

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

OVERVIEW

The Timken Company (Timken or the Company) designs, manufactures, sells and services highly-engineered anti-friction bearings and assemblies, high-quality alloy steels and mechanical power transmission systems, as well as provides a broad spectrum of related products and services. The Company has four operating segments: (1) Mobile Industries; (2) Process Industries; (3) Aerospace and Defense; and (4) Steel. The following is a description of the Company's operating segments:

- **Mobile Industries** provides bearings, mechanical power transmission components, drive- and roller-chains, augers and related products and services to original equipment manufacturers and suppliers of agricultural, construction and mining equipment, passenger cars, light trucks, medium and heavy-duty trucks, rail cars and locomotives, as well as to automotive and heavy truck aftermarket distributors.
- **Process Industries** provides bearings, mechanical power transmission components, industrial chains, and related products and services to original equipment manufacturers and suppliers of power transmission, energy and heavy industries machinery and equipment. This includes rolling mills, cement and aggregate processing equipment, paper mills, sawmills, printing presses, cranes, hoists, drawbridges, wind energy turbines, gear drives, drilling equipment, coal conveyors, coal crushers, marine and food processing equipment. This segment also serves the aftermarket through its global network of authorized industrial distributors.
- **Aerospace and Defense** provides bearings, helicopter transmission systems, rotor head assemblies, turbine engine components, gears and other precision flight-critical components for commercial and military aviation applications and provides aftermarket services, including repair and overhaul of engines, transmissions and fuel controls, as well as aerospace bearing repair and component reconditioning. Additionally, this segment manufactures precision bearings, higher-level assemblies and sensors for manufacturers of health and positioning control equipment.
- **Steel** produces more than 450 grades of carbon and alloy steel, which are sold as ingots, bars and tubes in a variety of chemistries, lengths and finishes. This segment's metallurgical expertise and operational capabilities result in customized solutions for the automotive, industrial and energy sectors. Timken® specialty steels feature prominently in a wide variety of end products including oil country drill pipe, bits and collars, gears, hubs, axles, crankshafts and connecting rods, bearing races and rolling elements, and bushings, fuel injectors and wind energy shafts.

The Company's strategy balances corporate aspirations for sustained growth with a determination to optimize the Company's existing business portfolio, thereby generating strong profits and cash flows. Timken pursues its growth strategy through differentiation and expansion.

- For differentiation, the Company leverages its technological capabilities to enhance existing products and services and to create new products that capture value for its customers. The Company recently broadened its product offering by expanding a line of spherical, cylindrical and housed bearings, developing new products and services – including the new Ecoturn® seal for the railroad industry – and introducing numerous new custom-developed grades of specialty alloy steel.
- Regarding expansion, the Company's strategy is to grow in attractive market sectors, with particular emphasis on those industrial markets that value the reliability offered by the Company's products and create significant aftermarket demand, thereby providing a lifetime of opportunity in both product sales and services. The Company's strategy also encompasses expanding its portfolio in new geographic spaces with an emphasis in Asia. The Company's acquisition strategy is directed at complementing its existing portfolio and expanding the Company's market position globally.

Simultaneously, the Company works to optimize its existing business with specific initiatives aimed at transformation and execution. This includes diversifying the overall portfolio of businesses and products to create further value and profitability, which can include addressing or repositioning underperforming product lines and segments, revising market sector or geographic strategies and divesting non-strategic assets. The Company drives execution by embracing a continuous improvement culture that is charged with lowering costs, eliminating waste, increasing efficiency, encouraging organizational agility and building greater brand equity.