid investments with maturities of three months or less when purchased and are valued at the redemption value. Short-term investments are investments with maturities between four months and one year and generally are valued at amortized cost, which approximates fair value. A portion of the cash and cash equivalents and short-term investments are valued based on net asset value. The Company uses publicly available foreign currency forward and spot rates to measure the fair value of its foreign currency forward contracts.

The Company does not believe it has significant concentrations of risk associated with the counterparties to its financial instruments.

No material assets were measured at fair value on a nonrecurring basis during the six months ended June 30, 2018 and 2017, respectively.

Financial Instruments:

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable, trade accounts payable, short-term borrowings and long-term debt. Due to their short-term nature, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, trade accounts payable and short-term borrowings are a reasonable estimate of their fair value. Due to the nature of fair value calculations for variable-rate debt, the carrying value of the Company's long-term variable-rate debt is a reasonable estimate of its fair value. The fair value of the Company's long-term fixed-rate debt, based on quoted market prices, was \$689.8 million and \$720.3 million at June 30, 2018 and December 31, 2017, respectively. The carrying value of this debt was \$677.7 million and \$682.4 million at June 30, 2018 and December 31, 2017, respectively. The fair value of long-term fixed-rate debt was measured using Level 2 inputs.

Note 17 - Derivative Instruments and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are foreign currency exchange rate risk and interest rate risk. Forward contracts on various foreign currencies are entered into in order to manage the foreign currency exchange rate risk associated with certain of the Company's commitments denominated in foreign currencies. From time to time, interest rate swaps are used to manage interest rate risk associated with the Company's fixed and floating-rate borrowings.

The Company designates certain foreign currency forward contracts as cash flow hedges of forecasted revenues and certain interest rate hedges as cash flow hedges of fixed-rate borrowings.

The Company does not purchase or hold any derivative financial instruments for trading purposes. As of June 30, 2018 and December 31, 2017, the Company had \$400.8 million and \$386.9 million, respectively, of outstanding foreign currency forward contracts at notional value. Refer to *Note 16 - Fair Value* for the fair value disclosure of derivative financial instruments.

Cash Flow Hedging Strategy:

For certain derivative instruments that are designated and qualify as cash flow hedges (*i.e.*, hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (*i.e.*, the ineffective portion), or hedge components excluded from the

assessment of effectiveness, are recognized in the Consolidated Statement of Income during the current period.

To protect against a reduction in the value of forecasted foreign currency cash flows resulting from export sales, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted cash flows denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against foreign currencies, the decline in the present value of future foreign currency revenue is offset by gains in the fair value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the present value of future foreign currency cash flows is offset by losses in the fair value of the forward contracts.

The maximum length of time over which the Company hedges its exposure to the variability in future cash flows for forecast transactions is generally eighteen months or less.

Table of Contents**Purpose for Derivative Instruments not designated as Hedging Instruments:**

For derivative instruments that are not designated as hedging instruments, the instruments are typically forward contracts. In general, the practice is to reduce volatility by selectively hedging transaction exposures including intercompany loans, accounts payable and accounts receivable. Intercompany loans between entities with different functional currencies typically are hedged with a forward contract at the inception of the loan with a maturity date corresponding to the maturity of the loan. The revaluation of these contracts, as well as the revaluation of the underlying balance sheet items, is recorded directly to the income statement so the adjustment generally offsets the revaluation of the underlying balance sheet items to protect cash payments and reduce income statement volatility.

The following table presents the fair value of the Company's derivative instruments at June 30, 2018 and December 31, 2017. Those balances are presented within "Other non-current assets" and "Other non-current liabilities" in the Consolidated Balance Sheets.

	Asset Derivatives		Liability Derivatives	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:				
Foreign currency forward contracts	\$ 4.0	\$ 0.5	\$ 0.6	\$ 2.1
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	3.9	0.8	1.0	5.0
Total Derivatives	\$ 7.9	\$ 1.3	\$ 1.6	\$ 7.1

The following tables present the impact of derivative instruments for the three and six months ended June 30, 2018 and 2017, respectively, and their location within the Consolidated Statements of Income:

	Amount of gain or (loss) recognized in Other Comprehensive Loss	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2017
Derivatives in cash flow hedging relationships:		
Foreign currency forward contracts	\$4.4 \$(2.0)	\$4.0 \$(3.1)

Amount of gain or (loss)
reclassified from
Accumulated Other
Comprehensive Loss
into income (effective
portion)

Three Months Ended June 30,	Six Months Ended June 30,
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Derivatives in cash flow hedging relationships:	Location of gain or (loss) recognized in income	2018		2017	
		2018	2017	2018	2017
Foreign currency forward contracts	Cost of products sold	\$(0.2)	\$0.4	\$(1.4)	\$0.7
Interest rate swaps	Interest expense	(0.2)	(0.1)	(0.4)	(0.2)
Total		\$(0.4)	\$0.3	\$(1.8)	\$0.5
		Amount of gain or (loss) recognized in income			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Derivatives not designated as hedging instruments:	Location of gain or (loss) recognized in income				
Foreign currency forward contracts	Other income (expense), net	\$11.0	\$(7.2)	\$6.7	\$(8.3)

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Note 18 - Subsequent Events

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Overview

Introduction:

The Timken Company engineers, manufactures and markets bearings, transmissions, gearboxes, belts, chain, lubrication systems, couplings, industrial clutches and brakes and related products. The Company also offers a variety of power system rebuild and repair services. The Company's growing product and services portfolio features many strong industrial brands, such as Timken®, Fafnir®, Philadelphia Gear®, Drives®, Lovejoy® and Groeneveld®. Timken applies its deep knowledge of metallurgy, friction management and power transmission across the broad spectrum of bearings and related systems to improve the reliability and efficiency of machinery and equipment all around the world. Known for its quality products and collaborative technical sales model, Timken focuses on providing value to diverse markets worldwide through both OEMs and aftermarket channels. With more than 15,000 people operating in 33 countries, Timken makes the world more productive and keeps industry in motion. The Company operates under two reportable segments: (1) Mobile Industries and (2) Process Industries. The following further describes these business segments:

Mobile Industries serves OEM customers that manufacture off-highway equipment for the agricultural, mining and construction markets; on-highway vehicles including passenger cars, light trucks, and medium- and heavy-duty trucks; rail cars and locomotives; outdoor power equipment; rotorcraft and fixed-wing aircraft; and other mobile equipment. Beyond service parts sold to OEMs, aftermarket sales and services to individual end users, equipment owners, operators and maintenance shops are handled directly or through the Company's extensive network of authorized automotive and heavy-truck distributors.

