

TIMKEN CO

Form 10-Q

October 30, 2018

false--12-31Q320182018-09-3010-Q000009836276860854falseLarge Accelerated FilerTimken

Co.false0.02220.09450.00320.003315414000001561400000P0Y20300000211000000020000000020000000098375135983751

<div style="line-height: 120%; font-size: 10pt;">Note - Property, Plant and Equipment </div><div

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 style="width: 1%;"

rowspan="1" colspan="1"></td><td style="width: 12%;" rowspan="1" colspan="1"><td style="width: 1%;"

rowspan="1" colspan="1"></td><td style="width: 1%;" rowspan="1" colspan="1"><td style="width: 12%;"

rowspan="1" colspan="1"></td><td style="width: 1%;" rowspan="1" colspan="1"></td></tr><tr><td

#000000; padding-left: 2px; padding-top: 2px; padding-bottom: 2px; padding-right: 2px; border-top: 1px solid #000000;"

rowspan="1" colspan="1"><div style="overflow: hidden; font-size: 10pt;"><font

#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

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

clear="none"/>2017</div></td></tr><tr><td

rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><font

rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><font

colspan="1"><div style="text-align: right; font-size: 10pt;"><font

clear="none"/></div></td><td

rowspan="1" colspan="1"><div style="text-align: left; font-size: 10pt;"><font

(1,541.4

Property, plant and equipment, net

886.8

864.2

Total depreciation expense for the

nine

months ended

September 30, 2018

and

2017

was

\$97.7 million

and

\$95.5 million

, respectively.

The components of property, plant and equipment at

September 30, 2018

and

December 31, 2017

were as follows:

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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:12%;" rowspan="1" colspan="1"></td><td style="width:1%;" rowspan="1" colspan="1"></td><td style="width:12%;" 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;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"> </div></td><td colspan="3" rowspan="1" colspan="1"><div 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;">September 30, <br clear="none"/>2018</div></td><td colspan="3" rowspan="1" colspan="1"><div 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;">December 31, <br clear="none"/>2017</div></td></tr><tr><td style="vertical-align:top;background-color:#cceeFF;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">Land and buildings</div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeFF;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeFF;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">482.1</div></td><td style="vertical-align:bottom;background-color:#cceeFF;" 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:#cceeFF;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;">\$</div></td><td style="vertical-align:bottom;background-color:#cceeFF;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">483.0</div></td><td style="vertical-align:bottom;background-color:#cceeFF;" 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" rowspan="1" colspan="2"><div style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:10pt;">1,966.1</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" rowspan="1" colspan="2"><div style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div

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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:#cceedd;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:#cceedd;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:#cceedd;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:10pt;">2,448.2</div></td><td style="vertical-align:bottom;background-color:#cceedd;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:#cceedd;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:#cceedd;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:#cceedd;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;">(1,561.4</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><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:#cceedd;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:#cceedd;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font

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886.8																																																																																																																																																														
864.2																																																																																																																																																														
0000098362	2018-01-01	2018-09-30	0000098362	2018-09-30	0000098362	2018-09-30	0000098362	2017-01-01	2017-09-30	0000098362	2018-07-01	2018-09-30	0000098362	2017-07-01	2017-09-30	0000098362	2017-12-31	0000098362	us-gaap:PreferredClassBMember	2017-12-31	0000098362	us-gaap:PreferredClassAMember	2018-09-30	0000098362	us-gaap:PreferredClassBMember	2018-09-30	0000098362	us-gaap:PreferredClassAMember	2017-12-31	0000098362	2017-09-30	0000098362	2016-12-31	0000098362	us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member	2018-01-01	2018-09-30	0000098362	us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member	2018-01-01	2018-09-30	0000098362	us-gaap:ContractsAccountedForUnderPercentageOfCompletionMember	2017-12-31	0000098362	us-gaap:ContractsAccountedForUnderPercentageOfCompletionMember	2018-09-30	0000098362	tkr:AccountingStandardUpdate201802Member	2018-01-01	2018-09-30	0000098362	us-gaap:AccountingStandardsUpdate201707Member	2015-01-01	2015-12-31	0000098362	2015-01-01	2015-12-31	0000098362	2018-01-01	0000098362	us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member	2018-01-01	0000098362	srt:ScenarioPreviouslyReportedMember	2017-01-01	2017-09-30	0000098362	us-gaap:AccountingStandardsUpdate201707Member	2017-01-01	2017-09-30	0000098362	us-gaap:AccountingStandardsUpdate201707Member	2017-07-01	2017-09-30	0000098362	srt:ScenarioPreviouslyReportedMember	2017-07-01	2017-09-30	0000098362	srt:ScenarioPreviouslyReportedMember	2017-01-01	2017-12-31	0000098362	2017-01-01	2017-12-31	0000098362	us-gaap:AccountingStandardsUpdate201707Member	2017-01-01	2017-12-31	0000098362	us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member	2018-09-30	0000098362	us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member	2018-09-30	0000098362	srt:ScenarioPreviouslyReportedMember	2016-01-01	2016-12-31	0000098362	2016-01-01	2016-12-31	0000098362	us-gaap:AccountingStandardsUpdate201707Member	2016-01-01	2016-12-31	0000098362	us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member	2018-07-01	2018-09-30	0000098362	us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member	2018-07-01	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:TechnologyBasedIntangibleAssetsMember	2018-01-01	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:TradeNamesMember	2018-01-01	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:CustomerRelationshipsMember	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:TradeNamesMember	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:TradeNamesMember	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:CustomerRelationshipsMember	2018-01-01	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:TechnologyBasedIntangibleAssetsMember	2018-09-30	0000098362	tkr:A2018AcquisitionsMember	us-gaap:PensionPlansDefinedBenefitMember	2018-09-30	0000098362	us-gaap:ShortTermDebtMember	tkr:A2018AcquisitionsMember	2018-09-30	0000098362

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2018-09-11 2018-09-11 0000098362 tkr:EuroTermLoanVariableRateMember 2018-01-01 2018-09-30 0000098362
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2018-09-30 0000098362 tkr:EuroTermLoanVariableRateMember 2018-09-30 0000098362

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2018-09-30 0000098362 tkr:SeniorUnsecuredNotes3.875Member 2018-09-30 0000098362
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2018-09-30 0000098362 tkr:EuroSeniorUnsecuredNotes2.02Member 2018-01-01 2018-09-30 0000098362
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us-gaap:RetainedEarningsUnappropriatedMember 2018-09-30 0000098362 us-gaap:TreasuryStockMember
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2018-09-30 0000098362 tkr:DerivativeFinancialInstrumentsFairValueAdjustmentMember 2017-12-31 0000098362
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tkr:ForeignCurrencyTranslationAdjustmentMember 2016-12-31 0000098362
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tkr:PensionAndPostretirementLiabilityAdjustmentMember 2016-12-31 0000098362
tkr:ForeignCurrencyTranslationAdjustmentMember 2017-09-30 0000098362

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tkr:DerivativeFinancialInstrumentsFairValueAdjustmentMember 2017-09-30 0000098362
tkr:ForeignCurrencyTranslationAdjustmentMember 2017-07-01 2017-09-30 0000098362
tkr:DerivativeFinancialInstrumentsFairValueAdjustmentMember 2017-06-30 0000098362
tkr:PensionAndPostretirementLiabilityAdjustmentMember 2017-07-01 2017-09-30 0000098362
tkr:PensionAndPostretirementLiabilityAdjustmentMember 2017-06-30 0000098362
tkr:ForeignCurrencyTranslationAdjustmentMember 2017-06-30 0000098362
tkr:DerivativeFinancialInstrumentsFairValueAdjustmentMember 2017-07-01 2017-09-30 0000098362 2017-06-30
0000098362 tkr:ServiceRevenueMember 2018-01-01 2018-09-30 0000098362 tkr:U.S.GovernmentMember
2018-01-01 2018-09-30 0000098362 us-gaap:TransferredOverTimeMember 2018-01-01 2018-09-30 0000098362
us-gaap:SalesChannelDirectlyToConsumerMember 2018-01-01 2018-09-30 0000098362
us-gaap:SalesChannelThroughIntermediaryMember 2018-01-01 2018-09-30 0000098362 us-gaap:EMEAMember
2017-01-01 2017-09-30 0000098362 srt:AsiaPacificMember tkr:MobileIndustriesMember 2017-01-01 2017-09-30
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tkr:CanadaMexicoandSouthAmericaMember tkr:ProcessIndustriesMember 2018-01-01 2018-09-30 0000098362
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

o **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**

44720-5450

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(Address of principal executive offices) (Zip Code)

234.262.3000

(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 every Interactive Data File required to be submitted 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 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

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 September 30, 2018
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Common Shares, without par value	76,860,854 shares
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Table of Contents

