



TIMKEN

Boundless Opportunities

2003 *Annual Report*

THE TIMKEN COMPANY

The Timken Company
is a leading global
manufacturer of highly engineered
bearings and alloy steels
and a provider of related products
and services.

Through the 2003 acquisition
of The Torrington Company,
the largest acquisition
in company history,
Timken expanded its products,
services and geographic reach.
With 2003 sales of \$3.8 billion,
the 104-year-old company
has 26,000 associates
in 29 countries.

CONTENTS

2

Letter to Shareholders

6

Soaring with Opportunities

8

Driving New Opportunities

10

Beyond Boundaries

12

Boundless Innovation

14

Boundless Drive to Excel

16

Corporate Profile

20

Financial Information

62

Directors

63

Officers and Executives

64

Shareholder Information

Financial Summary

	2003	2002
<small>(Thousands of dollars, except per share data)</small>		
Net sales	\$ 3,788,097	\$ 2,550,075
Impairment and restructuring charges	19,154	32,143
Income before income taxes and cumulative effect of change in accounting principle	60,802	85,518
Provision for income taxes	24,321	34,067
Income before cumulative effect of change in accounting principle	\$ 36,481	\$ 51,451
Net income	\$ 36,481	\$ 38,749
Earnings per share	\$.44	\$.63
Earnings per share - assuming dilution	\$.44	\$.62
Dividends per share	\$.52	\$.52



TO OUR SHAREHOLDERS

The year 2003 was truly one of remarkable change and challenge. We took the bold-est leap in our company's history with our acquisition of The Torrington Company, increasing our size by nearly 50%. We now are a global leader in three complementary product and service lines – tapered roller bearings, needle roller bearings and alloy steels. By successfully integrating these two industry leaders, we are creating a platform for profitable growth – and boundless opportunities for our future.

Other 2003 achievements included:

- Record sales of \$3.8 billion, including our first \$1 billion quarter at the end of the year. The combination of Timken and Torrington product lines has expanded our market presence, creating greater opportunities to provide customers with valued solutions.
- Successful launches of innovative new products, adding approximately \$174 million in sales.
- Startup of a joint-venture manufacturing facility in the United States that is expected to reduce bearing manufacturing costs.
- Significant expansion in key geographic and industrial markets, with a joint-venture plant under construction in Suzhou, China; stronger business relationships with U.S. operations of Asian automakers and their suppliers; an expanded product line in industrial distribution; and greater penetration in aerospace and other key markets.
- Effective actions that improved our balance sheet following the \$840 million acquisition of Torrington in February 2003. We had leveraged our balance sheet to purchase Torrington, with debt peaking at more than \$1 billion. Then, we took steps to reduce our debt to \$735 million or 40% of total capitalization – even lower than the 43% level at year-end 2002.

While our earnings fell short of our expectations, the Torrington acquisition was accretive to earnings in the first year. In order to deliver the rest of the shareholder value anticipated in the Torrington acquisition, our challenge is to:

- Improve the performance of our Automotive Group, which faced the simultaneous challenges of integrating two businesses and completing previously launched manufacturing rationalization programs.
- Mitigate record high prices for scrap steel and increased energy and alloy costs in our steel business.
- Overcome the impact of the continued cyclical trough in global industrial markets.

Boundless Change

We are optimistic. There are signs the markets are finally moving in our favor, and we have increased confidence that our actions over the last few years position us well for continued profitable growth.

A Tribute

W.R. Timken, Jr. has served The Timken Company for 41 years. His vision for growth, passion for productive change, pursuit of innovation and the high expectations he sets all have lifted the company to new heights. When he became chairman in 1975, sales were \$805 million. Today, Timken is a global \$3.8 billion company.

Tim's leadership extends far beyond Timken. He remains a strong voice for manufacturing in U.S. policymaking. He has served as chairman of the National Association of Manufacturers and currently serves as chairman of the Manufacturing Institute. His commitment to ethics and integrity resulted in a Presidential appointment in 2003 to the chairmanship of the Securities Investor Protection Corporation.

At the end of 2003, he retired from day-to-day management at the company but continues as non-executive chairman. Great leaders have a profound impact on those around them. Tim Timken leaves a lasting legacy through his enduring commitment to shareholders, customers and associates.



W. R. Timken, Jr., chairman

To thrive in today's competitive environment, creating value for both customers and shareholders, we are becoming more adaptive to the boundless change in the marketplace. Our transformation is tied to three key strategies:

- Customer-driven innovation;
- A focus on performance; and
- An adaptive management capability.

Boundless Innovation

Innovation has been a strength throughout our history. Our combined knowledge of materials science, friction management and precision manufacturing is unequalled. These core technical competencies provide a globally competitive advantage that allows us to continue to expand the products and services we offer to customers. In 2003, we developed nearly 3,000 new prototypes. We are leveraging our technological competencies and global engineering resources to introduce new solutions – extending beyond the bearing itself to the environment around the bearing. With customer-

driven innovation, each product addresses a pressing issue, be it fuel efficiency, high performance or debris resistance, or the need for such ancillary offerings as engineered surfaces, sensor products or integrated assemblies.

Industrial Group: We are tapping new opportunities to serve industrial customers with a broader range of globally competitive products and services. A recent example is our support for China's growing infrastructure, where we are providing large-bore bearings for power generation plants, with the potential to supply future plants.

We complement our product offerings with a growing number of industrial services – from bearing and non-bearing component repair to engineering design and technical consulting services. In 2003, these services provided more than \$75 million in revenue.

Our innovative offerings are rapidly expanding our automotive distribution

business in North America, which is part of our Industrial Group. Sales to this channel have grown more than 30% in each of the past four years, and we see more opportunity globally.

Automotive Group: Our Automotive Group had a strong year on the customer front. New product launches on the Ford F150, Nissan Pathfinder Armada, Mercedes E-Class, Chevy Colorado and other vehicles brought in approximately \$125 million in new sales. Based on the technical competencies created by the combination of Timken and Torrington, many new doors were opened. For example, in 2003 Timken was one of an elite group of suppliers invited to General Motors TechWorld, where we showcased chassis and powertrain applications of our bearing- and steel-based technologies for more than 1,000 GM engineering executives and senior management. This customer interaction is sowing the seeds of opportunity based on new products.



James W. Griffith, president and chief executive officer, left, with W. R. Timken, Jr., chairman.

Automotive Group performance lagged expectations as the group struggled to execute integration strategies while restructuring automotive plants. As a result, we have made changes in our leadership team and management systems. Fourth quarter results confirmed the success of these efforts, and we look forward to a more profitable year in 2004. In February 2004, we announced that Jacqueline A. Dedo, an automotive industry veteran, is joining Timken as president of the Automotive Group.

Steel Group: Profitability is an issue not just for Timken, but for the steel industry as a whole. In 2003, the Steel Group experienced its first full-year loss after a decade of profitability. To mitigate the severe effects of scrap steel and energy costs, we are increasing prices, passing on surcharges, and controlling capital spending and inventory. The investments made in our steel business over the last 15 years and continued productivity improvements have given us a competitive advantage, and we will continue to focus on achieving profitability. We also

are creating new opportunities through affiliations such as the one we have with Sumitomo Metals Kokura of Japan, which is resulting in proprietary new products that replace environmentally unfriendly leaded steels. In 2004, we will begin supplying these to the U.S. operations of a Japanese automaker.

Boundless Drive to Excel

The drive to excel is codified in our focus on performance. It is part of our company culture, embodied by our 26,000 men and women around the world. Through their daily efforts, we maintain our competitive edge.

- We surpassed our Year One cost-saving targets in integrating Timken and Torrington, achieving \$28 million of pretax savings. We are on track to achieve our 2005 target of \$80 million. In the process, we closed two manufacturing facilities in the United States and Great Britain and sold non-strategic assets.
- In 2003, we completed one of the most massive rationalization efforts in our

history, which focused on improving operations at both Timken and Torrington plants. While the magnitude of change had a negative impact on Automotive Group results in 2003, we expect to see benefits and improved operating performance in 2004. Further, we are expanding capacity at several low-cost manufacturing locations, including those in Poland, Romania, China and the Czech Republic.

- In China and other emerging regions, we increased our presence to serve these markets as they grow and strengthen our export capabilities. In 2003, we opened a new distribution center in Shanghai. Construction on our fourth Chinese plant will be completed in early 2004.
- We created an independent organization in 2003 to transform our supply chain. Its charge is to optimize the entire process, from product development through production to customer delivery. This work incorporates the discipline of our Lean Six Sigma initiative.

Boundless Learning

A critical lesson we've learned is the importance of nurturing an adaptive management capability. It's how we aim to become a truly exceptional organization that can react to, and take advantage of, boundless change within our markets.

An early integration priority was to put in place a management team of the right talent from both companies. We made numerous changes, resulting in new leaders in positions around the world. We welcome them into our management ranks, and we will miss those who have left the company. We thank them for all their efforts over the years.

Special recognition is owed to three long-tenured officers who retired in 2003:

- W. R. (Tim) Timken, Jr., completed his 41-year career with the company, having spent the last 28 years as executive chairman of the board. Tim will continue as non-executive chairman.

- Ward J. (Jack) Timken, vice president and officer, retired after 35 years of service and will remain a member of the board.
- Bill J. Bowling, executive vice president, chief operating officer and president of the Steel Group, retired after 38 years of service. W. J. (Tim) Timken, Jr. has been elected executive vice president and president of the Steel Group.

Special thanks also go to Martin D. (Skip) Walker and Stanley C. Gault, who decided to retire from our board. We have appreciated their valuable contributions. In November, we welcomed Frank C. Sullivan, CEO of RPM International Inc., to the board of directors, and we have nominated Jerry J. Jasinowski, president of the National Association of Manufacturers to join in 2004. He will stand for election on April 20.

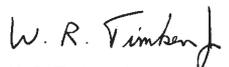
Boundless Opportunities

As we set our sights on target markets, the opportunities for the new Timken are truly boundless – from alloy steel . . . to continuing product innovations . . . to everything around the bearing. And our playing field just keeps growing. The Automotive industry. Agriculture. Construction. Mining. Metals. Paper. Power Generation. Aerospace. Rail. Machine Tooling. Medical. And other industrial applications. Virtually any industry in which anything moves.

Timken is both poised and prepared to take on these boundless opportunities, staying true to the core values that have served us well these past 104 years. Chief among them is working to the highest level of ethics and integrity.

We look forward to 2004 and beyond with the confidence of a solid foundation for growth, a commitment to improved performance and an excellent team of associates worldwide.

February 24, 2004



W.R. Timken, Jr.



James W. Griffith

Soaring with Opportunities

Supplying our customers with superior products and exemplary service is not new for Timken. What is new is how we view our customers, anticipate their product needs and find even better ways to serve them. In 2003, our focus on customer-centricity – getting closer to the customer – improved our responsiveness while creating new revenue opportunities.

A leading example is our aerospace business, which shifted its reliance on the commercial aviation market to military applications, responding to demand for military helicopters. With the helicopter market expanding and product demand increasing, we created a special team to integrate all aspects of customer support, sales, engineering and quality to focus on the needs of helicopter customers. Today, military applications account for more than half of our aerospace sales – and opportunities continue to grow.

In 2003, our aerospace business won \$20 million in federal funding to develop hybrid bearings for the next advanced jet engine for military use. Entering the process at this early stage gives us a competitive advantage, allowing us to design the products with our original equipment customers. Following our strategy of getting closer to the customer, sales in our aerospace business grew almost 10% in 2003, despite a decline in the overall market.

Showcasing our ingenuity, responding quickly to customer demand and allowing baseball games to go on rain or shine are all part of a 2003 Timken success story. Representatives of Miller Park Stadium in Milwaukee contacted our engineers for a custom solution to fix the retractable roof in time for opening day. The solution: rolling element spherical thrust bearings with an engineered surface. We delivered the bearings in record time, thanks to new manufacturing capabilities resulting from the Torrington acquisition.