Process Industries serves OEM and end-user customers in industries that place heavy demands on the fixed operating equipment they make or use in heavy and other general industrial sectors. This includes metals, cement and aggregate production; coal and wind power generation; oil and gas extraction and refining; pulp and paper and food processing; and health and critical motion control equipment. Other applications include marine equipment, gear drives, cranes, hoists and conveyors. This segment also supports aftermarket sales and service needs through its global network of authorized industrial distributors and through the provision of services directly to end users.

Timken creates value by understanding customer needs and applying its know-how in attractive market sectors, serving a broad range of customers and industries across the globe. The Company's business strengths include its product technology, end-market diversity, geographic reach and aftermarket mix. Timken collaborates with OEMs to improve equipment efficiency with its engineered products and captures subsequent equipment replacement cycles by selling largely through independent channels in the aftermarket. Timken focuses its international efforts and footprint in regions of the world where strong macroeconomic factors such as urbanization, infrastructure development and sustainability create demand for its products and services.

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The Timken Business Model is the specific framework for how the Company evaluates opportunities and differentiates itself in the market.

Outgrowing Our Markets. The Company intends to expand into new and existing markets by leveraging its collective knowledge of metallurgy, friction management and mechanical power transmission to create value for Timken customers. Using a highly collaborative technical selling approach, the Company places particular emphasis on creating unique solutions for challenging and/or demanding applications. The Company intends to grow in attractive market sectors around the world, emphasizing those spaces that are highly fragmented, demand high service and value the reliability and efficiency offered by Timken products. The Company also targets those applications that offer significant aftermarket demand, thereby providing product and services revenue throughout the equipment's lifetime.

Operating With Excellence. Timken operates with a relentless drive for exceptional results and a passion for superior execution. The Company embraces a continuous improvement culture that is charged with increasing efficiency, lowering costs, eliminating waste, encouraging organizational agility and building greater brand equity to fuel future growth. This requires the Company's ongoing commitment to attract, retain and develop the best talent across the world.

Deploying Capital to Drive Shareholder Value. The Company is intently focused on providing the highest returns for shareholders through its capital allocation framework, which includes: (1) investing in the core business through capital expenditures, research and development and organic growth initiatives; (2) pursuing strategic acquisitions to broaden its portfolio and capabilities across diverse markets, with a focus on bearings, adjacent power transmission products and related services; and (3) returning capital to shareholders through dividends and share repurchases. As part of this framework, the Company may also restructure, reposition or divest underperforming product lines or assets.

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Table of Contents**Overview:**

	Three Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Net sales	\$906.3	\$ 750.6	\$ 155.7	20.7	%
Net income	91.9	82.0	9.9	12.1	%
Net income (loss) attributable to noncontrolling interest	0.9	(0.5)	1.4	(280.0)	%
Net income attributable to The Timken Company	91.0	82.5	8.5	10.3	%
Diluted earnings per share	\$1.16	\$ 1.04	\$ 0.12	11.5	%
Average number of shares – diluted	78,496,298	79,397—	—	(0.7)	%
	Six Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Net sales	\$1,789.4	\$ 1,454.4	\$ 335.0	23.0	%
Net income	172.4	120.1	52.3	43.5	%
Net income (loss) attributable to noncontrolling interest	1.2	(0.6)	1.8	(300.0)	%
Net income attributable to The Timken Company	171.2	120.7	\$ 50.5	41.8	%
Diluted earnings per share	\$2.17	\$ 1.53	\$ 0.64	41.8	%
Average number of shares – diluted	78,751,958	81,944,429—	—	(0.2)	%

The increase in net sales for the second quarter of 2018 compared with the second quarter of 2017 was primarily due to organic revenue growth driven by improved end-market demand and higher pricing, the benefit of acquisitions and the favorable impact of foreign currency exchange rate changes. The increase in net income for the second quarter of 2018 compared with the second quarter of 2017 was primarily due to improved performance across the business, driven by the impact of higher volume, favorable price/mix, improved manufacturing performance and the benefit of acquisitions. These factors were partially offset by the impact of higher income tax, material, logistics and SG&A expenses.

The increase in net sales for the first six months of 2018 compared with the first six months of 2017 was primarily due to organic revenue growth driven by improved end-market demand and higher pricing, the benefit of acquisitions and the favorable impact of foreign currency exchange rate changes. The change in net income for the first six months of 2018 compared with the first six months of 2017 was primarily due to improved performance across the business, driven by the impact of higher volume, favorable price/mix, improved manufacturing performance, the benefit of acquisitions and lower net actuarial losses from the remeasurement of pension assets and obligations ("mark-to-market charges"). These factors were partially offset by the impact of higher income tax, SG&A, material and logistics costs.

Outlook:

The Company expects 2018 full-year sales to increase approximately 21% compared with 2017 primarily due to increased demand across most end-market sectors, the benefit of acquisitions including the recently announced Cone Drive and Rollon acquisitions, and higher pricing. The Company's earnings are expected to be higher in 2018 compared with 2017, primarily due to the impact of higher volume, favorable price/mix, improved manufacturing performance, the benefit of acquisitions, and the impact of lower mark-to-market charges, partially offset by higher material, logistics and SG&A expenses, and the impact of a higher income tax rate (inclusive of discrete items). The 2018 outlook does not account for mark-to-market charges that will be recognized in the second half of 2018 because the amount will not be known until incurred.