THE TIMKEN COMPANY
INDEX TO FORM 10-Q REPORT

	<u>PAGE</u>
I. <u>PART I.</u>	
Item 1. <u>Financial Statements</u>	<u>1</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>47</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
II. <u>PART II.</u>	
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 6. <u>Exhibits</u>	<u>49</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions, except per share data)				
Net sales	\$881.3	\$771.4	\$2,670.7	\$2,225.8
Cost of products sold	628.0	555.3	1,885.1	1,626.4
Gross Profit	253.3	216.1	785.6	599.4
Selling, general and administrative expenses	142.0	134.0	432.4	375.5
Impairment and restructuring charges	2.6	1.3	3.1	3.8
Operating Income	108.7	80.8	350.1	220.1
Interest expense	(12.5)	(10.1)	(33.2)	(26.5)
Interest income	0.6	0.7	1.5	2.0
Other income, net	0.5	3.8	9.8	7.1
Income Before Income Taxes	97.3	75.2	328.2	202.7
Provision for income taxes	25.0	21.1	83.5	28.5
Net Income	72.3	54.1	244.7	174.2
Less: Net income attributable to noncontrolling interest	0.7	0.6	1.9	—
Net Income Attributable to The Timken Company	\$71.6	\$53.5	\$242.8	\$174.2
Net Income per Common Share Attributable to The Timken Company Common Shareholders				
Basic earnings per share	\$0.93	\$0.69	\$3.14	\$2.24
Diluted earnings per share	\$0.91	\$0.68	\$3.09	\$2.21
Dividends per share	\$0.28	\$0.27	\$0.83	\$0.80

See accompanying Notes to the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Net Income	\$72.3	\$54.1	\$244.7	\$174.2
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(24.2)	10.9	(62.5)	42.8
Pension and postretirement liability adjustment	—	0.1	—	0.2
Change in fair value of derivative financial instruments	(0.4)	(2.0)	4.0	(4.2)
Other comprehensive (loss) income, net of tax	(24.6)	9.0	(58.5)	38.8
Comprehensive Income, net of tax	47.7	63.1	186.2	213.0

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Less: comprehensive (loss) income attributable to noncontrolling interest	(5.0)	0.5	(6.8)	1.9
Comprehensive Income Attributable to The Timken Company	\$52.7	\$62.6	\$193.0	\$211.1

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents**Consolidated Balance Sheets**

	(Unaudited)	
	September 30, 2018	December 31, 2017
(Dollars in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 153.7	\$ 121.6
Restricted cash	1.3	3.8
Accounts receivable, less allowances (2018 – \$21.1 million; 2017 – \$20.3 million)	548.6	524.9
Unbilled receivables	137.3	—
Inventories, net	841.0	738.9
Deferred charges and prepaid expenses	28.4	29.7
Other current assets	76.0	81.2
Total Current Assets	1,786.3	1,500.1
Property, Plant and Equipment, net	886.8	864.2
Other Assets		
Goodwill	965.4	511.8
Other intangible assets	743.1	420.6
Non-current pension assets	21.7	19.7
Deferred income taxes	52.3	61.0
Other non-current assets	43.9	25.0
Total Other Assets	1,826.4	1,038.1
Total Assets	\$ 4,499.5	\$ 3,402.4
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	\$ 37.0	\$ 105.4
Current portion of long-term debt	11.4	2.7
Accounts payable, trade	282.8	265.2
Salaries, wages and benefits	133.5	127.9
Income taxes payable	19.2	9.8
Other current liabilities	172.7	160.7
Total Current Liabilities	656.6	671.7
Non-Current Liabilities		
Long-term debt	1,681.7	854.2
Accrued pension cost	171.6	167.3
Accrued postretirement benefits cost	134.0	122.6
Deferred income taxes	152.4	44.0
Other non-current liabilities	62.8	67.7
Total Non-Current Liabilities	2,202.5	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	945.1	903.8
Earnings invested in the business	1,595.4	1,408.4

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Accumulated other comprehensive loss	(88.8) (38.3)
Treasury shares at cost (2018 – 21,514,281 shares; 2017 – 20,758,013 shares)	(924.9) (884.3)
Total Shareholders' Equity	1,579.9	1,442.7	
Noncontrolling Interest	60.5	32.2	
Total Equity	1,640.4	1,474.9	
Total Liabilities and Equity	\$ 4,499.5	\$ 3,402.4	

See accompanying Notes to the Consolidated Financial Statements.

2

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

	Nine Months Ended September 30, 2018 2017	
(Dollars in millions)		
CASH PROVIDED (USED)		
Operating Activities		
Net income attributable to The Timken Company	\$242.8	\$174.2
Net income attributable to noncontrolling interest	1.9	—
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105.9	102.5
Impairment charges	0.6	—
Loss (gain) on sale of assets	0.2	(2.6)
Loss on divestiture	0.6	—
Deferred income tax provision	2.2	7.5
Stock-based compensation expense	25.5	18.2
Pension and other postretirement expense	8.5	12.6
Pension contributions and other postretirement benefit contributions	(12.4)	(16.3)
Changes in operating assets and liabilities:		
Accounts receivable	(65.7)	(61.6)
Unbilled receivables	(37.6)	—
Inventories	(94.3)	(85.4)
Accounts payable, trade	(9.9)	55.7
Other accrued expenses	10.2	15.9
Income taxes	(0.5)	(59.6)
Other, net	17.0	(18.2)
Net Cash Provided by Operating Activities	195.0	142.9
Investing Activities		
Capital expenditures	(62.8)	(62.5)
Acquisitions, net of cash received	(765.4)	(347.2)
Proceeds from disposal of property, plant and equipment	1.1	6.8
Proceeds from divestitures	14.0	—
Investments in short-term marketable securities, net	2.3	(4.2)
Other	0.5	(0.3)
Net Cash Used in Investing Activities	(810.3)	(407.4)
Financing Activities		
Cash dividends paid to shareholders	(64.2)	(62.4)
Purchase of treasury shares	(63.0)	(41.0)
Proceeds from exercise of stock options	12.7	27.7
Shares surrendered for taxes	(5.4)	(10.8)
Accounts receivable facility borrowings	145.2	51.2
Accounts receivable facility payments	(114.9)	(25.3)
Proceeds from long-term debt	1,286.1	862.7
Payments on long-term debt	(533.1)	(574.4)
Deferred financing costs	(0.9)	(1.1)
Short-term debt activity, net	(3.9)	12.8
Other	(1.3)	(2.6)

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Net Cash Provided by Financing Activities	657.3	236.8
Effect of exchange rate changes on cash	(12.4)	16.6
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	29.6	(11.1)
Cash, cash equivalents and restricted cash at beginning of year	125.4	151.6
Cash, Cash Equivalents and Restricted Cash at End of Period	\$155.0	\$140.5

See accompanying Notes to the Consolidated Financial Statements.

3

Table of Contents

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", which was adopted by the Company on January 1, 2018. 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 collectability 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 can 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 on 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.

Table of Contents

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 "Unbilled Receivables" 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 exclude an assessment of 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.

Table of Contents

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, \$88.9 million of revenue recognized in excess of billings related to these revenues are included in "Unbilled receivables" on the Consolidated Balance Sheet at September 30, 2018.

Unbilled Receivables:

"Unbilled receivables" 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 primarily 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 of net periodic benefit cost 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 December 31, 2017	Effect of Accounting Change	Balance at January 1, 2018
ASSETS			
Accounts receivable, less allowances	\$ 524.9	\$ (67.3)	\$ 457.6
Unbilled receivables	—	100.5	100.5

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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

6

Table of Contents

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 nine months ended September 30, 2018.

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

	Previous Accounting Method	Effect of Accounting Change	As Reported
Net sales	\$ 875.6	\$ 5.7	\$ 881.3
Cost of products sold	623.2	4.8	628.0
Selling, general, and administrative expenses	141.3	0.7	142.0
Income before income taxes	97.1	0.2	97.3
Provision for income taxes	25.0	—	25.0
Net income	72.1	0.2	72.3
Net income attributable to The Timken Company	\$ 71.4	\$ 0.2	\$ 71.6
Basic earnings per share	\$ 0.93	\$ —	\$ 0.93
Diluted earnings per share	\$ 0.91	\$ —	\$ 0.91

Consolidated Statement of Income for the nine months ended September 30, 2018:

	Previous Accounting Method	Effect of Accounting Change	As Reported
Net sales	\$ 2,653.7	\$ 17.0	\$ 2,670.7
Cost of products sold	1,874.2	10.9	1,885.1
Selling, general, and administrative expenses	430.6	1.8	432.4
Income before income taxes	323.9	4.3	328.2
Provision for income taxes	82.5	1.0	83.5
Net income	241.4	3.3	244.7
Net income attributable to The Timken Company	\$ 239.5	\$ 3.3	\$ 242.8
Basic earnings per share	\$ 3.10	\$ 0.04	\$ 3.14
Diluted earnings per share	\$ 3.05	\$ 0.04	\$ 3.09

Consolidated Balance Sheet as of September 30, 2018:

	Previous Accounting Method	Effect of Accounting Change	As Reported
ASSETS			
Accounts receivable, less allowances	\$ 637.5	\$ (88.9)	\$ 548.6
Unbilled receivables	—	137.3	137.3
Inventories, net	874.8	(33.8)	841.0
Other current assets	72.5	3.5	76.0
Deferred income taxes	55.9	(3.6)	52.3
LIABILITIES			
Other current liabilities	169.2	3.5	172.7
EQUITY			
Earnings invested in the business	1,584.4	11.0	1,595.4

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 September 30, 2017:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 554.4	\$ 0.9	\$ 555.3
Selling, general, and administrative expenses	134.0	—	134.0
Operating income	81.7	(0.9)	80.8
Other income, net	2.9	0.9	3.8

For the nine months ended September 30, 2017:

	As Previously Reported	Effect of Accounting Change	As Adjusted
Cost of products sold	\$ 1,626.5	\$ (0.1)	\$ 1,626.4
Selling, general, and administrative expenses	377.4	(1.9)	375.5
Operating income	218.1	2.0	220.1
Other income (expense), net	9.1	(2.0)	7.1

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)

Table of Contents

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 nine months ended September 30, 2018 and 2017, restricted cash balances of \$1.3 million and \$3.3 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.