From Left:

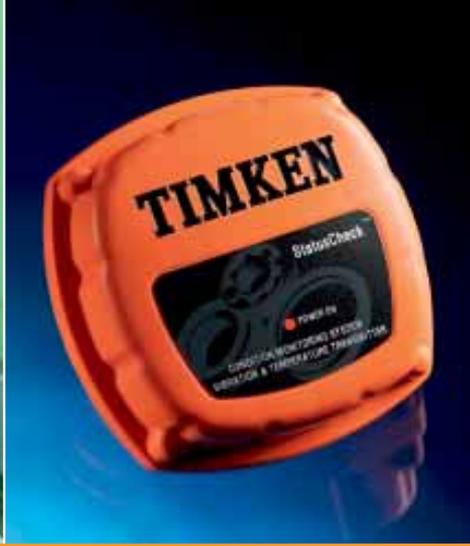
The combination of Torrington and Timken has expanded our product line, our manufacturing capabilities and our competitive edge. Together, we won a contract to supply spherical bearings, a core industrial product, to a U.S.-based manufacturer of coal pulverizers. The contract also illustrates how combining Torrington's design strength (spherical bearings) with Timken's manufacturing capabilities (Ploiesti, Romania plant) worked together to win new business.

Our precision steel components business also is seeing results from its increased focus on the customer. By working closely with General Motors, it was awarded the contract for all the planetary gears (sun, pinion and ring) to be used in four new 6-speed transmissions for rear-wheel drive vehicles.

More than 50% of all new vehicles sold in the U.S. are light trucks – pickups, minivans and sport utility vehicles (SUVs). It is a growth segment for the automotive industry and an area of strength for Timken engineering. We have leveraged our capabilities to win new business, including such new vehicle platforms as the 2004 Nissan Titan Truck. A global sales and engineering team from Japan and the U.S. worked with Nissan and some of its key suppliers to provide a broad array of products for this vehicle.

The Titan's front wheels contain Timken® SENSOR-PAC™ bearings and hub assemblies. The rear axles have Timken differential and pinion bearings and the rear wheels are equipped with Timken® UNIT-BEARING™ bearings. Timken® bearings are also on the front and rear wheels of the Nissan Pathfinder Armada, the company's first full-size SUV. Timken is targeting additional opportunities to work with Japanese customers in North America.





*Left:
In 2003, Timken drove opportunities with new products and manufacturing capabilities. Timken expanded the facility in São Paulo, Brazil to include the precision steel components business. Emerson Gomes, manufacturing leader – precision steel components, inspects equipment on the line. The company also introduced the StatusCheck™ condition monitoring system, which takes us beyond bearings.*

Timken's focus on customer centricity means serving the customer on a global basis. This led our precision steel components business to expand its manufacturing capabilities into South America to serve a key automotive customer. Production at the newly expanded operations in our São Paulo, Brazil, plant is scheduled to begin in the first half of 2004.

Our Industrial Group's focus on the customer also has resulted in new opportunities around the bearing. The StatusCheck™ wireless condition monitoring system transmits vibration and temperature data. This allows customers to readily detect conditions that could lead to overheating and breakdown of critical equipment.

Additionally, our new line of industrial lubricants expands our friction management solutions. Timken now sells lubricants for automotive, rolling mills, rail and high-speed manufacturing environments.

Driving New Opportunities

Beyond Boundaries



We also are capturing opportunities to expand our manufacturing presence in emerging markets. In 2003, we began construction of a fourth plant in China. A joint venture with NSK, this plant in Suzhou will specialize in the production of single-row tapered bearings used in medium-to-high-volume applications, including automotive and industrial equipment. Timken has methodically built a manufacturing presence in China since entering into a joint venture at the Yantai bearing plant in 1996. Timken took full ownership of the Yantai plant in 2001, and in 2003 the plant posted a profit for the first time. By mid-2004, the Yantai plant will expand production capacity to 5 million bearing sets per year. Also, as a result of the Torrington acquisition, Timken has become part of a joint venture in automotive and industrial manufacturing facilities in Wuxi, China.

Left: Timken is poised to take part in China's ongoing growth, supplying needed products used in building the country's infrastructure.

Below:

Timken's leadership in rail bearings has created new opportunities for growth in emerging markets. In 2003, we won a contract to supply Timken® AP-2™ Class K railroad bearings for freight wagons to Qigihar Railway Rolling Stock (Group) Co., Ltd., a Chinese rail wagon builder responsible for one-third of the country's production. In India, where we have captured nearly 50% of the market, Timken® AP™ Class F bearings and housing assemblies will be used by Indian Railways for a new generation of locomotives.

We continue to cross geographic boundaries to find new opportunities in emerging markets. Our quality, brand name and engineering strengths are increasingly recognized in Australia, China, India, Japan, Korea, Russia and Singapore. In 2003, our bearing sales to China grew more than 30%.

As emerging markets continue to develop their infrastructure, we see a number of growth opportunities for Timken. Already, we have developed a technical partnership with Shanghai Heavy Machinery Plant, a Chinese manufacturer of coal pulverizers and other industrial equipment, which has led to higher sales for large-bore bearings used in heavy industry. With a four-year life expectancy for bearings in this application, Timken sees further potential for an active replacement market. China's growth has revitalized demand for large-bore bearings, which is a mature market in more developed regions.

In Australia, the growth of coal mining has increased demand in the bearing replacement market. Our broader product line of cylindrical, tapered and spherical bearings has given us a competitive advantage, winning industrial aftermarket business.

Supporting emerging market growth is our technical center in Bangalore, India. The five-year-old operation, which provides product and manufacturing support, information technology, new business development and global sourcing, will move to a new facility in the first half of 2004.



Boundless Innovation

The core of what drives technology at Timken is improving the performance of our customers' products, combining know-how through technical partnerships and extending our line of "smart" products. In the automotive industry, safety and performance are key.

Timken is working with North American and European automakers to improve the safety of SUVs by creating the active differential prototype, which also has a positive impact on vehicle performance.

The active differential enables the wheels of the vehicle to receive optimum torque for traction and handling. The vehicle becomes easier to steer and is less likely to lose control at high speeds or in hazardous weather. The device consists of a unique assembly of planetary gear sets, magnetic particle clutches and complementary software. This program will leverage the planetary gear design technology used in Torrington products to increase opportunities for the new differential.

*Dr. Mircea Gradu,
chief engineer – axle centers and
active differential inventor,
Timken Automotive Group*





Smart products continue to be part of Timken's growing product offering. The king pin sensor (above) increases vehicle safety. Pictured at right, the Timken Multiplying Encoder Application-Specific Integrated Circuit (ASIC) is used in a number of sensed products.



Timken entered new territory in 2002, when it began a technical partnership with Sumitomo Metals Kokura of Japan to make a proprietary grade of steel in the U.S. to replace leaded steels. In 2004, we will begin to see results, as this steel will be included in vehicles made by a Japanese automaker. Our expanded materials science base will give us a competitive advantage as more Japanese customers shift production to the U.S.

Creating smart products that use sensors to improve performance is one way Timken differentiates itself from competitors. The Timken Multiplying Encoder Application-Specific Integrated Circuit (ASIC) is used to sense speed, direction, position and temperature. The innovative ASIC technology is used in a range of Timken industrial sensor products and its use will grow as it is incorporated into new technology for electric power steering.

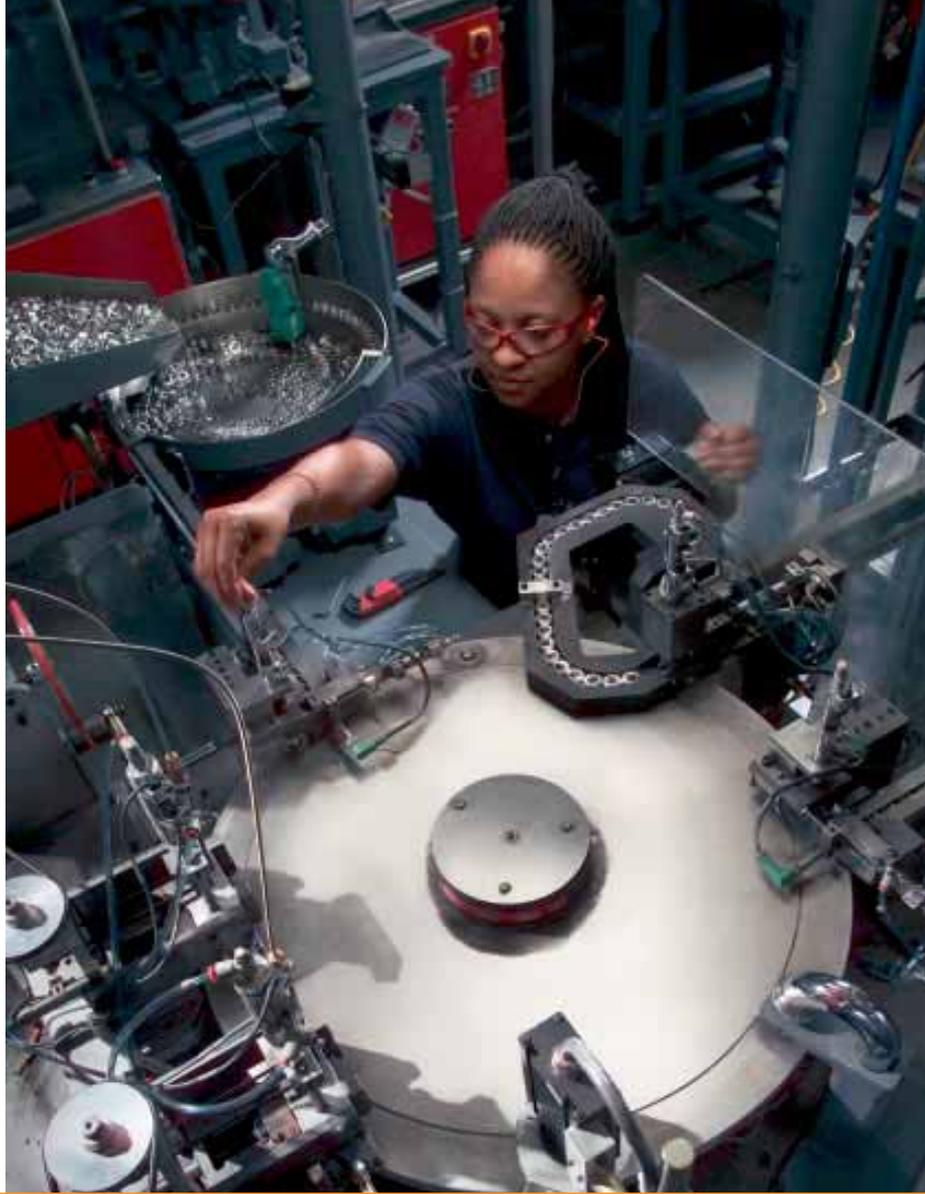
Another smart product is the king pin sensor. Designed to increase safety, control, efficiency and power on construction and agricultural vehicles, this sensor is proving its reliability and performance.

In 2003, Timken expanded its sensor technology for rail bearings. We began field testing the Guardian™ bearing – a new wireless, self-powered sensing system that transmits speed, temperature and vibration data to a receiver on the train or to off-site computers. The rail business also is testing a bearing, equipped with a rotor and stator, enabling the bearing to generate electricity as it rotates. The added power can be used to charge the batteries of railcar tracking devices. The Federal Railroad Association is currently testing both the Guardian bearing and Generator bearing in a demonstration project.



In 2003, Timken expanded its product line and its manufacturing network.

At the Clinton, South Carolina, plant, 110 million bearings were produced last year. Kendra Agnew, setter/operator, adjusts a bearing loader on the production line for one of the Clinton plant's leading product lines – roller rocker arms, which are used in automotive engines.



Right: Part of the company's product line extension is radial needle roller and cage assemblies and thrust needle roller bearings.

Middle: One of our new joint-venture plants, Advanced Green Components, LLC, launched its operation in Winchester, Kentucky in mid-2003 to provide forged and machined rings for bearing manufacture. By using a cold-forming process to make bearings, there is a significant savings of material and a reduction in machining time, because the components are closer to the shape and size of the final product. Inspecting cold-forged products is Forging Operator Paul Williams. Sanyo Special Steel Co., Ltd., and Showa Seiko Co., Ltd., are our partners in this venture.