The Company expects to generate operating cash of approximately \$370 million in 2018, an increase from 2017 of approximately \$133 million or 56%. The Company expects capital expenditures to be 3.0% to 3.5% of net sales in 2018, compared with 3.5% of net sales in 2017.

Table of Contents***The Statement of Income*****Sales:**

	Three Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net Sales	\$906.3	\$750.6	\$ 155.7	20.7 %
	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net Sales	\$1,789.4	\$1,454.4	\$ 335.0	23.0 %

Net sales increased for the second quarter of 2018 compared with the second quarter of 2017, primarily due to higher organic revenue of \$112 million, the benefit of acquisitions of \$34 million and the favorable impact of foreign currency exchange rate changes of \$10 million. The increase in organic revenue was driven by improved demand across most of the Company's end-market sectors led by industrial distribution and the industrial original equipment, off-highway, rail, heavy truck and services sectors, as well as higher pricing.

Net sales increased for the first six months of 2018 compared with the first six months of 2017, primarily due to higher organic revenue of \$219 million, the benefit of acquisitions of \$81 million and the favorable impact of foreign currency exchange rate changes of \$35 million. The increase in organic revenue was driven by improved demand across most of the Company's end-market sectors led by industrial distribution and the off-highway, industrial original equipment, heavy truck, rail and services sectors, as well as higher pricing.

Gross Profit:

	Three Months Ended June 30,			
	2018	2017	\$ Change	Change
Gross profit	\$267.4	\$201.1	\$ 66.3	33.0%
Gross profit % to net sales	29.5	%26.8	%	270 bps
	Six Months Ended June 30,			
	2018	2017	\$ Change	Change
Gross profit	\$532.3	\$383.3	\$ 149.0	38.9%
Gross profit % to net sales	29.7	%26.4	%	330 bps

Gross profit increased in the second quarter of 2018 compared with the second quarter of 2017, primarily due to the impact of higher volume of \$38 million, favorable price/mix of \$19 million, the benefit of acquisitions of \$13 million and improved manufacturing performance of \$8 million. These factors were partially offset by higher material and logistics costs of \$11 million.

Gross profit increased in the first six months of 2018 compared with the first six months of 2017, primarily due to the impact of higher volume of \$74 million, favorable price/mix of \$38 million, the benefit of acquisitions of \$34 million, and improved manufacturing performance of \$18 million. These factors were partially offset by higher material and logistics costs of \$21 million.

Table of Contents**Selling, General and Administrative Expenses:****Three Months
Ended****June 30,****2018 2017 \$ Change % Change**Selling, general and administrative expenses **\$141.8** \$123.9 \$ 17.9 14.4%Selling, general and administrative expenses % to net sales **15.6** %16.5 % (90) bps**Six Months****Ended****June 30,****2018 2017 \$ Change % Change**Selling, general and administrative expenses **\$290.4** \$241.5 \$ 48.9 20.2%Selling, general and administrative expenses % to net sales **16.2** %16.6 % (40) bps

The increase in SG&A expenses in the second quarter and first six months of 2018 compared with the second quarter and first six months of 2017 was primarily due to the impact of acquisitions of \$8 million and \$21 million, respectively, higher incentive compensation expenses and other spending increases to support the current level of business activity.

Impairment and Restructuring:**Three
Months
Ended
June 30,****2018 2017 \$ Change %
Change**Severance and related benefit costs **\$0.2** \$0.7 \$ (0.5) (71.4)%Exit costs **0.1** 0.1 — — %Total **\$0.3** \$0.8 \$ (0.5) (62.5)%**Six
Months
Ended
June 30,****2018 2017 \$ Change %
Change**Severance and related benefit costs **\$0.4** \$1.9 \$ (1.5) (78.9)%Exit costs **0.1** 0.6 (0.5) (83.3)%Total **\$0.5** \$2.5 \$ (2.0) (80.0)%**Interest Income and Expense:****Three
Months
Ended
June 30,****2018 2017 \$ Change % Change**Interest expense **\$(10.7)** \$(8.5) \$ (2.2) 25.9 %Interest income **\$0.5** \$0.7 \$ (0.2) (28.6)%**Six Months
Ended
June 30,**

	2018	2017	\$ Change	% Change
Interest expense	\$(20.7)	\$(16.4)	\$ (4.3)	26.2 %
Interest income	\$0.9	\$1.3	\$ (0.4)	(30.8)%

The increase in interest expense in the second quarter and first six months of 2018 compared with the second quarter and first six months of 2017 was primarily due to an increase in outstanding debt to fund the Groeneveld acquisition in the second half of 2017 and other cash needs.

Table of Contents**Other Income (Expense):****Three
Months
Ended
June 30,**

	2018	2017	\$ Change	% Change
Other income, net	\$7.0	\$5.3	\$ 1.7	32.1 %

**Six
Months
Ended
June 30,**

	2018	2017	\$ Change	% Change
Other income, net	\$9.3	\$3.3	\$ 6.0	181.8 %

The increase in other income, net for the first six months of 2018 compared with the first six months of 2017 was primarily due to the impact of mark-to-market pension adjustments in the respective periods. The Company recognized actuarial gains of \$2 million during the second quarter of 2018, after recognizing actuarial losses of \$4 million during the first six months of 2017. The mark-to-market charges were required in each period as a result of lump sum payments to new retirees exceeding service and interest costs for one of the Company's U.S. defined benefit pension plans.

Income Tax Expense:**Three Months
Ended
June 30,**

	2018	2017	\$ Change	% Change
Provision (benefit) for income taxes	\$30.2	\$(8.1)	\$ 38.3	(472.8)%
Effective tax rate	24.7	%(11.0)		NM

**Six Months
Ended
June 30,**

	2018	2017	\$ Change	Change
Provision for income taxes	\$58.5	\$7.4	\$ 51.1	NM
Effective tax rate	25.3	%5.8		NM

Income tax expense increased \$38 million for the second quarter of 2018 compared with the second quarter of 2017 primarily due to the reversal of \$34 million of accruals for uncertain tax positions (including related interest) during 2017 based on the expiration of various statutes of limitations.