Table of Contents

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. The Company will adopt ASU 2017-04 on October 1, 2018 in conjunction with the Company's annual goodwill impairment test. The Company currently does not expect the adoption of ASU 2017-04 to materially impact the Company's results of operations and financial condition in the current year.

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 cumulative-effect adjustment 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 continuing to advance in 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 and Divestitures*

The Company completed three acquisitions in 2018. On September 18, 2018,

September 1, 2018,

On

more information on the acquisition of ABC Bearings.

refer to *Note 8 - Equity* for

acquired of \$30.1 million, was \$831.4 million. The Company i million
 \$270 million purchase price for these acquisitions, net of cash of \$7.3 million
 2018 acquisitions are subject to post-closing purchase price allocation adjustments. Based on markets and customers served, substantially all of the results for Rollon and Cone Drive are reported in the Process Industries segment and substantially all of the results for ABC Bearings are reported in the Mobile Industries segment.

The following table presents the preliminary purchase price allocation at fair value related to the 2018 acquisitions at the date of acquisition:

	Preliminary Purchase Price Allocation
Assets:	
Accounts receivable, net	\$ 43.3
Inventories, net	58.3
Other current assets	7.2
Property, plant and equipment, net	68.3
Goodwill	468.2
Other intangible assets	366.0
Other non-current assets	18.8
Total assets acquired	\$ 1,030.1
Liabilities:	
Accounts payable, trade	\$ 34.5
Salaries, wages and benefits	9.2
Income taxes payable	1.6
Other current liabilities	9.2
Short-term debt	1.8
Long-term debt	1.7
Accrued pension cost	7.0
Accrued postretirement benefits cost	11.8
Deferred income taxes	113.0
Other non-current liabilities	8.9
Total liabilities assumed	\$ 198.7
Net assets acquired	\$ 831.4

Table of Contents

The following table summarizes the preliminary purchase price allocation for identifiable intangible assets acquired in 2018:

	Preliminary Purchase Price Allocation	Weighted - Average Life
Trade names (indefinite life)	\$47.4	Indefinite
Trade names (finite life)	1.8	15 years
Technology and know-how	127.2	17 years
Customer relationships	189.6	19 years
Total intangible assets	\$366.0	

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:

	Preliminary 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

Divestiture:

On September 19, 2018, the Company completed the sale of Groeneveld Information Technology Holding B.V. (the "ICT Business"), located in Gorinchem, Netherlands. The Company acquired the business in July 2017 as part of the Groeneveld acquisition. The ICT Business is separate from the Groeneveld lubrications solutions business and had sales of approximately \$15 million for the twelve months ended September 30, 2018.

Table of Contents*Note 4 - Inventories*

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

	September 30,	December 31,
	2018	2017
Manufacturing supplies	\$ 32.1	\$ 29.0
Raw materials	109.2	90.4
Work in process	290.6	245.2
Finished products	454.2	404.3
Subtotal	886.1	768.9
Allowance for obsolete and surplus inventory	(45.1	) (30.0
Total Inventories, net	\$ 841.0	\$ 738.9

Inventories are valued at net realizable value, with approximately 56% valued by the first-in, first-out ("FIFO") method and the remaining 44% 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 September 30, 2018 and December 31, 2017 were \$172.4 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 nine months ended September 30, 2018 were as follows:

	Mobile Industries	Process Industries	Total
Beginning balance	\$ 254.3	\$ 257.5	\$511.8
Acquisitions	16.2	448.8	465.0
Divestiture	(5.1	)—	(5.1)
Foreign currency translation adjustments and other changes	(6.2	) (0.1	) (6.3)
Ending balance	\$ 259.2	\$ 706.2	\$965.4

The \$16.2 million addition from acquisitions for the Mobile Industries segment resulted primarily from the ABC Bearings acquisition goodwill of \$19.4 million, partially offset by certain measurement period adjustments of \$3.2 million recorded in 2018 for the 2017 acquisitions. In addition, goodwill for the Mobile Industries segment was reduced by \$5.1 million as a result of the divestiture of the ICT Business. The Cone Drive and Rollon acquisitions added \$448.8 million of goodwill to the Process Industries segment. The Company does not expect the goodwill from the 2018 acquisitions to be tax deductible, but it is still evaluating the tax deductibility of goodwill from the ABC Bearings acquisition. Refer to *Note 3 - Acquisitions and Divestitures* for further information.

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

	Balance at September 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	\$503.3	\$ 119.1	\$384.2	\$324.6	\$ 103.0	\$221.6
Technology and know-how	254.0	39.3	214.7	128.7	33.8	94.9
Trade names	9.5	4.7	4.8	8.6	4.3	4.3
Capitalized software	262.8	233.9	28.9	261.5	226.5	35.0
Other	9.6	5.9	3.7	10.3	6.2	4.1
	\$1,039.2	\$ 402.9	\$636.3	\$733.7	\$ 373.8	\$359.9
Intangible assets not subject to amortization:						
Trade names	\$98.1		\$98.1	\$52.0		\$52.0
FAA air agency certificates	8.7		8.7	8.7		8.7
	\$106.8		\$106.8	\$60.7		\$60.7
Total intangible assets	\$1,146.0	\$ 402.9	\$743.1	\$794.4	\$ 373.8	\$420.6

Amortization expense for intangible assets was \$32.4 million and \$29.2 million for the nine months ended September 30, 2018 and 2017, respectively. Amortization expense for intangible assets is projected to be \$44.5 million in 2018; \$51.9 million in 2019; \$47.7 million in 2020; \$44.2 million in 2021; and \$40.1 million in 2022.

Table of Contents*Note 6 - Financing Arrangements*

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

	September 30, 2018	December 31, 2017
Variable-rate Accounts Receivable Facility with an interest rate of 2.15% at December 31, 2017	\$ —	\$ 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 0.33% to 9.45% at September 30, 2018 and 0.32% to 2.22% at December 31, 2017	37.0	42.5
Short-term debt	\$ 37.0	\$ 105.4

On September 28, 2018, the Company extended the maturity date of its \$100 million Amended and Restated Asset Securitization Agreement (the "Accounts Receivable Facility") to November 30, 2021. 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 September 30, 2018. As of September 30, 2018, there were outstanding borrowings of \$93.2 million under the Accounts Receivable Facility, which reduced the availability under this facility to \$6.8 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 lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to \$284.5 million in the aggregate. Most of these lines of credit are uncommitted. At September 30, 2018, the Company's foreign subsidiaries had borrowings outstanding of \$37.0 million and bank guarantees of \$0.5 million, which reduced the aggregate availability under these facilities to \$247.0 million.

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

	September 30, 2018	December 31, 2017
Fixed-rate Medium-Term Notes, Series A ⁽¹⁾ , 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 ⁽¹⁾ , maturing on September 1, 2024, with an interest rate of 3.875%	347.5	346.9
Variable-rate Senior Credit Facility with a weighted-average interest rate of 2.43% at September 30, 2018 and 1.83% at December 31, 2017	65.2	52.0
Variable-rate Accounts Receivable Facility with an interest rate of 3.05% at September 30, 2018	93.2	—
Fixed-rate Euro Senior Unsecured Notes ⁽¹⁾ , maturing on September 7, 2027, with an interest rate of 2.02%	173.4	179.3
Variable-rate Euro Term Loan ⁽¹⁾ with an interest rate of 1.13% at September 30, 2018 and December 31, 2017	108.3	119.7
Fixed-rate Senior Unsecured Notes ⁽¹⁾ , maturing on December 15, 2028, with an interest rate of 4.50%	396.0	—
Variable-rate Term Loan ⁽¹⁾ with an interest rate of 3.38% at September 30, 2018	349.2	—
Other	5.7	4.5
	1,693.1	856.9
Less: Current maturities	11.4	2.7

Long-term debt

\$ 1,681.7 \$ 854.2⁽¹⁾ *Net of discounts and fees*

The Company has a \$500 million Amended and Restated Credit Agreement ("Senior Credit Facility"), which matures on June 19, 2020. At September 30, 2018, the Company had \$65.2 million of outstanding borrowings under the Senior Credit Facility, which reduced the availability under this facility to \$434.8 million. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2018, the Company was in full compliance with both of these covenants.

Table of Contents

On September 6, 2018, the Company issued \$400 million aggregate principal amount of fixed-rate 4.50% senior unsecured notes that mature on December 15, 2028 (the "2028 Notes"). On September 11, 2018, the Company entered into a \$350 million variable-rate term loan that matures on September 11, 2023 (the "2023 Term Loan"). Proceeds from the 2028 Notes and the 2023 Term Loan were used to fund the acquisitions of Cone Drive and Rollon, which closed on September 1, 2018 and September 18, 2018, respectively.