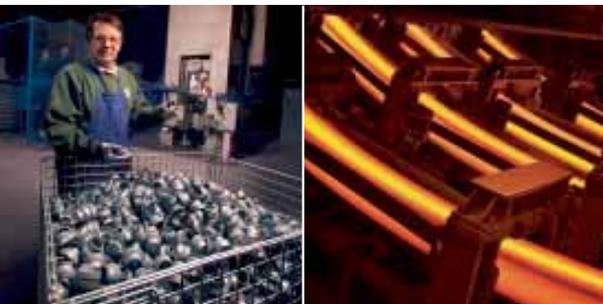


Boundless Drive to Excel

In 2003, we increased our global manufacturing network to more than 80 plants with the acquisition of The Torrington Company. With more plants, a broader product base and more customers to serve, we examined our global manufacturing network for opportunities to focus manufacturing resources. This led to the closing of our Darlington, England, industrial bearing plant and the Rockford, Illinois, ball bearing plant. We also sold the assets of the fixed-wing airframe business at the Standard Plant in Torrington, Connecticut. In addition, operations were rationalized at six plants, impacting up to 30% of production at each facility.

We took further steps to improve our operations with the formation of our supply chain transformation group. Purchasing, order fulfillment, manufacturing strategy implementation, Lean Six Sigma and logistics have been brought together to create an integrated supply chain model. Their focus is to reduce asset intensity, improve customer service and systems support and better manage inventory levels.

To lower distribution costs, the assets of the regional service centers in Illinois, Texas and Ohio were consolidated into the CoLinX, LLC facility in Tennessee in 2003. In total, this consolidation program affected five North American Timken warehouses. In 2004, the Torrington product warehouses in Toronto, Canada, and Reno, Nevada, will be consolidated with CoLinX facilities. CoLinX, a joint venture between Timken, INA USA Corporation, Rockwell Automation and SKF USA, Inc., provides Web-based services and integrated logistics to authorized distributors. We expect to realize operational efficiencies through shared warehousing costs, pooled shipping lanes and improved freight rates.



For our Steel Group, 2003 was a challenge due to record-high raw material and energy costs. Still, the group continued its track record of operating efficiently and being a low-cost provider of high-quality alloy steel. Over the last decade, the steel business has lowered its labor hours per shipped ton of steel by half. This significant change has allowed us to stay competitive in a difficult market.

Boundless Opportunities for the Timken Brand

Our master brand – Timken® – is our most powerful asset. So when we added Torrington® and other sub-brands to the Timken family, we multiplied that power. Our goal is to expand the value of the Timken name to our customers – and to our shareholders. We do this by putting our name only on the kind of quality products and services our customers have come to expect from us...and on some that exceeded their expectations.

Timken®

- Bearings and seals
- Related parts
- Grease and lubricators
- Steel and precision components
- Reconditioning and repair services
- Condition monitoring systems

Torrington®

- Needle bearings
- Spherical bearings
- Cylindrical bearings
- Engine bearings
- Steering products and assemblies

Fafnir®

- Ball bearings
- Housed units
- Machine tool bearings

Nadella

- Linear motion products

Kilian®

- Custom machined bearings

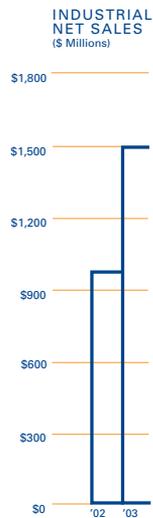
Industrial Profile

Markets Served Our Industrial Group is divided into five businesses (see next page) and serves broad and diverse markets such as construction, mining, agriculture, energy, aerospace, consumer, steel and paper mills, machine tooling and rail. In addition, the Industrial Group also is responsible for material handling, customer service and e-business for industrial and automotive aftermarkets worldwide.

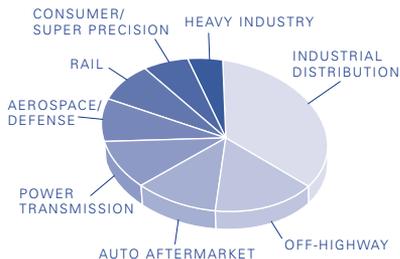
Examples of applications for Timken® bearings and related parts in industrial markets include wheels, drivelines and motor suspension units in rail transit; engines, gearboxes, transmissions, landing wheels and flight and fuel controls for aircraft and helicopters; and gear packages for wind energy equipment. In addition, Timken provides bearings and other components for transmissions, wheels, axles, hydraulic pumps and motors, frame bushings, internal combustion engines and engine accessories for off-highway applications.

Major Products and Services

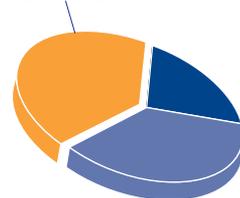
- Bearings, including ball, tapered, needle, cylindrical and spherical roller
- High-performance bearing solutions, including Debris Solutions, Engineered Surfaces and our Spexx® line of high-performance bearings for extreme environments
- Bundled products
- Precision ground components
- Sensor products
- Grease and single-point lubricators
- Bearing, chock and roll repair and refurbishing services
- Training programs for distributors and original equipment customers
- Online access to order and to check inventory through PTplace.com and Endorsia.com
- Maintenance tools



SALES BY MARKET SEGMENT



COMPANY SALES INDUSTRIAL 40%



Highlights 2003



Off-Highway

- Gained global customer source approval for Timken® products manufactured in China, Czech Republic, Poland and Romania.
- Completed design, development and performance evaluation tests on several forward-integrated bearing products for supply, beginning in 2004.
- Helped key customers improve life of mechanical components by providing engineered surfaces solutions for non-bearing products in final drive systems.

2004 Outlook

Slow growth is expected in North America in 2004, while European business levels off at 2003's pace. Better growth expected in emerging markets in Asia and Latin America.

Industrial Equipment

- Organized the business into three main groups: consumer/super precision, power transmission and heavy industry.
- Capitalized on the integration of Timken and Torrington to land a \$2.5 million order from VAI Industries UK, Ltd. for tapered, ball and cylindrical bearings.
- Continued to achieve significant growth in emerging markets.

2004 Outlook

Growth is expected in all emerging markets. Expect some strengthening in U.S. and European markets.

Rail

- Led the U.S. rail industry to adopt Timken® AP-2™ Class K bearing design as the new standard, beginning in 2004.
- Captured significant U.S. transit car orders for 2004 with a total value exceeding \$5 million.
- Earned 100% of the bearing business for Talgo's fastest-ever passenger train, which will run between Barcelona and Madrid, Spain.
- Obtained significant market share in the Brazilian rail market during peak car builds.
- Supplied a major order for Timken® AP™ bearings for Moscow passenger trains.

2004 Outlook

Timken expects greater demand in North America as rail car production increases. Global rail market expected to see moderate growth with strong growth in Brazil, China and Russia. Opportunities for reconditioning services will continue to grow worldwide.

Aerospace/Defense

- Achieved sales growth despite a decline in the market.
- Received award from U.S. Department of Defense for superior service (only bearing company to receive this award).
- Became the sole bearing supplier for the Rolls-Royce Model 250 aircraft engine.
- Won business from the British Royal Navy for bearings used in radar systems.
- Received \$20 million in U.S. federal funding for next-generation hybrid bearing development.

2004 Outlook

Anticipate gradual recovery in the U.S. aerospace market and growth in the European and Asian aerospace markets over the next cycle. Defense business expected to remain steady or grow.

Distribution Management

- Broadened the geographic scope of our online presence by extending The Timken Store on Endorsia.com and PTPlace.com to distributors in Europe, Asia and North America.
- Integrated Torrington-branded products into PTPlace.com.
- Launched five types of Timken grease for industrial applications in the U.S. and expanded sales of single-point lubricators in North America and Europe.
- Expanded Timken Industrial Services by introducing condition monitoring equipment. Key customers were offered condition monitoring equipment and services.

2004 Outlook

A mild economic recovery is expected in North American industrial markets. Distribution markets in Europe and the Middle East should remain flat, while China will see strong growth. Growth in all other regions of Asia is expected to be moderate.

Automotive Profile

Highlights 2003

Markets Served Our Automotive Group serves both the powertrain and chassis markets and provides bearings and related parts for original equipment light-, medium- and heavy-duty trucks, passenger cars and heavy-duty truck trailers.

Applications for Timken® products in the automotive industry include axles, front and rear wheels, transmissions, transaxles, continuously variable transmissions and steering systems.

We also provide bearing solutions for engines, air conditioning systems and anti-lock braking systems.

Major Products and Services

- Tapered and needle roller bearings
- Integrated package bearings
- Steering column products
- Engine products

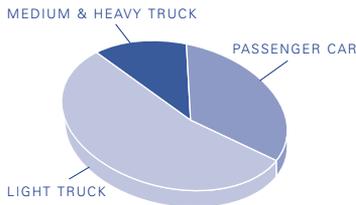
Automotive

- Reached an agreement with NSK to develop and supply a range of needle bearing products to meet the needs of selected Japanese automotive customers.
- Increased sales in the wheel bearing segment through business won for the Nissan Pathfinder Armada platform and Ford F150.
- Received purchase orders for \$50 million in new "transplant" applications.
- Leveraged steel and precision steel components capabilities to create new opportunities in driveline and heavy truck markets.
- Received Certificates of Achievement in Quality Performance from Toyota for our operations in Europe, Japan and North America.
- Continued integration of Lean production techniques to improve manufacturing efficiencies in the Automotive Group.

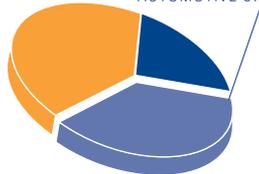
2004 Outlook

Expect moderate market recovery in North America due to opportunities with automotive transplants and a rebound in the medium- and heavy-truck markets. Growth in Eastern European market expected to improve light vehicle production there in 2004. China's light vehicle growth rate will continue to lead the world.

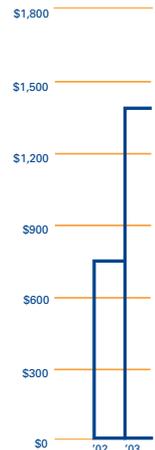
SALES BY MARKET SEGMENT



COMPANY SALES
AUTOMOTIVE 37%



AUTOMOTIVE NET SALES
(\$ Millions)



Roller rocker arms are used in automotive engines to improve vehicle performance and fuel efficiency.

Steel

Profile

Highlights 2003

Markets Served Our Steel Group serves many markets, including aerospace, energy, drilling, off-highway and automotive.

Timken® alloy steel is used in the manufacture of all types of bearings. It is also used in aircraft engine main shafts, landing gear and high-strength fasteners; oil and gas drilling tools and perforating guns; hydraulic cylinders, axles and crankshafts for construction and agriculture applications; and an array of automotive components, including gears, shifter sleeves, crankshafts and constant velocity joint components.

We supply automotive and industrial customers with semi-finished and finished precision steel components for powertrain applications, including internal ring gears, sun gears, races, hubs, clutch shafts, axle shafts, constant velocity joint cages and outer race prop shafts.

We also produce and distribute more than 300 specialty grades of steel for a variety of uses, including medical, aircraft, petrochemical and auto racing applications.

Major Products and Services

- Alloy steel bars and tubing
- Precision steel components
- Specialty steel

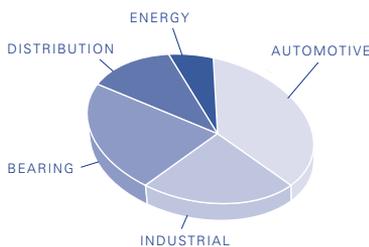
Steel

- Launched custom bar program to meet the needs of smaller businesses that require lower minimum quantities.
- Set an all-time company record for tons of steel bars shipped.
- Restructured scrap surcharge mechanism to better reflect true raw-material cost.
- Supplied trial material for transplant crankshaft applications for several Japanese automakers.
- Expanded global manufacturing footprint by establishing steel components operations in Brazil. The facility is slated to begin production and delivery in the first half of 2004.