Income tax expense increased \$51 million for the first six months of 2018 compared with the first six months of 2017 primarily due to the reversal of \$34 million of accruals for uncertain tax positions (including related interest) during 2017 based on the expiration of various statutes of limitations. Income tax expense also increased \$16 million due to higher pre-tax earnings, partially offset by the net benefits of U.S. Tax Reform, which reduced the U.S. federal statutory rate from 35% to 21% on U.S. earnings beginning in 2018.

Refer to *Note 15 - Income Taxes* to the Notes to the Consolidated Financial Statements for more information on the computation of the income tax expense in interim periods.

Table of Contents**Business Segments**

The Company's reportable segments are business units that serve different industry sectors. While the segments often operate using shared infrastructure, each reportable segment is managed to address specific customer needs in these diverse market sectors. The primary measurement used by management to measure the financial performance of each segment is EBIT. Refer to *Note 12 - Segment Information* in the Notes to the Consolidated Financial Statements for the reconciliation of EBIT by segment to consolidated income before income taxes.

The presentation of segment results below includes a reconciliation of the changes in net sales for each segment reported in accordance with U.S. GAAP to net sales adjusted to remove the effects of acquisitions completed in 2017 and foreign currency exchange rate changes. The effects of acquisitions and foreign currency exchange rate changes on net sales are removed to allow investors and the Company to meaningfully evaluate the percentage change in net sales on a comparable basis from period to period.

The following items highlight the Company's acquisitions completed in 2017 by segment based on the customers and underlying markets served:

The Company acquired Groeneveld during the third quarter of 2017. Results for Groeneveld are reported in the Mobile Industries and Process Industries segments based on customers served.

The Company acquired Torsion Control Products and PT Tech during the second quarter of 2017.

Substantially all of the results for Torsion Control Products are reported in the Mobile Industries segment.

Results for PT Tech are reported in the Mobile Industries and Process Industries segments based on customers served.

Mobile Industries Segment:

	Three Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$489.1	\$408.4	\$ 80.7	19.8%
EBIT	\$54.5	\$34.4	\$ 20.1	58.4%
EBIT margin	11.1	%8.4	%	270 bps

	Three Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$489.1	\$408.4	\$ 80.7	19.8 %
Less: Acquisitions	30.7	—	30.7	NM
Currency	3.5	—	3.5	NM
Net sales, excluding the impact of acquisitions and currency	\$454.9	\$408.4	\$ 46.5	11.4 %

	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$977.6	\$791.4	\$ 186.2	23.5%
EBIT	\$105.6	\$67.0	\$ 38.6	57.6%
EBIT margin	10.8	%8.5	%	230 bps

	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$977.6	\$791.4	\$ 186.2	23.5 %
Less: Acquisitions	73.7	—	73.7	NM
Currency	14.7	—	14.7	NM
Net sales, excluding the impact of acquisitions and currency	\$889.2	\$791.4	\$ 97.8	12.4 %

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The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$47 million or 11.4% in the second quarter of 2018 compared with the second quarter of 2017, reflecting organic growth in the off-highway, rail and heavy truck sectors. EBIT increased by \$20 million or 58.4% in the second quarter of 2018 compared with the second quarter of 2017, primarily due to higher volume of \$14 million, improved manufacturing performance of \$7 million, favorable price/mix of \$6 million and the benefit of acquisitions. These factors were partially offset by higher material and logistics costs of \$6 million and higher SG&A expenses of \$5 million.

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$98 million or 12.4% in the first six months of 2018 compared with the first six months of 2017, reflecting organic growth in the off-highway, heavy truck and rail sectors. EBIT increased by \$39 million or 57.6% in the first six months of 2018 compared with the first six months of 2017, primarily due to higher volume of \$31 million, the benefit of acquisitions of \$11 million, improved manufacturing performance of \$9 million and favorable price/mix of \$8 million and lower restructuring charges of \$7 million. These factors were partially offset by higher material and logistics costs of \$12 million and higher SG&A expenses of \$12 million.

Full-year sales for the Mobile Industries segment are expected to be up approximately 18% in 2018 compared with 2017. This reflects expected growth across most end-market sectors, led by off-highway, rail, heavy truck and automotive sectors, as well as the benefit of acquisitions. EBIT for the Mobile Industries segment is expected to increase in 2018 compared with 2017 primarily due to the impact of higher volume, favorable price/mix, the impact of acquisitions, and improved manufacturing performance, partially offset by higher material, logistics and SG&A expenses.

Process Industries Segment:

	Three Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$417.2	\$342.2	\$ 75.0	21.9%
EBIT	\$90.6	\$60.2	\$ 30.4	50.5%
EBIT margin	21.7	%17.6	%	410 bps

	Three Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$417.2	\$342.2	\$ 75.0	21.9 %
Less: Acquisitions	3.1	—	3.1	NM
Currency	6.6	—	6.6	NM
Net sales, excluding the impact of acquisitions and currency	\$407.5	\$342.2	\$ 65.3	19.1 %

	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Net sales	\$811.8	\$663.0	\$ 148.8	22.4%
EBIT	\$172.2	\$104.3	\$ 67.9	65.1%
EBIT margin	21.2	%15.7	%	550 bps

**Six Months
Ended
June 30,**

	2018	2017	\$ Change	% Change
Net sales	\$811.8	\$663.0	\$ 148.8	22.4 %
Less: Acquisitions	7.1	—	7.1	NM
Currency	19.9	—	19.9	NM
Net sales, excluding the impact of acquisitions and currency	\$784.8	\$663.0	\$ 121.8	18.4 %

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The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$65 million or 19.1% in the second quarter of 2018 compared with the second quarter of 2017. The increase was primarily driven by increased demand across the industrial sectors, including distribution, original equipment and services, as well as higher pricing. EBIT increased \$30 million or 50.5% in the second quarter of 2018 compared with the second quarter of 2017 primarily due to the impact of higher volume of \$24 million and favorable price/mix of \$12 million. These factors were partially offset by higher material and logistics and SG&A expenses.