On September 7, 2017, the Company issued €150 million aggregate principal amount 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 (the "2020 Term Loan"). On June 14, 2018, the Company repaid €6.5 million under the 2020 Term Loan, reducing the principal balance to €93.5 million as of September 30, 2018. Proceeds from the 2027 Notes and the 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.

All of these debt instruments, except the 2028 Notes, 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 September 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 \$5.6 million and \$5.0 million for various known environmental matters that are probable and reasonably estimable as of September 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 nine months ended September 30, 2018 and the twelve months ended December 31, 2017:

	September 30, December 31,	
	2018	2017
Beginning balance, January 1	\$ 5.8	\$ 6.9
Additions	3.3	2.7
Payments	(1.6	) (3.8
Ending balance	\$ 7.5	\$ 5.8

The product warranty liability at September 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 nine months ended September 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	244.7			242.8			1.9
Foreign currency translation adjustment	(62.5	)			(53.8	)	(8.7
Change in fair value of derivative financial instruments, net of reclassifications	4.0				4.0		
Shares issued for the acquisition of ABC Bearings	66.0		30.9				35.1
Dividends – \$0.83 per share	(64.2	)		(64.2)		
Stock-based compensation	25.5		25.5				
Stock purchased at fair market value	(63.0	)				(63.0)
Stock option exercise activity	12.7		(3.7	)		16.4	
Restricted share activity	—		(11.4	)		11.4	
Shares surrendered for taxes	(5.4	)				(5.4)
Balance at September 30, 2018	\$1,640.4	\$53.1	\$945.1	\$1,595.4	\$ (88.8	) \$(924.9)	\$ 60.5

On August 30, 2018, the Company's majority-owned subsidiary, Timken India, issued 7.2 million shares to complete the acquisition of ABC Bearings. The fair value of the shares issued was \$66.0 million. The issuance of shares diluted the Company's controlling interest in Timken India from 75% to 67.8%. Refer to *Note 3 - Acquisitions and Divestitures* for more information on the preliminary purchase accounting for the acquisition of ABC Bearings.

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 nine months ended September 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 June 30, 2018	\$ (70.4)	\$ (0.4)	\$ 0.9	\$(69.9)
Other comprehensive (loss) income before reclassifications and income taxes	(24.2)	—	1.0	(23.2)
Amounts reclassified from accumulated other comprehensive (loss) income, before income tax	—	—	(1.5)	(1.5)
Income tax expense	—	—	0.1	0.1
Net current period other comprehensive loss, net of income taxes	(24.2)	—	(0.4)	(24.6)
Noncontrolling interest	5.7	—	—	5.7
Net current period comprehensive loss, net of income taxes and noncontrolling interest	(18.5)	—	(0.4)	(18.9)
Balance at September 30, 2018	\$ (88.9)	\$ (0.4)	\$ 0.5	\$(88.8)
	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	(62.5)	—	5.0	(57.5)
Amounts reclassified from accumulated other comprehensive (loss) income, before income tax	—	—	0.3	0.3
Income tax benefit	—	—	(1.3)	(1.3)
Net current period other comprehensive (loss) income, net of income taxes	(62.5)	—	4.0	(58.5)
Noncontrolling interest	8.7	—	—	8.7
Net current period comprehensive (loss) income, net of income taxes, noncontrolling interest and cumulative effect of accounting change	(53.8)	(0.1)	3.4	(50.5)
Balance at September 30, 2018	\$ (88.9)	\$ (0.4)	\$ 0.5	\$(88.8)

Table of Contents

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at June 30, 2017	\$ (49.9)	\$ 1.6	\$ (1.8)	\$(50.1)
Other comprehensive income (loss) before reclassifications and income taxes	10.9	—	(4.0)	6.9
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.1	0.9	1.0
Income tax expense	—	—	1.1	1.1
Net current period other comprehensive income (loss), net of income taxes	10.9	0.1	(2.0)	9.0
Noncontrolling interest	0.1	—	—	0.1
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	11.0	0.1	(2.0)	9.1
Balance at September 30, 2017	\$ (38.9)	\$ 1.7	\$ (3.8)	\$(41.0)
	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	42.8	—	(7.1)	35.7
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.3	0.4	0.7
Income tax expense (benefit)	—	(0.1)	2.5	2.4
Net current period other comprehensive income (loss), net of income taxes	42.8	0.2	(4.2)	38.8
Noncontrolling interest	(1.9)	—	—	(1.9)
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	40.9	0.2	(4.2)	36.9
Balance at September 30, 2017	\$ (38.9)	\$ 1.7	\$ (3.8)	\$(41.0)

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 nine months ended September 30, 2018 and 2017, respectively:

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
Numerator:								
Net income attributable to The Timken Company	\$71.6	\$ 53.5	\$242.8	\$ 174.2				
Less: undistributed earnings allocated to nonvested stock	—	—	—	—				
Net income available to common shareholders for basic and diluted earnings per share	\$71.6	\$ 53.5	\$242.8	\$ 174.2				
Denominator:								
Weighted average number of shares outstanding - basic	76,903,395	74,974,777	77,332,209	76,828,209				
Effect of dilutive securities:								
Stock options and awards - based on the treasury stock method	1,524,710	9,322	1,313,294	23,102				
Weighted average number of shares outstanding, assuming dilution of stock options and awards	78,428,105	74,296,099	78,645,503	76,851,311				
Basic earnings per share	\$0.93	\$ 0.69	\$3.14	\$ 2.24				
Diluted earnings per share	\$0.91	\$ 0.68	\$3.09	\$ 2.21				

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 September 30, 2018 and 2017 were 923,588 and 473,694, respectively. During the nine months ended September 30, 2018 and 2017, the antidilutive stock options outstanding were 852,318 and 529,020, 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 nine months ended September 30, 2018 and 2017, respectively:

	Three Months Ended September 30, 2018			September 30, 2017		
	Mobile	Process	Total	Mobile	Process⁽¹⁾	Total⁽¹⁾
United States	\$255.3	\$192.9	\$448.2	\$231.6	\$163.0	\$394.6
Americas excluding United States	51.6	42.9	94.5	48.1	37.5	85.6
Europe / Middle East / Africa	89.3	86.0	175.3	84.2	70.7	154.9
Asia-Pacific	68.0	95.3	163.3	58.9	77.4	136.3
Net sales	\$464.2	\$417.1	\$881.3	\$422.8	\$348.6	\$771.4
	Nine Months Ended September 30, 2018			September 30, 2017		
	Mobile	Process	Total	Mobile⁽¹⁾	Process⁽¹⁾	Total⁽¹⁾
United States	\$774.4	\$561.5	\$1,335.9	\$707.2	\$490.0	\$1,197.2
Americas excluding United States	160.3	132.0	292.3	133.3	110.0	243.3
Europe / Middle East / Africa	292.5	266.4	558.9	213.8	196.7	410.5

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Asia-Pacific	214.6	269.0	483.6	159.9	214.9	374.8
Net sales	\$1,441.8	\$1,228.9	\$2,670.7	\$1,214.2	\$1,011.6	\$2,225.8

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

Table of Contents

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 nine months ended September 30, 2018:

	Nine Months Ended September 30, 2018
Revenue by sales channel	
Original equipment manufacturers	58%
Distribution/end users	42%

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 nine months ended September 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 2% 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 \$146 million at September 30, 2018.

Unbilled Receivables:

The following table contains a rollforward of unbilled receivables for the nine months ended September 30, 2018:

	September 30, 2018
Beginning balance, January 1	\$ 100.5
Additional unbilled revenue recognized	229.1
Less: amounts billed to customers	(192.3)
Ending balance	\$ 137.3

There were no impairment losses recorded on unbilled receivables for the nine months ended September 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 September 30, 2018		Nine Months Ended September 30, 2017	
Net sales:				
Mobile Industries	\$464.2	\$422.8	\$1,441.8	\$1,214.2
Process Industries	417.1	348.6	1,228.9	1,011.6
Net sales	\$881.3	\$771.4	\$2,670.7	\$2,225.8
Segment EBIT:				
Mobile Industries	\$50.6	\$35.0	\$156.2	\$102.0
Process Industries	81.8	61.7	254.0	166.0
Total EBIT, for reportable segments	\$132.4	\$96.7	\$410.2	\$268.0
Corporate expenses	(17.9)	(12.1)	(47.2)	(36.4)
Pension-related charges	(5.3)	—	(3.1)	(4.4)
Interest expense	(12.5)	(10.1)	(33.2)	(26.5)
Interest income	0.6	0.7	1.5	2.0
Income before income taxes	\$97.3	\$75.2	\$328.2	\$202.7

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 nine months ended September 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 September 30, 2018	2017	Three Months Ended September 30, 2018	2017	Three Months Ended September 30, 2018	2017
Components of net periodic benefit cost:						
Service cost	\$3.3	\$3.1	\$0.4	\$0.4	\$3.7	\$3.5
Interest cost	6.0	6.2	1.8	1.9	7.8	8.1
Expected return on plan assets	(7.6)	(7.0)	(2.9)	(2.9)	(10.5)	(9.9)
Amortization of prior service cost	0.4	0.3	0.1	0.1	0.5	0.4
Recognition of actuarial losses	4.8	—	—	—	4.8	—
Net periodic benefit cost	\$6.9	\$2.6	\$(0.6)	\$(0.5)	\$6.3	\$2.1