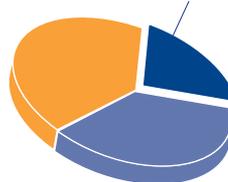
2004 Outlook

Automotive and light truck production expected to remain strong with a small improvement over 2003. General industrial, energy and aerospace markets will show a mild recovery from low 2003 levels.

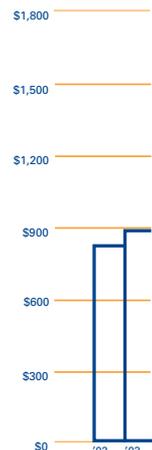
SALES BY MARKET SEGMENT



COMPANY SALES



STEEL NET SALES (\$ Millions)



Alloy steel is used in a variety of applications, including oil and gas drilling tools.

Financial Information

CONTENTS

21	Management's Discussion and Analysis of Financial Condition and Results of Operations
34	Consolidated Statement of Operations
35	Consolidated Balance Sheet
36	Consolidated Statement of Cash Flows
37	Consolidated Statement of Shareholders' Equity
38	Notes to Consolidated Financial Statements Significant Accounting Policies
40	Acquisitions
42	Earnings Per Share Accumulated Other Comprehensive Loss
43	Financing Arrangements
44	Impairment and Restructuring Charges
45	Contingencies
46	Goodwill and Other Intangible Assets
48	Stock Compensation Plans
49	Financial Instruments Research and Development Equity Investments
50	Retirement and Postretirement Benefit Plans
54	Segment Information
56	Income Taxes
57	Report of Independent Auditors
58	Forward-Looking Statements
59	Quarterly Financial Data
60	Summary of Operations and Other Comparative Data
62	Directors
63	Officers and Executives
64	Shareholder Information

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Introduction

The Timken Company is a leading global manufacturer of highly engineered antifriction bearings and alloy steels and a provider of related products and services. Timken employed approximately 26,000 associates in 29 countries as of December 31, 2003.

Timken operates under three segments: Automotive Group, Industrial Group and Steel Group. The Automotive and Industrial Groups design, manufacture and distribute a range of bearings and related products and services. Automotive Group customers include original equipment manufacturers of passenger cars and trucks, ranging from light- and medium-duty to heavy-duty trucks and their suppliers. Industrial Group customers include both original equipment manufacturers and distributors for agriculture, construction, mining, energy, mill, machine tooling, aerospace, and rail applications. The Automotive and Industrial Groups each represent approximately 40% of the company's sales.

In 2003, Timken acquired The Torrington Company (Torrington), also a leading bearing manufacturer. The strategic acquisition strengthened Timken's market position among global bearing manufacturers while expanding Timken's product line with complementary products and services and offering significant cost savings opportunities for the combined organization.

The Steel Group represents approximately 20% of the company's 2003 sales. Steel Group products include different alloys in both solid and tubular sections as well as custom-made steel products all for both automotive and industrial applications, including bearings.

Financial Overview

In 2003, The Timken Company reported record sales of approximately \$3.8 billion, an increase of approximately 49% from 2002, driven by the \$840 million strategic acquisition of Torrington on February 18, 2003. For 2003, Torrington added sales and a broad range of complementary products and services. Despite higher sales, earnings decreased from 2002 levels due to the performance of the Automotive and Steel Groups.

Automotive Group profitability was negatively impacted by additional costs associated with the restructuring of manufacturing plants in 2003. In the fourth quarter, the Automotive Group experienced some improvement from rationalization initiatives and the company anticipates continuing improvement in 2004.

Industrial Group profitability increased due to the Torrington acquisition, the effect of the company's continued manufacturing improvement initiatives, improved results in Europe and the rail business and exiting of low-margin business. Until very late in 2003, there was little evidence of any industrial recovery in the company's major markets. In 2004, the company expects slow growth from 2003 levels for the North American industrial markets and strong growth in emerging markets.

Despite challenging market conditions, the Steel Group increased sales in 2003 from the prior year due to penetration gains in industrial markets and increased demand from automotive and industrial customers. However, costs for scrap steel – used in steel production – continued at record high levels through 2003. The Steel Group also faced very high costs for natural gas and alloys. The company raised steel prices, implemented raw material surcharges and increased productivity during the year. However, these actions were not sufficient to offset the high costs and the Steel Group recorded a loss in 2003. The company expects raw material and energy costs to remain high in 2004.

The acquisition of Torrington leveraged the company's balance sheet higher, with total debt peaking at \$1.017 billion at June 30, 2003. The company reduced debt from this peak by \$282 million to \$735 million at year-end. The company raised \$375 million in proceeds, before expenses, from equity offerings throughout the year. During the year, the company divested non-strategic assets and received a payment of \$65.6 million under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA), net of related expenses and a repayment of a portion of amounts received in 2002.

THE STATEMENT OF OPERATIONS

2003 compared to 2002

Overview:

	2003	2002	\$ Change	% Change
(Dollars in millions, except earnings per share)				
Net sales	\$ 3,788.1	\$ 2,550.1	\$ 1,238.0	48.6%
Income before cumulative effect of change in accounting principle	\$ 36.5	\$ 51.4	\$ (14.9)	(29.1)%
Cumulative effect of change in accounting principle, net of tax	\$ -	\$ (12.7)	\$ 12.7	N/A
Net income	\$ 36.5	\$ 38.7	\$ (2.2)	(5.9)%
Earnings per share before cumulative effect of change in accounting principle - diluted	\$ 0.44	\$ 0.83	\$ (0.39)	(47.0)%
Cumulative effect of change in accounting principle, net of tax	\$ -	\$ (0.21)	\$ 0.21	N/A
Earnings per share - diluted	\$ 0.44	\$ 0.62	\$ (0.18)	(29.0)%
Average number of shares - diluted	83,159,321	61,635,339	N/A	N/A

In 2002, the cumulative effect of change in accounting principle related to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." The goodwill impairment charge related to the company's Specialty Steel business.

Sales by Segment:

	2003	2002	\$ Change	% Change
(Dollars in millions, and exclude intersegment sales)				
Automotive Group	\$ 1,396.1	\$ 752.8	\$ 643.3	85.5%
Industrial Group	\$ 1,498.8	\$ 971.5	\$ 527.3	54.3%
Steel Group	\$ 893.2	\$ 825.8	\$ 67.4	8.2%
Total company	\$ 3,788.1	\$ 2,550.1	\$ 1,238.0	48.6%

The increases in net sales for both the Automotive and the Industrial Groups were primarily the result of the Torrington acquisition. The Automotive Group's net sales further benefited from the launch of new product platforms, the increasing demand in the medium and heavy truck markets, and favorable foreign currency exchange. In addition to the effect of the Torrington acquisition,

the Industrial Group's net sales increased due to favorable foreign currency exchange and improved sales to industrial distributors. The increase in the Steel Group's net sales was due primarily to penetration gains in industrial markets and increased demand from automotive and industrial customers.

Gross Profit:

	2003	2002	\$ Change	% Change
(Dollars in millions)				
Gross profit	\$ 631.6	\$ 469.6	\$ 162.0	34.5%
Gross profit % to net sales	16.7%	18.4%	N/A	(1.7)%
Reorganization and integration charges included in cost of products sold	\$ 3.4	\$ 8.5	\$ (5.1)	(60.0)%

Gross profit increased primarily due to the incremental sales volume from the Torrington acquisition. Gross profit for the Automotive Group benefited from the additional sales volume resulting from the Torrington acquisition; however, it was negatively impacted by additional costs associated with the restructuring of its manufacturing plants. During the last six months of 2003, the Automotive Group reduced employment by more than 750 associates. This action, along with others, improved the Automotive Group's productivity in the fourth quarter of 2003. In addition to the increased sales volume from the Torrington acquisition, gross profit for the Industrial Group benefited from improved performance in Europe that was largely due to favorable foreign currency

exchange, exiting of low-margin businesses and manufacturing cost reductions. Steel Group gross profit was negatively impacted by extremely high costs for scrap steel, natural gas and alloys which more than offset increased sales, raw material surcharges passed on to customers and higher capacity utilization.

In 2003, reorganization and integration charges included in cost of products sold related primarily to charges associated with the integration of Torrington in the amount of \$9.3 million and costs incurred for the Duston, England plant closure in the amount of \$4.0 million. These charges were partially offset by curtailment gains in the amount of \$9.9 million resulting from the redesign of the company's U.S.-based employee benefit plans.

Selling, Administrative and General Expenses:

	2003	2002	\$ Change	% Change
(Dollars in millions)				
Selling, administrative and general expenses	\$ 514.2	\$ 358.9	\$ 155.3	43.3%
Selling, administrative and general expenses % to net sales	13.6%	14.1%	N/A	(0.5)%
Reorganization and integration charges included in selling, administrative and general expenses	\$ 30.5	\$ 9.9	\$ 20.6	208.0%

Selling, administrative and general expenses in 2003 increased primarily due to the Torrington acquisition, costs incurred in the integration of Torrington and currency exchange rates. The company continues its efforts to control spending on selling, administrative and general expenses. Even though the amount of selling, administrative and general expenses in 2003 increased from 2002, and 2003 included \$30.5 million in reorganization and integration charges, as a result of higher net sales, the percentage of selling,

administrative and general expenses to net sales decreased to 13.6% in 2003, from 14.1% in 2002.

In 2003, reorganization and integration charges included in selling, administrative and general expenses included integration costs for the Torrington acquisition of \$27.6 million and curtailment losses resulting from the redesign of the company's U.S.-based employee benefit plans of \$2.9 million.

Impairment and Restructuring Charges:

	2003	2002	\$ Change
(Dollars in millions)			
Impairment charges	\$ 12.5	\$ 17.9	\$ (5.4)
Severance and related benefit costs	\$ 2.9	\$ 10.2	\$ (7.3)
Exit costs	\$ 3.7	\$ 4.0	\$ (0.3)
Total	\$ 19.1	\$ 32.1	\$ (13.0)

In 2003, impairment charges represented the write-off of the remaining goodwill for the Steel Group in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," of \$10.2 million and impairment charges for the Columbus, Ohio plant of \$2.3 million. The severance and related benefit costs of \$2.9 million related to associates who exited the company as a result of the integration of Torrington and other actions taken by the company to reduce costs. The exit costs were comprised of \$3.0 million for the

Columbus, Ohio plant and \$0.7 million for the Duston, England plant. The Duston and Columbus plants were part of the company's manufacturing strategy initiative (MSI). The additional costs that were incurred in 2003 for these two projects were the result of changes in estimates. In 2002, the impairment charges and exit costs were related to the Duston, England, and Columbus, Ohio plant closures. The severance and curtailment expenses related primarily to a salaried workforce reduction throughout the company.

Interest Expense and Income:

	2003	2002	\$ Change
(Dollars in millions)			
Interest expense	\$ 48.4	\$ 31.5	\$ 16.9
Interest income	\$ 1.1	\$ 1.7	\$ (0.6)

The increase in interest expense was due to the additional debt incurred as a result of the Torrington acquisition. Interest income was not significant in either year.

Other Income and Expense:

	2003	2002	\$ Change
(Dollars in millions)			
CDSOA receipts, net of expenses	\$ 65.6	\$ 50.2	\$ 15.4
Impairment charge – equity investment	\$ (45.7)	\$ -	\$ (45.7)
Other expense, net	\$ (10.0)	\$ (13.4)	\$ 3.4

CDSOA receipts are reported net of applicable expenses. In addition, amounts received in 2003 are net of a one-time repayment, due to a miscalculation by the U.S. Treasury Department of funds received by the company in 2002. CDSOA provides for distribution of monies collected by U.S. Customs from antidumping cases to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and people. The amounts received in 2003 related to the original Timken tapered roller, ball and cylindrical bearing businesses and the Torrington tapered roller bearing business. It is expected that in February, 2004, Timken will receive a payment delayed from 2003 of \$7.7 million relating to Torrington's bearing business other than its tapered roller bearing business. This is a net amount after taking into account the terms of the agreement under which the company purchased the Torrington business, which provided that Timken must deliver to the seller of the Torrington business 80% of any Torrington-related payments received relating to 2003 and 2004. The company cannot predict whether it will receive any payments under CDSOA later in 2004 or if so, in what amount. In September 2002, the World Trade Organization (WTO) ruled that such payments violate international trade rules. The U.S. Trade Representatives appealed this ruling; however, the WTO upheld the ruling on January 16, 2003.