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$122 million or 18.4% in the first six months of 2018 compared with the first six months of 2017. The increase was primarily driven by increased demand across the industrial sectors, including distribution, original equipment and services, as well as higher pricing. EBIT increased \$68 million or 65.1% in the first six months of 2018 compared with the first six months of 2017 primarily due to the impact of higher volume of \$45 million, favorable price/mix of \$29 million, improved manufacturing performance of \$8 million and the impact of foreign currency exchange rate changes. These factors were partially offset by higher SG&A expenses of \$11 million and higher material and logistics costs of \$9 million. Full-year sales for the Process Industries segment are expected to be up approximately 25% in 2018 compared with 2017. This reflects expected growth across most industrial sectors, including distribution, original equipment and services, as well as higher pricing, the favorable impact of foreign currency exchange rate changes and the benefit of acquisitions. EBIT for the Process Industries segment is expected to increase in 2018 compared with 2017 primarily due to the impact of higher volume, favorable price/mix and manufacturing performance, partially offset by higher SG&A expenses and higher material and logistics costs.

Corporate:

	Three Months Ended June 30,			
	2018	2017	\$ Change	Change
Corporate expenses	\$15.2	\$12.9	\$ 2.3	17.8%
Corporate expenses % to net sales	1.7	%1.7	%	—
	Six Months Ended June 30,			
	2018	2017	\$ Change	Change
Corporate expenses	\$29.5	\$24.3	\$ 5.2	21.4%
Corporate expenses % to net sales	1.6	%1.7	%	(10) bps

Table of Contents**The Balance Sheet**

The following discussion is a comparison of the Consolidated Balance Sheets at June 30, 2018 and December 31, 2017.

Current Assets:

	June 30, 2018	December 31, 2017	\$ Change	% Change
Cash and cash equivalents	\$145.2	\$ 121.6	\$ 23.6	19.4 %
Restricted cash	1.4	3.8	(2.4)	(63.2) %
Accounts receivable, net	530.2	524.9	5.3	1.0 %
Contract assets	127.5	—	127.5	NM
Inventories, net	777.4	738.9	38.5	5.2 %
Deferred charges and prepaid expenses	25.3	29.7	(4.4)	(14.8) %
Other current assets	92.8	81.2	11.6	14.3 %
Total current assets	\$1,699.8	\$ 1,500.1	\$ 199.7	13.3 %

Refer to the "Cash Flows" section for discussion on the change in Cash and cash equivalents. Contract assets increased due to the adoption of the new revenue standard, including the reclassification of revenue recognized in excess of billings of \$67 million at December 31, 2017 from accounts receivable. Refer to *Note 2 - Significant Accounting Policies* for additional information. Inventories increased to meet higher demand and the impact of foreign currency exchange rate changes.

Property, Plant and Equipment, Net:

	June 30, 2018	December 31, 2017	\$ Change	% Change
Property, plant and equipment	\$2,392.7	\$ 2,405.6	\$ (12.9)	(0.5) %
Less: accumulated depreciation	(1,558.2)	(1,541.4)	(16.8)	1.1 %
Property, plant and equipment, net	\$834.5	\$ 864.2	\$ (29.7)	(3.4) %

The decrease in net property, plant and equipment in the first six months of 2018 was primarily due to current-year depreciation of \$50 million and the impact of foreign currency exchange rate changes of \$17 million, partially offset by capital expenditures of \$38 million.

Other Assets:

	June 30, 2018	December 31, 2017	\$ Change	% Change
Goodwill	\$ 493.7	\$ 511.8	\$ (18.1)	(3.5) %
Non-current pension assets	26.0	19.7	6.3	32.0 %
Other intangible assets	389.0	420.6	(31.6)	(7.5) %
Deferred income taxes	55.1	61.0	(5.9)	(9.7) %
Other non-current assets	29.9	25.0	4.9	19.6 %
Total other assets	\$ 993.7	\$ 1,038.1	\$ (44.4)	(4.3) %

The decrease in other intangible assets was primarily due to current-year amortization of \$21 million and the impact of foreign currency exchange rate changes.

Table of Contents**Current Liabilities:**

	June 30, 2018	December 31, 2017	\$ Change	% Change	
Short-term debt	\$ 162.3	\$ 105.4	\$ 56.9	54.0	%
Current portion of long-term debt	2.7	2.7	—	—	%
Accounts payable	253.2	265.2	(12.0)	(4.5)	%
Salaries, wages and benefits	111.4	127.9	(16.5)	(12.9)	%
Income taxes payable	15.1	9.8	5.3	54.1	%
Other current liabilities	166.5	160.7	5.8	3.6	%
Total current liabilities	\$ 711.2	\$ 671.7	\$ 39.5	5.9	%

The increase in short-term debt was primarily due to higher borrowings of \$34 million under the Company's Accounts Receivable Facility and higher borrowings of \$23 million under foreign lines of credit to fund operating and other cash needs. The decrease in accounts payable was primarily due to decreased purchasing activity, as well as lower days outstanding. The decrease in accrued salaries, wages and benefits was primarily due to payments for 2017 performance-based compensation exceeding accruals for 2018 performance-based compensation expense by \$15 million.