Table of Contents

	U.S. Plans		International Plans		Total	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017	2018	2017
Components of net periodic benefit cost:						
Service cost	\$9.7	\$9.2	\$1.2	\$1.2	\$10.9	\$10.4
Interest cost	17.7	18.5	5.5	5.6	23.2	24.1
Expected return on plan assets	(22.2)	(21.0)	(8.8)	(8.3)	(31.0)	(29.3)
Amortization of prior service cost	1.2	1.0	0.1	0.1	1.3	1.1
Recognition of actuarial losses	2.4	4.4	—	—	2.4	4.4
Net periodic benefit cost	\$8.8	\$12.1	\$(2.0)	\$(1.4)	\$6.8	\$10.7

During the three and nine months ended September 30, 2018, the Company recognized actuarial losses of \$4.8 million and \$2.4 million, respectively. During the nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$—	\$—	\$0.1	\$0.1
Interest cost	1.9	2.3	5.6	6.8
Expected return on plan assets	(0.9)	(1.4)	(2.8)	(4.2)
Amortization of prior service credit	(0.4)	(0.3)	(1.2)	(0.8)
Net periodic benefit cost	\$0.6	\$0.6	\$1.7	\$1.9

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 September 30, 2018		Nine Months Ended September 30, 2017	
Provision for income taxes	\$25.0	\$21.1	\$83.5	\$28.5
Effective tax rate	25.7	%28.1	%25.4	%14.1

The income tax expense for the three and nine months ended September 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 25.7% for the three months ended September 30, 2018 is lower than the three months ended September 30, 2017 primarily due to the reduction of the federal statutory rate from 35% to 21% from U.S. Tax Reform beginning in 2018, partially offset by other U.S. Tax Reform provisions that reduced certain federal income tax deductions and created new foreign income inclusions.

The effective tax rate of 25.4% for the nine months ended September 30, 2018 is higher than the nine months ended September 30, 2017 primarily due to the reversal of accruals for uncertain tax positions in 2017 along with U.S. Tax Reform impacts in 2018 that reduced certain federal income tax deductions and created new foreign income inclusions. This was partially offset by the reduced federal statutory rate from 35% to 21% beginning in 2018.

U.S. Tax Reform was enacted on December 22, 2017 and significantly revised U.S. corporate income tax law, including reducing the U.S. federal statutory rate from 35% to 21%. U.S. Tax Reform 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. In addition, on December 22, 2017, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 118 ("SAB 118") 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 September 30, 2018; however, provisional 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. For the nine months ended September 30, 2018, the Company recorded \$1.9 million of tax benefit for remeasurement of net U.S. deferred tax balances as a result of additional federal and state regulatory guidance issued, for adjustments to finalize the purchase accounting for Groeneveld and adjustments to provisional estimates of U.S. deferred tax assets included in the 2017 U.S. federal income tax return. Over the same period, the Company recorded \$2.5 million of tax expense for changes in the provisional estimate of the 2017 one-time net charge related to the taxation of unremitted foreign

earnings as a result of additional federal and state regulatory guidance issued and the filing of the Company's 2017 U.S. federal income tax return.

The Company continues to analyze the effects of U.S. Tax Reform during the one-year SAB 118 measurement period and the final conclusions may materially differ from the provisional estimates. Additional information including refined computations and evaluation of future treasury regulations, tax law technical corrections and other notices and rulings are still needed to prepare a more complete analysis related to the provisional estimates. Subsequent adjustments to the Company's provisional estimates will be recorded in current tax expense in the fourth quarter of 2018 when the analysis is complete.

Table of Contents

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 September 30, 2018, given the complexity of the GILTI provisions, the Company is still evaluating the effects and determining projections of future taxable income that are 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.

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 will continue to evaluate the need to change its indefinite reinvestment assertion and 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 September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$132.4	\$130.9	\$ 1.5	\$ —
Cash and cash equivalents measured at net asset value	21.3			
Restricted cash	1.3	1.3	—	—
Short-term investments	16.5	2.1	14.4	—
Short-term investments measured at net asset value	0.1			
Foreign currency hedges	6.3	—	6.3	—
Total Assets	\$177.9	\$134.3	\$ 22.2	\$ —
Liabilities:				
Foreign currency hedges	\$1.1	\$—	\$ 1.1	\$ —
Total Liabilities	\$1.1	\$—	\$ 1.1	\$ —

Table of Contents

	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	\$ —

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.

Additionally, the Company remeasures certain assets to fair value, using Level 3 measurements, as a result of the occurrence of triggering events such as purchase accounting for acquisitions. See *Note 3 - Acquisitions and Divestitures* for further discussion.

No other material assets were measured at fair value on a nonrecurring basis during the nine months ended September 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 \$1,080.2 million and \$720.3 million at September 30, 2018 and December 31, 2017, respectively. The carrying value of this debt was \$1,073.6 million and \$682.4 million at September 30, 2018 and December 31, 2017, respectively. The fair value of long-term fixed-rate debt was measured using Level 2 inputs.

Table of Contents

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 September 30, 2018 and December 31, 2017, the Company had \$347.6 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.

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 September 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.

27

Table of Contents

	Asset Derivatives September		Liability Derivatives September	
	December 30, 2017		December 30, 2017	
Derivatives designated as hedging instruments:				
Foreign currency forward contracts	\$ 3.4	\$ 0.5	\$ 0.3	\$ 2.1
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	2.9	0.8	0.8	5.0
Total Derivatives	\$ 6.3	\$ 1.3	\$ 1.1	\$ 7.1

The following tables present the impact of derivative instruments for the three and nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Derivatives in cash flow hedging relationships:				
Foreign currency forward contracts	\$1.0	\$(1.6)	\$5.0	\$(4.7)
Interest rate swaps	—	(2.4)	—	(2.4)
Total	\$1.0	\$(4.0)	\$5.0	\$(7.1)

	Amount of gain or (loss) reclassified from Accumulated Other Comprehensive Loss into income (effective portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Derivatives in cash flow hedging relationships:				
Foreign currency forward contracts	\$1.6	\$(0.9)	\$0.2	\$(0.2)
Interest rate swaps	(0.1)	—	(0.5)	(0.2)
Total	\$1.5	\$(0.9)	\$(0.3)	\$(0.4)

Amount of gain or
(loss) recognized in
income

		Three Months Ended September 30,	Nine Months Ended September 30,
Derivatives not designated as hedging instruments:	Location of gain or (loss) recognized in income	2018	2017
Foreign currency forward contracts	Other income (expense), net	\$(0.8)	\$2.7
		\$6.4	\$(5.6)

Table of Contents**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, gear drives, automated lubrication systems, belts, chain, couplings, industrial clutches and brakes and linear motion products and offers a spectrum of powertrain rebuild and repair services. The leading authority on tapered roller bearings, Timken today applies its deep knowledge of metallurgy, tribology and power transmission across a variety of bearings and related systems to improve the reliability and efficiency of machinery and equipment all around the world. The Company's growing product and services portfolio features many strong industrial brands, such as Timken®, Fafnir®, Philadelphia Gear®, Lovejoy®, Groeneveld®, Rollon® and Cone Drive®. Known for its quality products and collaborative technical sales model, Timken posted \$3 billion in sales in 2017. With more than 17,000 employees operating from 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 power generation and renewable energy sources; oil and gas extraction and refining; pulp and paper and food processing; automation and robotics; 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.

Table of Contents

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 other 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.

Table of Contents

the Company completed the acquisition of Rollon, a leader in engineered linear motion products, specializing in the design and manufacture of linear guides, telescopic rails and linear actuators used in a wide range of attractive applications such as passenger rail, aerospace, packaging and logistics, medical and automation. Rollon, located near Milan, Italy, has manufacturing operations in Italy, Germany and the U.S. with expected annual sales of approximately \$140 million.

On September 1, 2018, the Company completed the acquisition of Cone Drive, a leader in precision drives used in diverse markets including solar, automation, aerial platforms and food and beverage. Cone Drive, located in Traverse City, Michigan, operates in the U.S. and China with expected annual sales of approximately \$100 million.

On August 30, 2018, the Company

y \$30 million

Table of Contents**Overview:**

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$881.3	\$ 771.4	\$ 109.9	14.2 %
Net income	72.3	54.1	18.2	33.6 %
Net income attributable to noncontrolling interest	0.7	0.6	0.1	16.7 %
Net income attributable to The Timken Company	\$71.6	\$ 53.5	\$ 18.1	33.8 %
Diluted earnings per share	\$0.91	\$ 0.68	\$ 0.23	33.8 %
Average number of shares – diluted	78,428,785	78,042,296	—	(0.5)%
	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$2,670.7	\$ 2,225.8	\$ 444.9	20.0 %
Net income	244.7	174.2	70.5	40.5 %
Net income attributable to noncontrolling interest	1.9	—	1.9	NM
Net income attributable to The Timken Company	\$242.8	\$ 174.2	\$ 68.6	39.4 %
Diluted earnings per share	\$3.09	\$ 2.21	\$ 0.88	39.8 %
Average number of shares – diluted	78,645,503	78,889,930	—	(0.3)%

The increase in net sales for the third quarter of 2018 compared with the third quarter of 2017 was primarily due to organic revenue growth driven by improved end-market demand, the impact of higher pricing and the benefit of acquisitions, primarily offset by the unfavorable impact of foreign currency exchange rate changes. The increase in net income for the third quarter of 2018 compared with the third quarter of 2017 was primarily due to improved performance across the business, driven by the impact of higher volume and favorable price/mix, partially offset by higher material and logistics costs (including tariffs), higher pension actuarial losses ("mark-to-market charges") and higher acquisition-related charges.