During 2000, the company's Steel Group invested in a joint venture, PEL Technologies (PEL), to commercialize a proprietary technology that converts iron units into engineered iron oxides for use in pigments, coatings and abrasives. The company previously accounted for its investment in PEL, which is a development stage company, using the equity method. In the fourth quarter of 2003, the company concluded that its investment in PEL was impaired due to the following indicators of impairment: history of negative cash flow and losses; 2004 operating plan with continued losses and negative cash flow; and the continued required support from the company or another party. Accordingly, the company recorded a non-cash impairment charge totaling \$45.7 million, which is comprised of the PEL indebtedness that the company has guaranteed of \$26.5 million and the write-off of the advances to and investments in PEL that the company has made of \$19.2 million. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for additional discussion.

In 2003, other expense, net included losses from other equity investments, losses from the sale of assets, foreign currency exchange gains (including acquisition-related currency exchange gains), and one-time net gains from the sales of non-strategic assets. In 2002, other expense, net included foreign currency exchange losses, losses on the disposal of assets and losses from equity investments.

Income Tax Expense:

The effective tax rates were 40.0% and 39.8% for the years ended December 31, 2003 and 2002, respectively. The effective tax rate for both years exceeded the U.S. statutory tax rate as a result of taxes paid to state and local jurisdictions, withholding taxes on

foreign remittances, recognition of losses in jurisdictions that were not available to reduce overall tax expense, additional taxes on foreign income, and the aggregate effect of other permanently non-deductible expenses. The unfavorable tax rate adjustments were partially mitigated by benefits from extraterritorial income.

Business Segments:

Beginning in the first quarter of 2003, the company reorganized two of its reportable segments – the Automotive and Industrial Groups. Timken's automotive aftermarket business is now part of its Industrial Group, which manages the combined distribution operations. The company's sales to emerging markets, principally in central and eastern Europe and Asia, previously were all reported as part of the Industrial Group. Emerging market sales to automotive original equipment manufacturers are now included in the Automotive Group. The segment results that follow for both 2003 and 2002 reflect the reporting reorganization described above.

The primary measurement used by management to measure the financial performance of each Group is adjusted EBIT (earnings before interest and taxes excluding special items such as impairment and restructuring, reorganization and integration costs, one-time gains or losses on sales of assets, allocated receipts received or payments made under the CDSOA, acquisition-related currency exchange gains, and other items similar in nature). Refer to Note 14 – Segment Information in the notes to the consolidated financial statements for the reconciliation of adjusted EBIT by Group to consolidated income before income taxes and cumulative effect of change in accounting principle.

Automotive Group:

	2003	2002	\$ Change	% Change
(Dollars in millions)				
Net sales, including intersegment sales	\$ 1,396.1	\$ 752.8	\$ 643.3	85.5%
Adjusted EBIT	\$ 15.7	\$ 11.1	\$ 4.6	41.4%
Adjusted EBIT margin	1.1%	1.5%	N/A	(0.4)%

The Automotive Group includes sales of bearings and other products and services (other than steel) to automotive original equipment manufacturers. The increase in sales between years was primarily the result of the acquisition of Torrington. Strengthening medium and heavy truck markets, new product introductions and favorable foreign currency exchange rates further benefited the Automotive Group's net sales. The Automotive Group's results in 2003 reflected higher costs due to issues in the

execution of the restructuring of its automotive plants and expenditures related to new ventures in China and a U.S.-based joint venture, Advanced Green Components. However, the Automotive Group began to see some improvement from the rationalization initiatives in the fourth quarter of 2003 and expects this trend to continue in 2004. In 2004, the company anticipates a slight improvement in North American automotive production and further strengthening in medium and heavy truck production.

Industrial Group:

	2003	2002	\$ Change	% Change
(Dollars in millions)				
Net sales, including intersegment sales	\$ 1,499.7	\$ 971.5	\$ 528.2	54.4%
Adjusted EBIT	\$ 128.0	\$ 73.0	\$ 55.0	75.3%
Adjusted EBIT margin	8.5%	7.5%	N/A	1.0%

Sales by the Industrial Group include global sales of bearings and other products and services (other than steel) to a diverse customer base, including: industrial equipment; off-highway; rail; and aerospace and defense customers. The Industrial Group also includes the financial results for Timken's aftermarket distribution operations for products other than steel. The sales increase between years was primarily the result of the acquisition of Torrington. Many of the markets served by the Industrial Group remained relatively flat during 2003. The Industrial Group benefited

from improved performance in Europe that was largely due to favorable foreign currency exchange rates and improved results in the rail business, strong aftermarket sales to industrial distributors, exiting of low-margin business, and manufacturing cost reductions. In 2004, the company expects a slow increase from 2003 levels for the North American industrial markets and strong growth for the emerging markets. The company anticipates lower levels of sales to distributors in 2004 as the Industrial Group and its distributors work to reduce inventory levels, which relates primarily to Torrington-branded products.

Steel Group:

	2003	2002	\$ Change	% Change
(Dollars in millions)				
Net sales, including intersegment sales	\$ 1,026.5	\$ 981.3	\$ 45.2	4.6%
Adjusted EBIT (loss)	\$ (6.0)	\$ 32.5	\$ (38.5)	N/A
Adjusted EBIT (loss) margin	(0.6)%	3.3%	N/A	N/A

The increase in the Steel Group's net sales was primarily the result of penetration gains in industrial markets and increased demand from automotive and industrial customers, partially offset by lower intersegment sales. The Steel Group's results were negatively impacted by extremely high costs for scrap steel, natural gas and

alloys, partially offset by increased sales, higher capacity utilization, implementation of new raw material surcharges and price increases. In 2004, the company expects raw material and energy costs to continue to be high.

2002 compared to 2001

Net sales for 2002 were \$2.550 billion, an increase of 4.2% from \$2.447 billion in 2001. The company's 2002 results for the Automotive and Steel Groups benefited from increased demand in the automotive industry. North American light truck production was strong throughout the year, and heavy truck demand remained strong throughout 2002 because of more strict emissions standards for heavy trucks enacted in the fourth quarter of 2002, which were anticipated by the market and its customers. However, industrial markets around the world showed few signs of recovery. Both rail and global aerospace demand remained weak.

Gross profit in 2002 was \$469.6 million (18.4% of net sales), an increase of 17.2% from \$400.7 million (16.4% of net sales) in 2001. The improvement was the result of higher sales volume, higher productivity, cost containment and savings generated from MSI. Partially offsetting these positive items were increased costs due to manufacturing issues caused by capacity constraints related to MSI equipment rationalization and higher raw material costs. In addition, the discontinuation of goodwill amortization, which had a pretax effect of \$6.1 million in 2001, favorably impacted 2002 gross profit. Gross profit was reduced by \$8.6 million and \$7.7 million in reorganization expenses in 2002 and 2001, respectively.

Selling, administrative and general expenses decreased to \$358.9 million (14.1% of net sales) in 2002, compared to \$363.7 million (14.9% of net sales) in 2001. Reorganization costs included in selling, administrative and general expenses were \$9.9 million in 2002, compared to \$4.9 million in 2001. Reorganization costs increased by \$5.0 million in 2002, and employee performance-based compensation was higher in 2002 because of the company's improved performance. However, the increase was more than offset by the salaried headcount and business costs reductions achieved through MSI and a salaried workforce reduction. Operating income for 2002 was \$78.6 million, compared to a loss of \$17.6 million in 2001. In 2002, the company recorded \$32.1 million in restructuring costs and \$18.5 million in reorganization costs, compared to \$54.7 million in restructuring costs and \$12.6 million in reorganization costs in 2001.

In December 2002, the company completed the second phase of the strategic global refocusing of its manufacturing operations announced in April 2001 to enable the company to more profitably execute its business strategies. MSI included: creating focused factories for each product line or component; reducing fixed costs; increasing production at the company's lower-cost plants; and implementing more efficient, higher product quality manufacturing processes to continue to improve product quality and productivity. As part of MSI in 2001, the company announced its intention to close bearing plants in Columbus, Ohio, and Duston, England; to sell a tooling plant in Ashland, Ohio; and to reduce employment by approximately 1,500 by the end of 2002. In August 2001, the company announced and implemented additional cost-saving actions by reducing capital spending, delaying or scaling back certain projects and reducing salaried employment. The reductions affected approximately 300 salaried associates concentrated in North America and Western Europe and were in addition to the 1,500 previously announced. These additional salaried associates exited the company by the end of 2001. Manufacturing operations at the Columbus and Duston bearing plants ceased in November 2001 and September 2002, respectively. Additionally, on June 30, 2002, the company sold its Ashland plant.

In total for 2001 and 2002, the company incurred \$107.4 million in cumulative restructuring, impairment and reorganization charges related to MSI and salaried workforce reduction programs, compared to a target of \$100-\$110 million. For the year ended December 31, 2002, the company incurred \$50.6 million in restructuring and reorganization charges. A breakdown of these expenses is as follows:

(Dollars in millions)	
Impairment expense	\$ 17.9
Severance expense	3.5
Curtailment loss	6.7
Exit costs	4.0
Reorganization expense:	
Cost of products sold	8.6
Selling, administrative and general expenses	9.9
Total expenses	\$ 50.6

The \$17.9 million in impairment expense and \$4.0 million in exit costs were related to the Duston and Columbus plant closures. The severance and curtailment expenses related primarily to a salaried workforce reduction throughout the company.

From the announcement in April 2001 through the end of 2002, 1,824 associates left the company as a result of actions taken through MSI and the salaried workforce reduction. Of that number, 1,304 people were primarily associates from the Duston and Columbus plants, as well as associates included in the worldwide salaried workforce reduction program for whom severance was paid. In addition, 99 associates left the company as a result of the sale of the Ashland plant. The remaining 421 associates retired or voluntarily left the company, and their positions were eliminated. Refer to Note 6 – Impairment and Restructuring Charges in the notes to the consolidated financial statements for additional discussion.

The company received gross amounts of approximately \$54 million and \$31 million in 2002 and 2001, respectively, from the U.S. Treasury Department under the CDSOA. CDSOA payments for 2002 and 2001, net of expenses, were \$50.2 million and \$29.6 million.

Other expense increased in 2002 primarily as a result of the decrease in income from gains on sales of properties from 2001. Foreign currency translation losses related to non-hyperinflationary economies totaled \$1.3 million in 2002, compared to \$0.4 million in 2001. The company's subsidiary in Romania is considered to operate in a highly inflationary economy. In 2002, the company

recorded unrealized exchange losses of \$0.9 million related to the translation of Timken Romania's financial statements, compared to \$2.3 million in 2001.

The 2002 effective tax rate was higher than the statutory tax rate as a result of taxes paid to state and local jurisdictions, withholding taxes on foreign remittances, additional taxes on foreign income and the aggregate effect of other permanently non-deductible expenses. Although the company recorded a loss before income taxes for 2001, a consolidated tax provision was recorded because the company generated income in certain jurisdictions where taxes must be provided and, in other jurisdictions, losses which were not available to reduce overall tax expense.

The 2002 income before cumulative effect of change in accounting principle was \$51.4 million, compared to a loss in 2001 of \$41.7 million for the reasons as described above. The diluted earnings per share for income before cumulative effect of change in accounting principle was \$0.83, compared to a loss of \$0.69 per diluted share in 2001.

In accordance with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," the company recorded a transitional impairment loss of \$12.7 million, net of an income tax benefit of \$7.8 million, which relates to the Specialty Steel business. This transitional impairment loss was recorded as a non-cash charge and is reflected as the cumulative effect of a change in accounting principle.

Net income for 2002 was \$38.7 million, compared to a net loss of \$41.7 million in 2001. The 2002 diluted earnings per share was \$0.62, compared to a loss of \$0.69 per diluted share in 2001.