Non-Current Liabilities:

	June 30, 2018	December 31, 2017	\$ Change	% Change	
Long-term debt	\$881.4	\$ 854.2	\$ 27.2	3.2	%
Accrued pension cost	165.7	167.3	(1.6)	(1.0)	%
Accrued postretirement benefits cost	122.2	122.6	(0.4)	(0.3)	%
Deferred income taxes	40.4	44.0	(3.6)	(8.2)	%
Other non-current liabilities	54.8	67.7	(12.9)	(19.1)	%
Total non-current liabilities	\$1,264.5	\$ 1,255.8	\$ 8.7	0.7	%

The increase in long-term debt was primarily due to increased borrowings of \$43 million under the Company's Senior Credit Facility to fund operating and other cash needs, partially offset by the impact of foreign currency exchange rate changes of \$10 million. The decrease in other non-current liabilities was primarily driven by the application of the Company's estimated 2017 U.S. federal income tax overpayment of \$13 million towards the tax liability or "toll charge" for unremitted foreign earnings enacted as part of U.S. Tax Reform.

Shareholders' Equity:

	June 30, 2018	December 31, 2017	\$ Change	% Change	
Common shares	\$960.3	\$ 956.9	\$ 3.4	0.4	%
Earnings invested in the business	1,545.3	1,408.4	136.9	9.7	%
Accumulated other comprehensive loss	(69.9)	(38.3)	(31.6)	82.5	%
Treasury shares	(913.9)	(884.3)	(29.6)	3.3	%
Noncontrolling interest	30.5	32.2	(1.7)	(5.3)	%
Total shareholders' equity	\$1,552.3	\$ 1,474.9	\$ 77.4	5.2	%

Earnings invested in the business in the first six months of 2018 increased by net income attributable to the Company of \$171 million, partially offset by dividends declared of \$43 million.

The increase in accumulated other comprehensive loss was primarily due to foreign currency adjustments of \$35 million. See *"Other Matters - Foreign Currency"* for further discussion regarding the impact of foreign currency translation.

The increase in treasury shares was primarily due the Company's purchase of 1,069,610 of its common shares for \$50 million, partially offset by \$20 million of net shares issued for stock compensation plans

during the first six months of 2018.

Table of Contents**Cash Flows**

	Six Months Ended June 30,		
	2018	2017	\$ Change
Net cash provided by operating activities	\$57.8	\$114.5	\$(56.7)
Net cash used in investing activities	(36.0)	(108.9)	72.9
Net cash provided by financing activities	7.9	280.0	(272.1)
Effect of exchange rate changes on cash	(8.5)	10.7	(19.2)
Increase in cash, cash equivalents and restricted cash	\$21.2	\$296.3	\$(275.1)

Operating Activities:

Operating activities provided net cash of \$58 million in the first six months of 2018, compared with \$115 million of net cash provided in the first six months of 2017. The decrease was primarily due to an increase in cash used for working capital items of \$173 million, partially offset by higher net income of \$52 million, the favorable impact of income taxes on cash of \$45 million and the impact of foreign currency exchange rate changes of \$15 million. Refer to the table below for additional detail of the impact of each line on net cash provided by operating activities.

The following table displays the impact of working capital items on cash during the first six months of 2018 and 2017, respectively:

	Six Months Ended June 30,		
	2018	2017	\$ Change
Cash (Used) Provided:			
Accounts receivable	\$(86.4)	\$(46.0)	\$(40.4)
Contact assets	(27.8)	—	(27.8)
Inventories	(79.9)	(38.1)	(41.8)
Trade accounts payable	(8.4)	50.5	(58.9)
Other accrued expenses	(2.4)	2.0	(4.4)
Cash used in working capital items	\$(204.9)	\$(31.6)	\$(173.3)

The following table displays the impact of income taxes on cash during the first six months of 2018 and 2017, respectively:

	Six Months Ended June 30,		
	2018	2017	\$ Change
Accrued income tax expense	\$58.6	\$7.4	\$ 51.2
Income tax payments	(59.5)	(54.4)	(5.1)
Other miscellaneous items	(2.8)	(2.0)	(0.8)
Change in income taxes	\$(3.7)	\$(49.0)	\$ 45.3

Investing Activities:

Net cash used in investing activities of \$36 million in the first six months of 2018 decreased \$73 million from the same period in 2017 primarily due to \$64 million in cash used for acquisitions in 2017 that did not reoccur in 2018 and a net increase of \$10 million for investments in short-term marketable securities.

Financing Activities:

Net cash provided by financing activities was \$8 million in the first six months of 2018 compared with \$280 million of net cash provided by financing activities in the first six months of 2017. The decrease in cash provided by financing activities was primarily due to a decrease in net borrowings of \$237 million during the first six months of 2018 compared with the first six months of 2017, primarily needed to fund the Groeneveld acquisition in 2017. In addition, an increase in cash used in share repurchases of \$23 million and a reduction in proceeds from stock option activity of \$15 million during the first six months of 2018 compared with the first six months of 2017.

Table of Contents**Liquidity and Capital Resources:**

Reconciliation of total debt to net debt and the ratio of net debt to capital:

Net Debt:

	June 30,	December 31,
	2018	2017
Short-term debt	\$162.3	\$ 105.4
Current portion of long-term debt	2.7	2.7
Long-term debt	881.4	854.2
Total debt	\$1,046.4	\$ 962.3
Less: Cash and cash equivalents	145.2	121.6
Restricted cash	1.4	3.8
Net debt	\$899.8	\$ 836.9

Ratio of Net Debt to Capital:

	June 30,	December 31,
	2018	2017
Net debt	\$899.8	\$ 836.9
Total equity	1,552.3	1,474.9
Net debt plus total equity (capital)	\$2,452.1	\$ 2,311.8
Ratio of net debt to capital	36.7	%36.2 %

The Company presents net debt because it believes net debt is more representative of the Company's financial position than total debt due to the amount of cash and cash equivalents held by the Company.

At June 30, 2018, \$136 million of the Company's \$145 million of cash and cash equivalents resided in jurisdictions outside the U.S. It is the Company's practice to use available cash in the U.S. to pay down its Senior Credit Facility or Accounts Receivable Facility in order to minimize total interest expense. Repatriation of non-U.S. cash could be subject to taxes and some portion may be subject to governmental restrictions. Part of the Company's strategy is to grow in attractive market sectors, many of which are outside the U.S. This strategy includes making investments in facilities, equipment and potential new acquisitions. The Company plans to fund these investments, as well as meet working capital requirements, with cash and cash equivalents and unused lines of credit within the geographic location of these investments where feasible.