The increase in net sales for the first nine months of 2018 compared with the first nine months of 2017 was primarily due to organic revenue growth driven by improved end-market demand, the benefit of acquisitions and the favorable impact of foreign currency exchange rate changes. The change in net income for the first nine months of 2018 compared with the first nine 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 and the net benefit of acquisitions. These factors were partially offset by the impact of higher material and logistics costs (including tariffs), as well as higher SG&A, income tax and interest expenses.

Outlook:

The Company expects 2018 full-year sales to increase approximately 19.5% compared with 2017 primarily due to increased demand across most end-market sectors and the benefit of acquisitions, including the recently completed ABC Bearings, Cone Drive and Rollon acquisitions. 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, the benefit of acquisitions, improved manufacturing performance, and the impact of lower mark-to-market charges, partially offset by higher material, logistics and SG&A costs, as well as higher income tax and interest expenses. The 2018 outlook does not account for mark-to-market charges that will be recognized in the fourth quarter of 2018 because the amount will not be known until incurred.

The Company expects to generate operating cash of approximately \$375 million in 2018, an increase from 2017 of approximately \$138 million or 58%. The Company expects capital expenditures of approximately \$115 million in 2018, compared with \$105 million in 2017.

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

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net Sales	\$881.3	\$771.4	\$ 109.9	14.2 %
	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net Sales	\$2,670.7	\$2,225.8	\$ 444.9	20.0 %

Net sales increased for the third quarter of 2018 compared with the third quarter of 2017, primarily due to higher organic revenue of \$106 million and the benefit of acquisitions of \$18 million, partially offset by the unfavorable impact of foreign currency exchange rate changes of \$14 million. The increase in organic revenue was driven by improved demand across most of the Company's end-market sectors, as well as the impact of higher pricing.

Net sales increased for the first nine months of 2018 compared with the first nine months of 2017, primarily due to higher organic revenue of \$326 million, the benefit of acquisitions of \$99 million and the favorable impact of foreign currency exchange rate changes of \$21 million. The increase in organic revenue was driven by improved demand across most of the Company's end-market sectors, as well as the impact of higher pricing.

Gross Profit:

	Three Months Ended September 30,			
	2018	2017	\$ Change	Change
Gross profit	\$253.3	\$216.1	\$ 37.2	17.2%
Gross profit % to net sales	28.7	%28.0	%	70 bps
	Nine Months Ended September 30,			
	2018	2017	\$ Change	Change
Gross profit	\$785.6	\$599.4	\$ 186.2	31.1%
Gross profit % to net sales	29.4	%26.9	%	250 bps

Gross profit increased in the third quarter of 2018 compared with the third quarter of 2017, primarily due to the impact of higher volume of \$36 million, favorable price/mix of \$9 million and the benefit of acquisitions of \$6 million. These factors were partially offset by higher material and logistics costs of \$12 million (including tariffs).

Gross profit increased in the first nine months of 2018 compared with the first nine months of 2017, primarily due to the impact of higher volume of \$113 million, favorable price/mix of \$45 million, the benefit of acquisitions of \$39 million, and improved manufacturing performance of \$19 million. These factors were partially offset by higher material and logistics costs of \$33 million (including tariffs).

Table of Contents**Selling, General and Administrative Expenses:**

	Three Months Ended September 30,			
	2018	2017	\$ Change	Change
Selling, general and administrative expenses	\$142.0	\$134.0	\$ 8.0	6.0%
Selling, general and administrative expenses % to net sales	16.1	%17.4	%	(130) bps

	Nine Months Ended September 30,			
	2018	2017	\$ Change	Change
Selling, general and administrative expenses	\$432.4	\$375.5	\$ 56.9	15.2%
Selling, general and administrative expenses % to net sales	16.2	%16.9	%	(70) bps

The increase in SG&A expenses in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 was primarily due to the impact of acquisitions of \$7 million and \$26 million, respectively, higher incentive compensation expenses and other spending increases to support the current level of business activity.

Interest Income and Expense:

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Interest expense	\$(12.5)	\$(10.1)	\$(2.4)	23.8 %
Interest income	\$0.6	\$0.7	\$ (0.1)	(14.3)%

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Interest expense	\$(33.2)	\$(26.5)	\$(6.7)	25.3 %
Interest income	\$1.5	\$2.0	\$ (0.5)	(25.0)%

The increase in interest expense in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 was primarily due to an increase in outstanding debt to fund the acquisitions of Groeneveld, Rollon and Cone Drive.

Table of Contents**Other Income (Expense):**

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Other income, net	\$ 0.5	\$ 3.8	\$ (3.3)	(86.8)%

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Other income, net	\$ 9.8	\$ 7.1	\$ 2.7	38.0 %

The decrease in other income, net for the third quarter of 2018 compared with the third quarter of 2017 was primarily due to higher mark-to-market charges of \$4.8 million recognized in the third quarter of 2018, partially offset by higher foreign currency exchange gains of \$2.5 million. The increase in other income, net for the first nine months of 2018 compared with the first nine months of 2017 was primarily due to lower mark-to-market charges of \$2.0 million. Refer to *Note 13 - Retirement Benefit Plans* for more information. 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 September 30,			
	2018	2017	\$ Change	% Change
Provision for income taxes	\$25.0	\$21.1	\$ 3.9	18.5 %
Effective tax rate	25.7 %	28.1 %		(240) bps

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Provision for income taxes	\$83.5	\$28.5	\$ 55.0	193.0%
Effective tax rate	25.4 %	14.1 %		NM

Income tax expense increased \$4 million for the third quarter of 2018 compared with the third quarter of 2017 primarily due to higher pre-tax earnings and U.S. Tax Reform regulations which reduced certain federal income tax deductions and created new foreign income inclusions. This was partially offset by the reduced U.S. federal statutory rate from 35% to 21% beginning in 2018.

Income tax expense increased \$55 million for the first nine months of 2018 compared with the first nine 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 due to higher pre-tax earnings and U.S. Tax Reform regulations which reduced certain federal income tax deductions and created new foreign income inclusions. This was partially offset by the reduced U.S. federal statutory rate from 35% to 21% beginning in 2018.

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

35

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* 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 2018 and 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 and the first nine months of 2018 by segment based on the customers and underlying markets served:

The Company acquired ABC Bearings, Cone Drive and Rollon during the third quarter of 2018.

Substantially all of the results for ABC Bearings are reported in the Mobile Industries segment.

Substantially all of the results for Cone Drive and Rollon are reported in the Process Industries segment.

The Company acquired Groeneveld during the third quarter of 2017. Substantially all of the results for Groeneveld are reported in the Mobile Industries segment.

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 September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$464.2	\$422.8	\$ 41.4	9.8 %
EBIT	\$50.6	\$35.0	\$ 15.6	44.6%
EBIT margin	10.9	%8.3	%	260 bps

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$464.2	\$422.8	\$ 41.4	9.8 %
Less: Acquisitions	3.5	—	3.5	NM
Currency	(7.8)	—	(7.8)	NM
Net sales, excluding the impact of acquisitions and currency	\$468.5	\$422.8	\$ 45.7	10.8 %

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$1,441.8	\$1,214.2	\$ 227.6	18.7%
EBIT	\$156.2	\$102.0	\$ 54.2	53.1%
EBIT margin	10.8	%8.4	%	240 bps

Table of Contents

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$1,441.8	\$1,214.2	\$ 227.6	18.7 %
Less: Acquisitions	77.3	—	77.3	NM
Currency	6.9	—	6.9	NM
Net sales, excluding the impact of acquisitions and currency	\$1,357.6	\$1,214.2	\$ 143.4	11.8 %

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$46 million or 10.8% in the third quarter of 2018 compared with the third quarter of 2017, reflecting organic growth in the automotive, aerospace, off-highway and heavy truck sectors. EBIT increased by \$16 million or 44.6% in the third quarter of 2018 compared with the third quarter of 2017, primarily due to higher volume of \$15 million and favorable price/mix. These factors were partially offset by higher material and logistics costs of \$7 million.

The Mobile Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$143 million or 11.8% in the first nine months of 2018 compared with the first nine months of 2017, reflecting organic growth across all market sectors. EBIT increased by \$54 million or 53.1% in the first nine months of 2018 compared with the first nine months of 2017, primarily due to higher volume of \$46 million, improved manufacturing performance of \$12 million, the benefit of acquisitions of \$11 million, favorable price/mix of \$11 million and lower restructuring charges of \$8 million. These factors were partially offset by higher material and logistics costs of \$20 million and higher SG&A expenses of \$11 million.