THE BALANCE SHEET

Total assets as shown on the Consolidated Balance Sheet at December 31, 2003 increased by \$941.4 million from December

31, 2002. The majority of this increase related to the acquisition of Torrington, which was purchased on February 18, 2003 for \$840 million, before expenses and certain post-closing adjustments.

Current Assets:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Cash and cash equivalents	\$ 28.6	\$ 82.1	\$ (53.5)	(65.1)%
Accounts receivable, net	\$ 602.3	\$ 361.3	\$ 241.0	66.7%
Deferred income taxes	\$ 50.3	\$ 36.0	\$ 14.3	39.6%
Inventories	\$ 695.9	\$ 488.9	\$ 207.0	42.3%
Total current assets	\$ 1,377.1	\$ 968.3	\$ 408.8	42.2%

Refer to the Consolidated Statement of Cash Flows for an explanation of the decrease in cash and cash equivalents. The increase in accounts receivable was due primarily to the acquisition of Torrington, foreign currency translation and timing of sales. The

increase in inventories was due primarily to the acquisition of Torrington and foreign currency translation, partially offset by lower Steel Group inventories and lower production volumes in the Industrial Group during the fourth quarter of 2003 to reduce inventories at December 31, 2003.

Property, Plant and Equipment – Net:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Property, plant and equipment - cost	\$ 3,501.6	\$ 2,945.0	\$ 556.6	18.9%
Less: allowances for depreciation	\$ (1,893.0)	\$ (1,718.8)	\$ (174.2)	(10.1)%
Property, plant and equipment - net	\$ 1,608.6	\$ 1,226.2	\$ 382.4	31.2%

The increase in property, plant and equipment – net was due primarily to the acquisition of Torrington and foreign currency translation, partially offset by depreciation expense in excess of capital expenditures. Based on a third-party valuation, the property, plant and equipment from the Torrington acquisition was recorded at its fair value as of the acquisition date, which was \$434.7 million.

The company estimates the annual depreciation expense in 2004 for the property, plant and equipment acquired in the Torrington acquisition to be approximately \$63.5 million. The depreciation expense recorded in 2003 for the property, plant and equipment acquired in the Torrington acquisition in February 2003 was \$55.6 million.

Other Assets:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Goodwill	\$ 173.1	\$ 129.9	\$ 43.2	33.2%
Other intangible assets	\$ 91.5	\$ 5.2	\$ 86.3	1,653.4%
Intangible pension assets	\$ 106.5	\$ 129.0	\$ (22.5)	(17.4)%
Miscellaneous receivables and other assets	\$ 130.1	\$ 95.4	\$ 34.7	36.4%
Deferred income taxes	\$ 148.8	\$ 169.1	\$ (20.3)	(12.0)%
Deferred charges and prepaid expenses	\$ 54.1	\$ 25.2	\$ 28.9	114.7%
Total other assets	\$ 704.1	\$ 553.8	\$ 150.3	27.1%

The increase in goodwill was due primarily to the preliminary goodwill from the Torrington acquisition of \$47.0 million at December 31, 2003, partially offset by the non-cash impairment charge to the remaining Steel Group goodwill of \$10.2 million. The increase in other intangible assets was due to the Torrington acquisition. Based on a third-party valuation, the company recorded the fair value of the intangible assets acquired in the Torrington acquisition, which was \$91.7 million with a weighted average useful life of 12 years. These intangible assets include customer relationships, patents, unpatented technology, engineering drawings, and

trademarks. The company estimates the annual amortization expense in 2004 for the intangible assets acquired in the Torrington acquisition to be approximately \$8.5 million. The increase in miscellaneous receivables and other assets was primarily the result of the Torrington acquisition, partially offset by the non-cash impairment charge to the company's investment in the PEL joint venture (refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for additional discussion). The increase in deferred charges and prepaid expenses was due primarily to the Torrington acquisition.

Current Liabilities:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Commercial paper	\$ -	\$ 9.0	\$ (9.0)	N/A
Short-term debt	\$ 114.5	\$ 78.4	\$ 36.1	46.1%
Accounts payable and other liabilities	\$ 425.2	\$ 296.5	\$ 128.7	43.4%
Salaries, wages and benefits	\$ 429.7	\$ 222.5	\$ 207.2	93.1%
Income taxes	\$ 78.5	\$ 3.9	\$ 74.6	1,940.9%
Current portion of long-term debt	\$ 6.7	\$ 23.8	\$ (17.1)	(71.7)%
Total current liabilities	\$ 1,054.6	\$ 634.1	\$ 420.5	66.3%

The increase in short-term debt was due primarily to the company's recording of guarantees of certain indebtedness of PEL (refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for additional discussion). The increase in accounts payable and other liabilities was due primarily to the

Torrington acquisition and foreign currency translation. The increase in salaries, wages and benefits was due primarily to an increase in the current portion of accrued pension cost and the acquisition of Torrington. The increase in income taxes payable was due primarily to the Torrington acquisition.

Non-Current Liabilities:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Long-term debt	\$ 613.4	\$ 350.1	\$ 263.3	75.2%
Accrued pension cost	\$ 424.4	\$ 723.2	\$ (298.8)	(41.3)%
Accrued postretirement benefits cost	\$ 477.0	\$ 411.3	\$ 65.7	16.0%
Other non-current liabilities	\$ 30.8	\$ 20.6	\$ 10.2	49.2%
Total non-current liabilities	\$ 1,545.6	\$ 1,505.2	\$ 40.4	2.7%

The increase in debt was due primarily to the remaining debt incurred for the Torrington acquisition. Despite pension plan contributions of \$174 million, the company was able to reduce debt with the proceeds from two public equity offerings, the sale of non-strategic assets, and receipts from CDSOA. The debt-to-total-capital ratio was 40.3% at December 31, 2003, compared to

43.1% at December 31, 2002. The decrease in accrued pension cost was due primarily to contributions to the company's pension plans totaling \$174 million and the movement of the current portion of accrued pension cost to current liabilities. The increase in accrued postretirement benefits cost was due primarily to the additional liability incurred for plans related to active employees in connection with the Torrington acquisition.

Shareholders' Equity:

	12/31/03	12/31/02	\$ Change	% Change
(Dollars in millions)				
Common stock	\$ 689.3	\$ 311.1	\$ 378.2	121.6%
Earnings invested in the business	\$ 758.9	\$ 764.4	\$ (5.5)	(0.7)%
Accumulated other comprehensive loss	\$ (358.4)	\$ (465.7)	\$ 107.3	23.0%
Treasury shares	\$ (0.2)	\$ (0.7)	\$ 0.5	(76.2)%
Total shareholders' equity	\$ 1,089.6	\$ 609.1	\$ 480.5	78.9%

The increase in common stock was the result of the issuance of 22,045,973 shares in connection with the Torrington acquisition and an additional public equity offering of 3,500,000 shares in October 2003. Earnings invested in the business were decreased by dividends declared of \$42.1 million and increased by net income of

\$36.5 million. The decrease in accumulated other comprehensive loss was due primarily to a decrease in the foreign currency translation adjustment of \$75.1 million, which was largely the result of the strength of the Euro and a decrease to the minimum pension liability of \$31.8 million, net of income taxes.

CASH FLOWS

	2003	2002	\$ Change
(Dollars in millions)			
Net cash provided by operating activities	\$ 202.6	\$ 206.1	\$ (3.5)
Net cash used by investing activities	\$ (662.7)	\$ (79.4)	\$ (583.3)
Net cash provided (used) by financing activities	\$ 401.9	\$ (80.5)	\$ 482.4
Effect of exchange rate changes on cash	\$ 4.8	\$ 2.5	\$ 2.3
(Decrease) increase in cash and cash equivalents	\$ (53.4)	\$ 48.7	\$ N/A

The decrease in net cash provided by operating activities was \$3.5 million. This decrease was primarily the result of higher cash contributions to the company's pension plans in 2003 of \$174.0 million, compared to \$57.8 million in 2002. The cash flow impact of the increased pension plan contributions was partially offset by higher net income adjusted for non-cash items equaling \$313.4 million in 2003 as compared to \$212.8 of similar non-cash items in 2002. The non-cash items include cumulative effect of change in accounting principle, depreciation and amortization expense, loss on disposals of property, plant and equipment, deferred income tax provision, common stock issued in lieu of cash and impairment and restructuring charges. Net cash provided by operating activities was also impacted by improved cash

generated from changes in operating assets and liabilities of \$63.2 million in 2003, compared to \$51.1 million in 2002. The increase in net cash used by investing activities was the result of the cash portion of the Torrington acquisition and higher capital expenditures, partially offset by proceeds of \$146.3 million from the sale of the company's interest in a joint venture acquired in the Torrington acquisition and proceeds from the sales of other non-strategic assets. Net cash provided by financing activities increased due primarily to the additional debt incurred in connection with the Torrington acquisition and the public equity offerings of the company's common stock, partially offset by dividends paid and debt repayments. In 2004, the company expects the amounts of its pension contributions and capital expenditures to be similar to 2003.

LIQUIDITY AND CAPITAL RESOURCES

The debt-to-total-capital ratio was 40.3% at December 31, 2003, compared to 43.1% at December 31, 2002. Total debt was \$734.6 million at December 31, 2003, compared to \$461.2 million at December 31, 2002. Debt of \$520 million was incurred in connection with the Torrington acquisition, the components of which were as follows: \$250 million of seven-year unsecured notes; \$145 million drawn from a new \$500 million five-year senior credit facility with a syndicate of financial institutions; and \$125 million from an asset securitization facility put in place at the end of 2002. Amounts outstanding under both the company's senior credit facility and the accounts receivable securitization were fully repaid by December 31, 2003. The company expects that any cash requirements in excess of cash generated from operating activities will be met by the availability under the accounts receivable securitization facility and the senior credit facility. At December 31, 2003, the company had outstanding letters of credit totaling \$64.1 million, which reduced the availability under the \$500 million senior credit facility to \$435.9 million. Also, the company had availability of \$125 million under the accounts receivable securitization facility.

Under the \$500 million senior credit facility, the company has three financial covenants: consolidated net worth; a leverage ratio; and a fixed charge coverage ratio. These financial covenants became effective for the quarter ending on June 30, 2003. At December 31, 2003, the company was in compliance with the covenants under its senior credit facility and its other debt agreements.

In September 2003, Standard & Poor's Ratings Services placed the company's BBB- corporate credit and its other ratings on the company on CreditWatch with negative implications. In January 2004, Standard & Poor's Rating Services reaffirmed its BBB- rating. In October 2003, Moody's Investors Services lowered its rating of the company's debt from Baa3 to Ba1. The ratings are on the company's senior unsecured debt and senior implied and senior unsecured issuer ratings. The impact of the lowered ratings by Moody's on the company's earnings has been minimal, with only a slight increase in the interest rate under the company's senior credit facility. The company has no significant long-term debt payments due in the next two years and believes it has sufficient liquidity to meet its obligations.

The company's contractual debt obligations and contractual commitments outstanding as of December 31, 2003 are as follows:

Payments due by Period

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<small>(Dollars in millions)</small>					
Long-term debt	\$ 620.2	\$ 6.7	\$ 94.5	\$ 25.8	\$ 493.2
Short-term debt	\$ 114.5	\$ 114.5	0	0	0
Operating leases	\$ 81.1	\$ 15.7	\$ 24.9	\$ 15.0	\$ 25.5
Supply agreement	\$ 13.9	\$ 6.4	\$ 7.5	0	0
Total	\$ 829.7	\$ 143.3	\$ 126.9	\$ 40.8	\$ 518.7

The company's capital lease obligations are immaterial. The company is also the guarantor of \$27.0 million in debt for PEL. During 2003, the company recorded the amounts outstanding at December 31, 2003 on the debts underlying the guarantees of \$26.5 million, which is reported as short-term debt on the consolidated balance sheet. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for additional discussion. Additionally, the company guarantees an operating lease of a subsidiary's warehouse facility, which had future rental commitments of \$15.9 million at December 31, 2003. In connection with the sale of the company's Ashland tooling plant in 2002, the company entered into a \$25.9 million four-year supply agreement, which expires on June 30, 2006, pursuant to which the company purchases tooling.