The Company expects that any cash requirements in excess of cash on hand and cash generated from operating activities will be met by the committed funds available under its Accounts Receivable Facility and Senior Credit Facility. Management believes it has sufficient liquidity to meet its obligations through at least the term of the Senior Credit Facility. In addition, the Company expects to have continued access to the credit markets.

The Company has a \$100 million Accounts Receivable Facility, which matures on November 30, 2018. The Company is exploring opportunities to refinance the facility prior to its maturity. The Accounts Receivable Facility is subject to certain borrowing base limitations and is secured by certain domestic accounts receivable of the Company. Borrowings under the Accounts Receivable Facility were not reduced by any such borrowing base limitations at June 30, 2018. As of June 30, 2018, the Company had \$96 million in outstanding borrowings, which reduced the availability under the facility to \$4 million. The interest rate on the Accounts Receivable Facility is variable and was 2.93% as of June 30, 2018, which reflects the

prevailing commercial paper rate plus facility fees.

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The Company has a \$500 million Senior Credit Facility, which matures on June 19, 2020. At June 30, 2018, the Senior Credit Facility had outstanding borrowings of \$95 million, which reduced the availability to \$405 million. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. The maximum consolidated leverage ratio permitted under the Senior Credit Facility is 3.5 to 1.0 (3.75 to 1.0 for a limited period up to four quarters following an acquisition with a purchase price of \$200 million or greater). As of June 30, 2018, the Company's consolidated leverage ratio was 1.77 to 1.0. The minimum consolidated interest coverage ratio permitted under the Senior Credit Facility is 3.5 to 1.0. As of June 30, 2018, the Company's consolidated interest coverage ratio was 14.93 to 1.0.

The interest rate under the Senior Credit Facility is variable and represents a blended U.S. Dollar and Euro rate with a spread based on the Company's debt rating and outstanding borrowings. This blended rate was 2.26% as of June 30, 2018. In addition, the Company pays a facility fee based on the consolidated leverage ratio multiplied by the aggregate commitments of all of the lenders under the Senior Credit Facility.

Other sources of liquidity include short-term lines of credit for certain of the Company's foreign subsidiaries, which provide for borrowings of up to approximately \$286 million. Most of these credit lines are uncommitted. At June 30, 2018, the Company had borrowings outstanding of \$66 million and bank guarantees of \$1 million, which reduced the aggregate availability under these facilities to \$219 million.

On September 7, 2017, the Company issued the 2027 Notes in the aggregate principal amount of €150 million. On September 18, 2017, the Company entered into a €100 million 2020 Term Loan. On June 14, 2018, the Company repaid €7 million reducing the principal balance to €94 million as of June 30, 2018. Proceeds from the 2027 Notes and 2020 Term Loan were used to repay amounts drawn from the Senior Credit Facility to fund the Groeneveld acquisition. Refer to *Note 6 - Financing Arrangements* for additional information.

At June 30, 2018, the Company was in full compliance with the covenants under the Senior Credit Facility and its other debt agreements. The Company expects to remain in compliance with its debt covenants. However, the Company may need to limit its borrowings under the Senior Credit Facility or other facilities in order to remain in compliance. As of June 30, 2018, the Company could have borrowed the full amounts available under the Senior Credit Facility and Accounts Receivable Facility and still would have been in compliance with its debt covenants.

The Company expects cash from operations of approximately \$370 million in 2018, an increase from 2017 of approximately \$133 million or 56%. The Company expects capital expenditures to be 3.0% to 3.5% of net sales in 2018, compared with 3.5% of net sales in 2017.

Financing Obligations and Other Commitments:

During the first six months of 2018, the Company made cash contributions of \$7 million to its global defined benefit pension plans and \$2 million to its other postretirement benefit plans. The Company currently expects to make contributions to its global defined benefit pension plans totaling approximately \$10 million in 2018. The Company also expects to make payments of approximately \$5 million to its other postretirement benefit plans in 2018. Excluding mark-to-market charges, the Company expects slightly lower pension expense. Mark-to-market charges are not accounted for in the 2018 outlook because the amount will not be known until incurred.

The Company does not have any off-balance sheet arrangements with unconsolidated entities or other persons.

Table of Contents**Critical Accounting Policies and Estimates:**

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company reviews its critical accounting policies throughout the year. The Company has concluded that there have been no significant changes to its critical accounting policies or estimates, as described in its Annual Report on Form 10-K for the year ended December 31, 2017, during the six months ended June 30, 2018 other than the change in accounting principles described below.

Effective January 1, 2018, the Company adopted the new revenue standard. Prior to the adoption of the new revenue standard, the Company generally recognized revenue when title passed to the customer. This occurred at the shipping point except for goods sold by certain foreign entities and certain exported goods, where title passed when the goods reached their destination. The Company also recognized a portion of its revenues on the percentage-of-completion method measured on the cost-to-cost basis.

Under the new revenue standard, the Company recognizes revenue when performance obligations are satisfied under the terms of a contract with the customer. Approximately 9% of 2018 net sales is recognized on an over-time basis because of the continuous transfer of control to the customer, with the remainder recognized as of a point in time when products are shipped from the Company's manufacturing facilities or at a later point in time when control of the products transfers to the customer. As a result of control transferring over time for these products and services, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company has elected to use the cost-to-cost input measure of progress for its contracts because it best depicts the transfer of goods or services to the customer based on incurring costs on the contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

The amount of consideration that the Company expects to be entitled in exchange for its goods and services is not generally subject to significant variations. However, the Company does offer certain customers rebates, prompt payment discounts, end-user discounts, the right to return eligible products, and/or other forms of variable consideration. The Company estimates this variable consideration using the expected value amount, which is based on historical experience. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company adjusts its estimate of revenue at the earlier of when the amount of consideration the Company expects to receive changes or when the consideration becomes fixed.