Full-year sales for the Mobile Industries segment are expected to be up approximately 16% in 2018 compared with 2017. This reflects expected growth across most end-market sectors, led by off-highway, rail and heavy truck, 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 costs.

Process Industries Segment:

	Three Months Ended September 30,			
	2018	2017	\$ Change	Change
Net sales	\$417.1	\$348.6	\$ 68.5	19.7%
EBIT	\$81.8	\$61.7	\$ 20.1	32.6%
EBIT margin	19.6	%17.7	%	190 bps

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$417.1	\$348.6	\$ 68.5	19.7 %
Less: Acquisitions	14.5	—	14.5	NM
Currency	(6.2)	—	(6.2)	NM
Net sales, excluding the impact of acquisitions and currency	\$408.8	\$348.6	\$ 60.2	17.3 %

	Nine Months Ended September 30,			
	2018	2017	\$ Change	Change
Net sales	\$1,228.9	\$1,011.6	\$ 217.3	21.5%

EBIT	\$254.0	\$166.0	\$ 88.0	53.0%
EBIT margin	20.7	%16.4	%	430 bps

37

Table of Contents

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Net sales	\$1,228.9	\$1,011.6	\$ 217.3	21.5 %
Less: Acquisitions	21.6	—	21.6	NM
Currency	13.7	—	13.7	NM
Net sales, excluding the impact of acquisitions and currency	\$1,193.6	\$1,011.6	\$ 182.0	18.0 %

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$60 million or 17.3% in the third quarter of 2018 compared with the third quarter of 2017. The increase was primarily driven by increased demand across the industrial sectors, including original equipment, services and distribution, as well as higher pricing. EBIT increased \$20 million or 32.6% in the third quarter of 2018 compared with the third quarter of 2017 primarily due to the impact of higher volume of \$23 million and favorable price/mix of \$5 million. These factors were partially offset by higher material and logistics costs of \$5 million (including tariffs) and higher SG&A expenses.

The Process Industries segment's net sales, excluding the effects of acquisitions and foreign currency exchange rate changes, increased \$182 million or 18.0% in the first nine months of 2018 compared with the first nine months of 2017. The increase was primarily driven by increased demand across the industrial sectors, including original equipment, distribution and services, as well as higher pricing. EBIT increased \$88 million or 53.0% in the first nine months of 2018 compared with the first nine months of 2017 primarily due to the impact of higher volume of \$68 million, favorable price/mix of \$34 million, improved manufacturing performance of \$7 million and the impact of foreign currency exchange rate changes. These factors were partially offset by higher material and logistics costs of \$11 million (including tariffs) and higher SG&A expenses of \$14 million.

Full-year sales for the Process Industries segment are expected to be up approximately 24% in 2018 compared with 2017. This reflects expected growth across most industrial sectors, including distribution, original equipment and service sectors, as well as 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, improved manufacturing performance, and the impact of acquisitions, partially offset by higher SG&A expenses and higher material and logistics costs.

Corporate:

	Three Months Ended September 30,			
	2018	2017	\$ Change	Change
Corporate expenses	\$17.9	\$12.1	\$ 5.8	47.9%
Corporate expenses % to net sales	2.0	%1.6	%	40 bps

	Nine Months Ended September 30,			
	2018	2017	\$ Change	Change
Corporate expenses	\$47.2	\$36.4	\$ 10.8	29.7%
Corporate expenses % to net sales	1.8	%1.6	%	20 bps

Corporate expense increased in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 primarily due to the impact of acquisition-related costs.

Table of Contents**The Balance Sheet**

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

Current Assets:

	September 30,	December 31,	\$ Change	% Change	
	2018	2017			
Cash and cash equivalents	\$ 153.7	\$ 121.6	\$ 32.1	26.4	%
Restricted cash	1.3	3.8	(2.5)	(65.8))%
Accounts receivable, net	548.6	524.9	23.7	4.5	%
Unbilled receivables	137.3	—	137.3	NM	
Inventories, net	841.0	738.9	102.1	13.8	%
Deferred charges and prepaid expenses	28.4	29.7	(1.3)	(4.4))%
Other current assets	76.0	81.2	(5.2)	(6.4))%
Total current assets	\$ 1,786.3	\$ 1,500.1	\$ 286.2	19.1	%

Refer to the "Cash Flows" section for discussion on the change in Cash and cash equivalents. Accounts receivable increased primarily due to higher sales in September 2018 compared to December 2017 and current year acquisitions, partially offset by the reclassification of revenue recognized in excess of billings to Unbilled receivables under the new revenue standard and the impact of foreign currency exchange rate changes. Unbilled receivables 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 due to the impact of higher production to meet anticipated customer demand and \$56 million from the businesses acquired during the third quarter, partially offset by the impact of foreign currency exchange rate changes.

Property, Plant and Equipment, Net:

	September 30,	December 31,	\$ Change	% Change	
	2018	2017			
Property, plant and equipment	\$ 2,448.2	\$ 2,405.6	\$ 42.6	1.8	%
Less: accumulated depreciation	(1,561.4)	(1,541.4)	(20.0)	1.3)%
Property, plant and equipment, net	\$ 886.8	\$ 864.2	\$ 22.6	2.6	%

The increase in net property, plant and equipment in the first nine months of 2018 was primarily due to \$68 million from the businesses acquired during the third quarter and capital expenditures of \$59 million, partially offset by current-year depreciation of \$74 million and the impact of foreign currency exchange rate changes of \$30 million.

Other Assets:

	September 30,	December 31,	\$ Change	% Change	
	2018	2017			
Goodwill	\$ 965.4	\$ 511.8	\$ 453.6	88.6	%
Non-current pension assets	21.7	19.7	2.0	10.2	%
Other intangible assets	743.1	420.6	322.5	76.7	%
Deferred income taxes	52.3	61.0	(8.7)	(14.3))%
Other non-current assets	43.9	25.0	18.9	75.6	%
Total other assets	\$ 1,826.4	\$ 1,038.1	\$ 788.3	75.9	%

The increase in goodwill was primarily due to current-year acquisitions. The increase in other intangible assets was primarily due to current-year acquisitions of \$366 million, partially offset by current-year

amortization of \$32 million and the impact of foreign currency exchange rate changes of \$8 million.

39

Table of Contents**Current Liabilities:**

	September 30, 2018	December 31, 2017	\$ Change	% Change	
Short-term debt	\$ 37.0	\$ 105.4	\$ (68.4)	(64.9)%	
Current portion of long-term debt	11.4	2.7	8.7	322.2 %	
Accounts payable	282.8	265.2	17.6	6.6 %	
Salaries, wages and benefits	133.5	127.9	5.6	4.4 %	
Income taxes payable	19.2	9.8	9.4	95.9 %	
Other current liabilities	172.7	160.7	12.0	7.5 %	
Total current liabilities	\$ 656.6	\$ 671.7	\$ (15.1)	(2.2)%	

The decrease in short-term debt was primarily due to the reclassification of borrowings under the Company's Accounts Receivable Facility from short-term debt to long-term debt due to the recent renewal of the Accounts Receivable Facility for a period of three years (until November 30, 2021). The increase in accounts payable was primarily due to current-year acquisitions.

Non-Current Liabilities:

	September 30, 2018	December 31, 2017	\$ Change	% Change	
Long-term debt	\$ 1,681.7	\$ 854.2	\$ 827.5	96.9 %	
Accrued pension cost	171.6	167.3	4.3	2.6 %	
Accrued postretirement benefits cost	134.0	122.6	11.4	9.3 %	
Deferred income taxes	152.4	44.0	108.4	246.4 %	
Other non-current liabilities	62.8	67.7	(4.9)	(7.2)%	
Total non-current liabilities	\$ 2,202.5	\$ 1,255.8	\$ 946.7	75.4 %	

The increase in long-term debt was primarily due to the issuance of \$400 million aggregate principal amount of 2028 Notes and \$350 million of borrowings under the 2023 Term Loan used to finance the Rollon and Cone Drive acquisitions, as well as the reclassification of borrowings under the Company's Accounts Receivable Facility from short-term debt to long-term debt due to the recent renewal of this agreement for a period of three years (until November 30, 2021). The increase in accrued postretirement benefit costs is primarily due to the acquisition of Cone Drive of \$12 million. The increase in deferred income taxes is primarily due to the acquisitions of Rollon, Cone Drive and ABC Bearings.

Shareholders' Equity:

	September 30, 2018	December 31, 2017	\$ Change	% Change	
Common shares	\$ 998.2	\$ 956.9	\$ 41.3	4.3 %	
Earnings invested in the business	1,595.4	1,408.4	187.0	13.3 %	
Accumulated other comprehensive loss	(88.8)	(38.3)	(50.5)	131.9 %	
Treasury shares	(924.9)	(884.3)	(40.6)	4.6 %	
Noncontrolling interest	60.5	32.2	28.3	87.9 %	
Total shareholders' equity	\$ 1,640.4	\$ 1,474.9	\$ 165.5	11.2 %	

Earnings invested in the business in the first nine months of 2018 increased by net income attributable to the Company of \$243 million, partially offset by dividends declared of \$64 million. The increase in accumulated other comprehensive loss was primarily due to foreign currency adjustments of \$54 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 1,371,515 of its common shares for \$63 million, partially offset by \$22 million of net shares issued for stock compensation plans during the first nine months of 2018. The increase in noncontrolling interest was primarily due to the shares

issued for the acquisition of ABC Bearings. Refer to *Note 8 - Equity* for more information on the acquisition of ABC Bearings.