During 2003, the company did not purchase any shares of its common stock as authorized under the company's 2000 common stock purchase plan. This plan authorizes the company to buy in the open market or in privately negotiated transactions up to 4 million shares of common stock, which are to be held as treasury shares and used for specified purposes. The company may exercise this authorization until December 31, 2006. The company does not expect to be active in repurchasing shares under this plan in the near-term.

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

OTHER INFORMATION

Recent Accounting Pronouncements:

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at the fair value only when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. SFAS No. 146 has no effect on charges recorded for exit activities begun prior to 2003. As such, the company continued to recognize restructuring costs in connection with the manufacturing strategy initiative (MSI) in accordance with EITF Issue No. 94-3. The adoption of this statement did not have a material effect on the company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45's disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Interpretation No. 45 requires certain guarantees to be recorded at fair value. The guarantor's previous accounting for guarantees issued prior to the date of initial application should not be revised or restated. In 2003, the company recorded its guarantee of certain of PEL's indebtedness, which totaled \$26.5 million. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for further discussion.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities in which an enterprise is the primary beneficiary. The primary beneficiary absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB

issued a revised Interpretation that, among other things, deferred the implementation date of the Interpretation until periods ending after March 15, 2004 for variable interest entities, other than those entities commonly referred to as special purpose entities. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for further discussion.

In January 2004, the FASB issued FASB Staff Position (FSP) 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act). The FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act. Regardless of whether a sponsor elects that deferral, the FSP requires certain disclosures pending further consideration of the underlying accounting issues. The company has elected to defer accounting for the effects of the Act. The company is currently evaluating the impact of the Act on its financial position and results of operations.

Critical Accounting Policies and Estimates:

The company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. 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 following paragraphs include a discussion of some critical areas that require a higher degree of judgment, estimates and complexity.

The company's revenue recognition policy is to recognize revenue when title passes to the customer. This occurs generally at the shipping point, except for certain exported goods, for which it occurs when the goods reach their destination. Selling prices are fixed, based on purchase orders or contractual arrangements. Write-offs of accounts receivable historically have been low.

As noted above, it is the company's policy to recognize restructuring costs in accordance with EITF 94-3 for exit and disposal activities that are initiated prior to or on December 31, 2002 or SFAS 146 for exit and disposal activities that are initiated after December 31, 2002, and the SEC Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." Detailed contemporaneous documentation is maintained and updated on a monthly basis to ensure that accruals are properly supported. If management determines that there is a change in estimate, the accruals are adjusted to reflect this change.

The company sponsors a number of defined benefit pension plans, which cover many associates, except for those at certain international locations who are covered by government plans. The company also sponsors several unfunded postretirement plans that provide health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including return on pension plan assets, rate of compensation increases and health care cost trend rates. The discount rate is determined using a model that matches corporate bond securities against projected future pension and postretirement disbursements. Actual pension plan asset performance either reduces or increases net actuarial gains or losses in the current year, which ultimately affects net income in subsequent years.

For expense purposes in 2003, the company applied a discount rate of 6.6% and an expected rate of return of 8.75% for the company's pension plan assets. For 2004 expense, the company reduced the discount rate to 6.3%. The assumption for expected rate of return on plan assets was not changed from 8.75% for 2004. The lower discount rate will result in an increase in 2004 pretax pension expense of approximately \$5.2 million. A 0.25% reduction in the discount rate would increase pension expense by approximately \$4.4 million for 2004. A 0.25% reduction in the expected rate of return would increase pension expense by approximately \$3.6 million for 2004.

During 2003, the company made revisions, which became effective on January 1, 2004, to certain of its benefit programs for its U.S.-based employees. Depending on an associate's combined age and years of service with the company on January 1, 2004, defined benefit pension plan benefits were reduced or replaced by a new defined contribution plan. The company will no longer subsidize retiree medical coverage for those associates who did not meet a threshold of combined age and years of service with the company on January 1, 2004.

For measurement purposes, the company assumed a weighted-average annual rate of increase in the per capita cost (health care cost trend rate) for medical benefits of 7.5% for 2004, declining gradually to 6.0% in 2006 and thereafter for pre-age 65 benefits; 6.0% for post-age 65 benefits for all years; and 13.5% for 2004, declining gradually to 6.0% in 2014 and thereafter for prescription drug benefits. The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point increase in the assumed health care cost trend rate would have increased the 2003 total service and interest components by \$2.5 million and would have increased the postretirement obligation by \$37.0 million. A one-percentage-point decrease would provide corresponding reductions of \$2.2 million and \$32.5 million, respectively.

SFAS No. 109, "Accounting for Income Taxes," requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The company estimates actual current tax due and assesses temporary differences resulting from the treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included within the balance sheet. Based on known and projected earnings information and prudent tax planning strategies, the company then assesses the likelihood that the deferred tax assets will be recovered. To the extent that the company believes recovery is not likely, a valuation allowance is established. In the event that the company determines the realizability of deferred tax assets in the future is in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period in which such determination was made. Likewise, if the company determines that it is unlikely that all or part of the net deferred tax asset will be realized in the future, an adjustment to the deferred tax asset would be charged to expense in the period in which such determination was made. Net deferred tax assets relate primarily to pension and postretirement benefits and tax loss and credit carryforwards, which the company believes will result in future tax benefits. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. Historically, actual results have not differed significantly from those determined using the estimates described above.

Other Matters:

Changes in short-term interest rates related to several separate funding sources impact the company's earnings. These sources are borrowings under an accounts receivable securitization program, borrowings under the \$500 million senior credit facility, floating rate tax-exempt U.S. municipal bonds with a weekly reset mode, and short-term bank borrowings at international subsidiaries. If the market rates for short-term borrowings increased by 1% around the globe, the impact would be an increase in interest expense of \$1.5 million with a corresponding decrease in income before taxes of the same amount. The amount was determined by considering the impact of hypothetical interest rates on the company's borrowing cost, year-end debt balances by category and an estimated impact on the tax-exempt municipal bonds' interest rates.

Fluctuations in the value of the U.S. dollar compared to foreign currencies, predominately in European countries, also impact the company's earnings. The greatest risk relates to products shipped between the company's European operations and the United States. Foreign currency forward contracts and options are used to hedge these intercompany transactions. Additionally, hedges are used to cover third-party purchases of product and equipment. As of December 31, 2003, there were \$145.6 million of hedges in place. A uniform 10% weakening of the dollar against all currencies would have resulted in a change of \$8.6 million on these hedges. In addition to the direct impact of the hedged amounts, changes in exchange rates also affect the volume of sales or foreign currency sales price as competitors' products become more or less attractive.

On March 5, 2002, pursuant to Section 201 of the U.S. Trade Act of 1974, President Bush signed a proclamation imposing increased tariffs for a three-year period on imports of hot-rolled and cold-finished steel bar imports, in response to the International Trade Commission finding that the U.S. steel industry was being injured as a result of excessive imports by international competitors. The remedy for these product categories was three years of tariffs at 30%, 24% and 18%. In December 2003, President Bush announced an immediate repeal of the Section 201 safeguard remedies. Because the remedies were imposed on products that represented only approximately 30% of the company's Steel Group sales and many emerging markets countries were excluded from the remedies, the company does not expect the repeal of the

remedies to have a significant impact on its results of operations, cash flows or financial position.

The company continues its efforts to protect the environment and comply with environmental protection laws. Additionally, it has invested in pollution control equipment and updated plant operational practices. The company is committed to implementing a documented environmental management system worldwide and to becoming certified under the ISO 14001 standard to meet or exceed customer requirements. By the end of 2003, thirty-one of the company's plants had obtained ISO 14001 certification. The company believes it has established adequate reserves to cover its environmental expenses and has a well-established environmental compliance audit program, which includes a proactive approach to bringing its domestic and international units to higher standards of environmental performance. This program measures performance against local laws, as well as standards that have been established for all units worldwide. It is difficult to assess the possible effect of compliance with future requirements that differ from existing ones. As previously reported, the company is unsure of the future financial impact to the company that could result from the United States Environmental Protection Agency's (EPA's) final rules to tighten the National Ambient Air Quality Standards for fine particulate and ozone.

The company and certain of its U.S. subsidiaries have been designated as potentially responsible parties by the United States EPA for site investigation and remediation at certain sites under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The claims for 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. Management believes any ultimate liability with respect to all pending actions will not materially affect the company's results of operations, cash flows or financial position.

On February 6, 2004, the company's board of directors declared a quarterly cash dividend of \$0.13 per share. The dividend is payable on March 2, 2004 to shareholders of record as of February 20, 2004. This will be the 327th consecutive dividend paid on the common stock of the company.

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31

	2003	2002	2001
(Thousands of dollars, except per share data)			
Net sales	\$ 3,788,097	\$ 2,550,075	\$ 2,447,178
Cost of products sold	3,156,475	2,080,498	2,046,458
Gross Profit	631,622	469,577	400,720
Selling, administrative and general expenses	514,221	358,866	363,683
Impairment and restructuring charges	19,154	32,143	54,689
Operating Income (Loss)	98,247	78,568	(17,652)
Interest expense	(48,401)	(31,540)	(33,401)
Interest income	1,123	1,676	2,109
Receipt of Continued Dumping & Subsidy Offset Act (CDSOA) payment	65,559	50,202	29,555
Other expense – net	(55,726)	(13,388)	(7,494)
Income (Loss) Before Income Taxes and Cumulative Effect of Change in Accounting Principle	60,802	85,518	(26,883)
Provision for income taxes	24,321	34,067	14,783
Income (Loss) Before Cumulative Effect of Change in Accounting Principle	\$ 36,481	\$ 51,451	\$ (41,666)
Cumulative effect of change in accounting principle (net of income tax benefit of \$7,786)	-	(12,702)	-
Net Income (Loss)	\$ 36,481	\$ 38,749	\$ (41,666)
Earnings Per Share:			
Income (loss) before cumulative effect of change in accounting principle	\$ 0.44	\$ 0.84	\$(0.69)
Cumulative effect of change in accounting principle	-	(0.21)	-
Earnings Per Share	\$ 0.44	\$ 0.63	\$(0.69)
Earnings Per Share—Assuming Dilution:			
Income (loss) before cumulative effect of change in accounting principle	\$ 0.44	\$ 0.83	\$(0.69)
Cumulative effect of change in accounting principle	-	(0.21)	-
Earnings Per Share—Assuming Dilution	\$ 0.44	\$ 0.62	\$(0.69)

See accompanying Notes to Consolidated Financial Statements on pages 38 through 57.