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Other Matters

Foreign Currency:

Assets and liabilities of subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the reporting period. Related translation adjustments are reflected as a separate component of accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions are included in the Consolidated Statements of Income.

For the six months ended June 30, 2018, the Company recorded negative foreign currency translation adjustments of \$35 million that decreased shareholders' equity, compared with positive foreign currency translation adjustments of \$30 million that increased shareholders' equity for the six months ended June 30, 2017. The foreign currency translation adjustments for the six months ended June 30, 2018 were negatively impacted by the strengthening of the U.S. dollar relative to other foreign currencies, including the Indian Rupee, Brazilian Real and Chinese Yuan.

Foreign currency exchange losses resulting from transactions included in the Company's operating results for the second quarter of 2018 were \$0.2 million, compared with losses of \$1.0 million during the second quarter of 2017. Foreign currency exchange losses resulting from transactions included in the Company's operating results for the six months of 2018 were \$1.4 million, compared with losses of \$1.4 million during the six months of 2017.

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Forward-Looking Statements

Certain statements set forth in this Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 that are not historical in nature (including the Company's forecasts, beliefs and expectations) are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management's Discussion and Analysis contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "outlook," "intend," "may," "possible," "potential," "pre-" "project" or other similar words, phrases or expressions. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. The Company cautions readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of the Company due to a variety of factors, such as:

- deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which the Company or its customers or suppliers conduct business, including adverse effects from a global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which the Company or its customers or suppliers conduct business, changes in currency valuations and recent world events that have increased the risks posed by international trade disputes, tariffs and sanctions;
- the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which the Company operates. This includes: the ability of the Company to respond to rapid changes in customer demand, the effects of customer or supplier bankruptcies or liquidations, the impact of changes in industrial business cycles and whether conditions of fair trade continue in the Company's markets;
- competitive factors, including changes in market penetration, increasing price competition by existing or new foreign and domestic competitors, the introduction of new products by existing and new competitors and new technology that may impact the way the Company's products are sold or distributed;
- changes in operating costs. This includes: the effect of changes in the Company's manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability and cost of raw materials and energy; changes in the expected costs associated with product warranty claims; changes resulting from inventory management and cost reduction initiatives; the effects of unplanned plant shutdowns; and changes in the cost of labor and benefits;
- the success of the Company's operating plans, announced programs, initiatives and capital investments;
- the ability to complete previously announced transactions; the ability to integrate acquired companies; and the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings;
- the Company's ability to maintain appropriate relations with unions that represent Company associates in certain locations in order to avoid disruptions of business;
- unanticipated litigation, claims, or assessments. This includes: claims or problems related to intellectual property, product liability or warranty, environmental issues and taxes;
- changes in worldwide financial and capital markets, including availability of financing and interest rates on satisfactory terms, which affect the Company's cost of funds and/or ability to raise capital, as well as customer demand and the ability of customers to obtain financing to purchase the Company's products or equipment that contain the Company's products;
- the impact on the Company's pension obligations and assets due to changes in interest rates, investment performance and other tactics designed to reduce risk;
- the actual impact of U.S. Tax Reform on the full-year 2018 global effective tax rate;
- retention of CDSOA distributions; and
- those items identified under Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Additional risks relating to the Company's business, the industries in which the Company operates, or the Company's common shares may be described from time to time in the Company's filings with the Securities and Exchange Commission. All of these risk factors are difficult to predict, are subject to material uncertainties that may affect actual results and may be beyond the Company's control.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to information appearing under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q. Furthermore, a discussion of market risk exposures is included in Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in reported market risk since the inclusion of this discussion in the Company’s Annual Report on Form 10-K referenced above.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting

During the Company’s most recent fiscal quarter, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, included a detailed discussion of our risk factors. There have been no material changes to the risk factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Issuer Purchases of Common Shares**

The following table provides information about purchases by the Company of its common shares during the quarter ended June 30, 2018.

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share ⁽²⁾	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs ⁽³⁾
4/1/18 - 4/30/18	37,153	\$ 44.40	36,928	8,533,369
5/1/18 - 5/31/18	381,492	48.02	375,979	8,157,390
6/1/18 - 6/30/18	156,148	46.20	155,000	8,002,390
Total	574,793	\$ 47.29	567,907	

Of the shares purchased in April, May and June, 225, 5,513 and 1,148, respectively, represent common shares of the Company that were owned and tendered by employees to exercise stock options and to satisfy withholding obligations in connection with the exercise of stock options or vesting of restricted shares.

For shares tendered in connection with the vesting of restricted shares, the average price paid per share is an average calculated using the daily high and low of the Company's common shares as quoted on the New York Stock Exchange at the time of vesting. For shares tendered in connection with the exercise of stock options, the price paid is the real-time trading stock price at the time the options are exercised.

On February 6, 2017, the Company announced that its Board of Directors approved a share purchase plan pursuant to which the Company may purchase up to ten million of its common shares in the aggregate. This share repurchase plan expires on February 28, 2021. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

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Item 6. Exhibits

12 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Richard G. Kyle, President and Chief Executive Officer (principal executive officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Philip D. Fracassa, Executive Vice President and Chief Financial Officer (principal financial officer) of The Timken Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of Richard G. Kyle, President and Chief Executive Officer (principal executive officer) and Philip D. Fracassa, Executive Vice President and Chief Financial Officer (principal financial officer) of The Timken Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Financial statements from the quarterly report on Form 10-Q of The Timken Company for the quarter ended June 30, 2018, filed on July 31, 2018, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TIMKEN COMPANY

Date: July 31, 2018 By: /s/ Richard G. Kyle
Richard G. Kyle
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2018 By: /s/ Philip D. Fracassa
Philip D. Fracassa
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)