40

Table of Contents**Cash Flows**

	Nine Months Ended September 30,		
	2018	2017	\$ Change
Net cash provided by operating activities	\$195.0	\$142.9	\$ 52.1
Net cash used in investing activities	(810.3)	(407.4)	(402.9)
Net cash provided by financing activities	657.3	236.8	420.5
Effect of exchange rate changes on cash	(12.4)	16.6	(29.0)
Increase in cash, cash equivalents and restricted cash	\$29.6	\$(11.1)	\$ 40.7

Operating Activities:

Operating activities provided net cash of \$195 million in the first nine months of 2018, compared with \$143 million of net cash provided in the first nine months of 2017. The increase was primarily due to higher net income of \$71 million, the favorable impact of income taxes on cash of \$54 million and the impact of foreign currency exchange rate changes of \$22 million, partially offset by an increase in cash used for working capital items of \$122 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 nine months of 2018 and 2017, respectively:

	Nine Months Ended September 30,		
	2018	2017	\$ Change
Cash (Used) Provided:			
Accounts receivable	\$(65.7)	\$(61.6)	\$(4.1)
Unbilled receivables	(37.6)	—	(37.6)
Inventories	(94.3)	(85.4)	(8.9)
Trade accounts payable	(9.9)	55.7	(65.6)
Other accrued expenses	10.2	15.9	(5.7)
Cash used in working capital items	\$(197.3)	\$(75.4)	\$(121.9)

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

	Nine Months Ended September 30,		
	2018	2017	\$ Change
Accrued income tax expense	\$83.5	\$28.5	\$ 55.0
Income tax payments	(82.0)	(77.2)	(4.8)
Other miscellaneous items	0.2	(3.4)	3.6
Change in income taxes	\$1.7	\$(52.1)	\$ 53.8

Investing Activities:

Net cash used in investing activities of \$810 million in the first nine months of 2018 increased \$403 million from the same period in 2017 primarily due to the increase of \$418 million in cash used for acquisitions

when compared to the prior year, partially offset by \$14 million in cash proceeds from the

Financing Activities:

Net cash provided by financing activities was \$657 million in the first nine months of 2018 compared with \$237 million of net cash provided by financing activities in the first nine months of 2017. The increase in cash provided by financing activities was primarily due to an increase in net borrowings of \$452 million during the first nine months of 2018 compared with the first nine months of 2017, primarily needed to fund the Cone Drive and Rollon acquisitions in 2018, partially offset by an increase in cash used for share repurchases of \$22 million and a reduction in proceeds from stock option activity of \$15 million during the first nine months of 2018 compared with the first nine 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:

	September 30,	December 31,
	2018	2017
Short-term debt	\$ 37.0	\$ 105.4
Current portion of long-term debt	11.4	2.7
Long-term debt	1,681.7	854.2
Total debt	\$ 1,730.1	\$ 962.3
Less: Cash and cash equivalents	153.7	121.6
Restricted cash	1.3	3.8
Net debt	\$ 1,575.1	\$ 836.9

Ratio of Net Debt to Capital:

	September 30,	December 31,		
	2018	2017		
Net debt	\$ 1,575.1	\$ 836.9		
Total equity	1,640.4	1,474.9		
Net debt plus total equity (capital)	\$ 3,215.5	\$ 2,311.8		
Ratio of net debt to capital	49.0	% 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 and the ability to utilize such cash and cash equivalents to reduce debt if needed.

At September 30, 2018, \$142 million of the Company's \$154 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 the term of the Senior Credit Facility and expects to renew the Senior Credit Facility prior to its maturity.

In September 2018, the Company renewed its \$100 million Accounts Receivable Facility, which now matures on November 30, 2021. 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 September 30, 2018. As of September 30, 2018, the Company had \$93.2 million in outstanding borrowings, which reduced the availability under the facility to \$6.8 million. The interest rate on the Accounts Receivable Facility is variable and was 3.05% as of September 30, 2018, which reflects the prevailing commercial paper rate plus

facility fees.

42

Table of Contents

The Company has a \$500 million Senior Credit Facility, which matures on June 19, 2020. At September 30, 2018, the Senior Credit Facility had outstanding borrowings of \$65.2 million, which reduced the availability to \$434.8 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 September 30, 2018, the Company's consolidated leverage ratio was 2.57 to 1.0. The minimum consolidated interest coverage ratio permitted under the Senior Credit Facility is 3.5 to 1.0. As of September 30, 2018, the Company's consolidated interest coverage ratio was 16.03 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 weighted-average rate on outstanding borrowings was 2.43% as of September 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 \$285 million. Most of these credit lines are uncommitted. At September 30, 2018, the Company had borrowings outstanding of \$37 million and bank guarantees of \$1 million, which reduced the aggregate availability under these facilities to approximately \$247 million.

On September 6, 2018, the Company issued the 2028 Notes in the aggregate principal amount of \$400 million. On September 11, 2018, the Company entered into the 2023 Term Loan and borrowed \$350 million. Proceeds from the 2028 Notes and 2023 Term Loan were used to fund the acquisitions of Cone Drive and Rollon, which closed on September 1, 2018 and September 18, 2018, respectively. Refer to *Note 6 - Financing Arrangements* to the Notes to the Consolidated Financial Statements for additional information.

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 the 2020 Term Loan and borrowed €100 million. On June 14, 2018, the Company repaid approximately €6.5 million, reducing the principal balance to approximately €93.5 million as of September 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* to the Notes to the Consolidated Financial Statements for additional information.

All of these debt instruments, except the 2028 Notes and the short-term lines of credit, have two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At September 30, 2018, the Company was in full compliance with these covenants. 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 September 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 \$375 million in 2018, an increase from 2017 of approximately \$138 million or 58%. The Company expects capital expenditures of approximately \$115 million in 2018, compared with \$105 million in 2017.

Financing Obligations and Other Commitments:

During the first nine months of 2018, the Company made cash contributions of \$9 million to its global defined benefit pension plans and \$3 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 nine months ended September 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.

Table of Contents

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, and the related hedging activity, are included in the Consolidated Statements of Income.

For the nine months ended September 30, 2018, the Company recorded negative foreign currency translation adjustments of \$54 million that decreased shareholders' equity, compared with positive foreign currency translation adjustments of \$41 million that increased shareholders' equity for the nine months ended September 30, 2017. The foreign currency translation adjustments for the nine months ended September 30, 2018 were negatively impacted by the strengthening of the U.S. dollar relative to other foreign currencies, including the Chinese Yuan, Indian Rupee and Brazilian Real.

Foreign currency exchange gains and losses, net of hedging activity, resulting from transactions included in the Company's operating results for the third quarter of 2018 totaled \$3.0 million of net gains, compared with \$1.2 million of net losses during the third quarter of 2017. Foreign currency exchange gains and losses, net of hedging activity, resulting from transactions included in the Company's operating results for the nine months of 2018 totaled \$1.7 million of net gains, compared with \$2.6 million of net losses during the nine months of 2017.

Table of Contents**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," "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 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 or works councils 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 Company's ability to satisfy its obligations under its debt agreements, as well as its ability to renew or refinance borrowings on favorable terms;
 - 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; 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.

Table of Contents

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

In the third quarter of fiscal 2018, the Company acquired Rollon, Cone Drive, and ABC Bearings. The scope of the Company’s assessment of the effectiveness of internal control over financial reporting will not include these acquisitions. This exclusion is in accordance with the SEC’s general guidance that an assessment of a recently acquired business may be omitted from the Company’s scope in the year of acquisition.

During the Company’s most recent fiscal quarter, there have been no other 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 September 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⁾
7/1/18 - 7/31/18	276,897	\$ 44.07	276,897	7,725,493
8/1/18 - 8/31/18	27,812	47.42	25,008	7,700,485
9/1/18 - 9/30/18	4,227	51.19	—	7,700,485
Total	308,936	\$ 44.47	301,905	

Of the shares purchased in July, August and September, zero, 2804 and 4227, 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.

Table of Contents

Item 6. Exhibits

10.1 Form of Nonqualified Stock Option Agreement (U.S), as adopted September 24, 2018.

10.2 Form of Nonqualified Stock Option Agreement (Non-U.S), as adopted September 24, 2018.

10.3 Form of Deferred Shares Agreement (three year cliff vesting), as adopted September 24, 2018.

10.4 Form of Deferred Shares Agreement (five year cliff vesting), as adopted September 24, 2018.

10.5 Amended and Restated supplemental pension plan of The Timken Company, effective as of June 30, 2014.

10.6 Amendment No. 1 to the Amended and Restated supplemental pension plan of The Timken Company, effective as of June 30, 2014.

10.7 Amended and Restated supplemental pension plan of The Timken Company, effective as of October 1, 2018.

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 September 30, 2018, filed on October 30, 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.

Table of Contents

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.

Date: October 30, 2018

THE TIMKEN COMPANY
By: /s/ Richard G. Kyle
Richard G. Kyle
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 30, 2018

By: /s/ Philip D. Fracassa
Philip D. Fracassa
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)