CONSOLIDATED BALANCE SHEET

December 31

	2003	2002
(Thousands of dollars)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 28,626	\$ 82,050
Accounts receivable, less allowances: 2003– \$23,957; 2002–\$14,386	602,262	361,316
Deferred income taxes	50,271	36,003
Inventories:		
Manufacturing supplies	42,052	34,493
Work in process and raw materials	323,439	243,485
Finished products	330,455	210,945
Total Inventories	695,946	488,923
Total Current Assets	1,377,105	968,292
Property, Plant and Equipment		
Land and buildings	601,108	482,878
Machinery and equipment	2,900,443	2,462,198
	3,501,551	2,945,076
Less allowances for depreciation	1,892,957	1,718,832
Property, Plant and Equipment-Net	1,608,594	1,226,244
Other Assets		
Goodwill	173,099	129,943
Other intangible assets	197,993	134,259
Miscellaneous receivables and other assets	130,081	95,356
Deferred income taxes	148,802	169,051
Deferred charges and prepaid expenses	54,115	25,211
Total Other Assets	704,090	553,820
Total Assets	\$ 3,689,789	\$ 2,748,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Commercial paper	\$ -	\$ 8,999
Short-term debt	114,469	78,354
Accounts payable and other liabilities	425,157	296,543
Salaries, wages and benefits	429,691	222,546
Income taxes	78,514	3,847
Current portion of long-term debt	6,725	23,781
Total Current Liabilities	1,054,556	634,070
Non-Current Liabilities		
Long-term debt	613,446	350,085
Accrued pension cost	424,414	723,188
Accrued postretirement benefits cost	476,966	411,304
Other non-current liabilities	30,780	20,623
Total Non-Current Liabilities	1,545,606	1,505,200
Shareholders' Equity		
Class I and II Serial Preferred Stock without par value:		
Authorized–10,000,000 shares each class, none issued	-	-
Common stock without par value:		
Authorized–200,000,000 shares		
Issued (including shares in treasury) (2003 – 89,076,114 shares; 2002 – 63,451,916 shares)		
Stated capital	53,064	53,064
Other paid-in capital	636,272	257,992
Earnings invested in the business	758,849	764,446
Accumulated other comprehensive loss	(358,382)	(465,677)
Treasury shares at cost (2003 – 10,601 shares; 2002 – 40,074 shares)	(176)	(739)
Total Shareholders' Equity	1,089,627	609,086
Total Liabilities and Shareholders' Equity	\$ 3,689,789	\$ 2,748,356

See accompanying Notes to Consolidated Financial Statements on pages 38 through 57.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31

	2003	2002	2001
(Thousands of dollars)			
CASH PROVIDED (USED)			
Operating Activities			
Net income (loss)	\$ 36,481	\$ 38,749	\$ (41,666)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	-	12,702	-
Depreciation and amortization	208,851	146,535	152,467
Loss (gain) on disposals of property, plant and equipment	4,944	5,904	(2,233)
Deferred income tax provision	4,406	17,250	23,013
Common stock issued in lieu of cash	2,744	5,217	1,441
Impairment and restructuring charges	55,967	(13,564)	41,832
Changes in operating assets and liabilities:			
Accounts receivable	(27,543)	(43,679)	44,803
Inventories	33,229	(50,611)	51,247
Other assets	(30,229)	(3,198)	(16,897)
Accounts payable and accrued expenses	(83,982)	80,761	(72,483)
Foreign currency translation (gain) loss	(2,234)	10,037	(3,886)
Net Cash Provided by Operating Activities	202,634	206,103	177,638
Investing Activities			
Purchases of property, plant and equipment—net	(116,276)	(85,277)	(90,501)
Proceeds from disposals of property, plant and equipment	32,321	12,616	6,357
Proceeds from disposals of equity investments	146,335	-	-
Acquisitions	(725,120)	(6,751)	(12,957)
Net Cash Used by Investing Activities	(662,740)	(79,412)	(97,101)
Financing Activities			
Cash dividends paid to shareholders	(42,078)	(31,713)	(40,166)
Purchases of treasury shares	-	-	(2,931)
Accounts receivable securitization financing borrowings	127,000	-	-
Accounts receivable securitization financing payments	(127,000)	-	-
Proceeds from issuance of common stock	54,985	-	-
Common stock issued to finance acquisition	180,010 ⁽¹⁾	-	-
Proceeds from issuance of long-term debt	629,800	-	80,766
Payments on long-term debt	(379,790)	(37,296)	(2,176)
Short-term debt activity—net	(41,082)	(11,498)	(90,980)
Net Cash Provided (Used) by Financing Activities	401,845	(80,507)	(55,487)
Effect of exchange rate changes on cash	4,837	2,474	(2,585)
(Decrease) Increase in Cash and Cash Equivalents	(53,424)	48,658	22,465
Cash and cash equivalents at beginning of year	82,050	33,392	10,927
Cash and Cash Equivalents at End of Year	\$ 28,626	\$ 82,050	\$ 33,392

See accompanying Notes to Consolidated Financial Statements on pages 38 through 57.

⁽¹⁾ Excluding \$140 million of common stock (9,395,973 shares) issued to Ingersoll-Rand Company, in conjunction with the acquisition.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Total	Common Stock		Earnings Invested in the Business	Accumulated Other Comprehensive Loss	Treasury Stock
		Stated Capital	Other Paid-In Capital			
(Thousands of dollars, except share data)						
Year Ended December 31, 2001						
Balance at January 1, 2001	\$1,004,682	\$ 53,064	\$ 256,873	\$ 839,242	\$ (84,913)	\$ (59,584)
Net loss	(41,666)			(41,666)		
Foreign currency translation adjustments (net of income tax of \$963)	(15,914)				(15,914)	
Minimum pension liability adjustment (net of income tax of \$61,892)	(122,520)				(122,520)	
Change in fair value of derivative financial instruments net of reclassifications	(1,191)				(1,191)	
Total comprehensive loss	(181,291)					
Dividends—\$0.67 per share	(40,166)			(40,166)		
Purchase of 206,300 shares for treasury	(2,931)					(2,931)
Issuance of 97,225 shares from treasury ⁽¹⁾	1,441		(450)			1,891
Balance at December 31, 2001	\$ 781,735	\$ 53,064	\$ 256,423	\$ 757,410	\$ (224,538)	\$ (60,624)
Year Ended December 31, 2002						
Net income	38,749			38,749		
Foreign currency translation adjustments (net of income tax of \$2,843)	14,050				14,050	
Minimum pension liability adjustment (net of income tax of \$147,303)	(254,318)				(254,318)	
Change in fair value of derivative financial instruments net of reclassifications	(871)				(871)	
Total comprehensive loss	(202,390)					
Dividends – \$0.52 per share	(31,713)			(31,713)		
Issuance of 3,186,470 shares from treasury ⁽¹⁾	57,747		(2,138)			59,885
Issuance of 369,290 shares from authorized ⁽¹⁾	3,707		3,707			
Balance at December 31, 2002	\$ 609,086	\$ 53,064	\$ 257,992	\$ 764,446	\$ (465,677)	\$ (739)
Year Ended December 31, 2003						
Net income	36,481			36,481		
Foreign currency translation adjustments (net of income tax of \$1,638)	75,062				75,062	
Minimum pension liability adjustment (net of income tax of \$19,164)	31,813				31,813	
Change in fair value of derivative financial instruments net of reclassifications	420				420	
Total comprehensive income	143,776					
Dividends – \$0.52 per share	(42,078)			(42,078)		
Tax benefit from exercise of stock options	1,104		1,104			
Issuance of 29,473 shares from treasury⁽¹⁾	301		(262)			563
Issuance of 25,624,198 shares from authorized⁽¹⁾⁽²⁾	377,438		377,438			
Balance at December 31, 2003	\$ 1,089,627	\$ 53,064	\$ 636,272	\$ 758,849	\$ (358,382)	\$ (176)

⁽¹⁾ Share activity was in conjunction with employee benefit and stock option plans. See accompanying Notes to Consolidated Financial Statements on pages 38 through 57.

⁽²⁾ Share activity includes the issuance of 22,045,973 shares in connection with the Torrington acquisition and an additional public equity offering of 3,500,000 shares in October 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

1 Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts and operations of the company and its subsidiaries. All significant intercompany accounts and transactions are eliminated upon consolidation. Investments in affiliated companies are accounted for by the equity method.

Revenue Recognition: The company recognizes revenue when title passes to the customer. This is FOB shipping point except for certain exported goods, which is FOB destination. Selling prices are fixed based on purchase orders or contractual arrangements. Write-offs of accounts receivable historically have been low. Shipping and handling costs are included in cost of products sold in the consolidated statement of operations.

Cash Equivalents: The company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories: Inventories are valued at the lower of cost or market, with 59.3% valued by the last-in, first-out (LIFO) method. If all inventories had been valued at current costs, inventories would have been \$147,524 and \$136,063 greater at December 31, 2003 and 2002, respectively. In 2003, the inventory acquired in the Torrington acquisition was valued by the first-in, first-out (FIFO) method. Effective in 2004, this inventory will be valued using the LIFO method. During 2002, inventory quantities were reduced as a result of ceasing manufacturing operations in Duston, England (see Note 6). This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years, compared to the cost of current purchases, the effect of which increased income (loss) before cumulative effect of change in accounting principle by approximately \$5,700 or \$0.09 per diluted share.

Property, Plant and Equipment: Property, plant and equipment is valued at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. Provision for depreciation is computed principally by the straight-line method based upon the estimated useful lives of the assets. The useful lives are approximately 30 years for buildings, 5 to 7 years for computer software and 3 to 20 years for machinery and equipment.

Impairment of long-lived assets is recognized when events or changes in circumstances indicate that the carrying amount of the asset or related group of assets may not be recoverable. If the expected future undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized at that time to reduce the asset to the lower of its fair value or its net book value.

Income Taxes: Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of the company's assets and liabilities.

The company plans to reinvest undistributed earnings of all non-U.S. subsidiaries. The amount of undistributed earnings that is considered to be indefinitely reinvested for this purpose was approximately \$141,000 at December 31, 2003. Accordingly, U.S. income taxes have not been provided on such earnings. If these earnings were repatriated, such distributions would result in additional tax expense of \$52,000.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the

United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are reviewed and updated regularly to reflect recent experience.

Foreign Currency Translation: Assets and liabilities of subsidiaries, other than those located in highly inflationary countries, 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 year. The related translation adjustments are reflected as a separate component of accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions and the translation of financial statements of subsidiaries in highly inflationary countries are included in results of operations. The company recorded foreign currency exchange losses of \$2,666 in 2003, \$5,143 in 2002 and \$3,211 in 2001.

Stock-Based Compensation: On December 31, 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," by providing alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123. The company has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options to key associates and directors. Under APB Opinion No. 25, if the exercise price of the company's stock options equals the market price of the underlying common stock on the date of grant, no compensation expense is required.

The effect on net income (loss) and earnings per share as if the company had applied the fair value recognition provisions of SFAS No. 123 is as follows for the years ended December 31:

	2003	2002	2001
Net income (loss), as reported	\$ 36,481	\$ 38,749	\$(41,666)
Add: Stock-based employee compensation expense, net of related taxes	1,488	1,170	587
Deduct: Stock-based employee compensation expense determined under fair value based methods for all awards, net of related taxes	(6,131)	(6,609)	(6,318)
Pro forma net income (loss)	\$ 31,838	\$ 33,310	\$(47,397)
Earnings per share:			
Basic – as reported	\$ 0.44	\$0.63	\$(0.69)
Basic – pro forma	\$ 0.38	\$0.54	\$(0.79)
Diluted – as reported	\$ 0.44	\$0.62	\$(0.69)
Diluted – pro forma	\$ 0.38	\$0.54	\$(0.79)

Earnings Per Share: Earnings per share are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. Earnings per share - assuming dilution are computed by dividing net income (loss) by the weighted-average number of common shares outstanding adjusted for the dilutive impact of potential common shares for options.

Derivative Instruments: In 2001, the company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The statement required the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. If the derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. Certain of the company's holdings of forward foreign exchange contracts have been deemed derivatives pursuant to the criteria established in SFAS No. 133, of which the company has designated certain of those derivatives as hedges. The critical terms, such as the notional amount and timing of the forward contract and forecasted transaction, coincide resulting in no significant hedge ineffectiveness.

Recent Accounting Pronouncements In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at the fair value only when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. SFAS No. 146 has no effect on charges recorded for exit activities begun prior to 2003. As such, the company continued to recognize restructuring costs in connection with the manufacturing strategy initiative (MSI) in accordance with EITF Issue No. 94-3. The adoption of this statement did not have a material effect on the company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for

Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45's disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Interpretation No. 45 requires certain guarantees to be recorded at fair value. The guarantor's previous accounting for guarantees issued prior to the date of initial application should not be revised or restated. In 2003, the company recorded its guarantee of certain of PEL's indebtedness, which totaled \$26,500. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for further discussion.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities in which an enterprise is the primary beneficiary. The primary beneficiary absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB issued a revised Interpretation that, among other things, deferred the implementation date of the Interpretation until periods ending after March 15, 2004 for variable interest entities, other than those entities commonly referred to as special purpose entities. Refer to Note 12 – Equity Investments in the notes to the consolidated financial statements for further discussion.

In January 2004, the FASB issued FASB Staff Position (FSP) 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act). The FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act. Regardless of whether a sponsor elects that deferral, the FSP requires certain disclosures pending further consideration of the underlying accounting issues. The company has elected to defer accounting for the effects of the Act. The company is currently evaluating the impact of the Act on its financial position and results of operations.

Reclassifications: Certain minor amounts reported in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

2 Acquisitions

On February 18, 2003, the company acquired Ingersoll-Rand Company Limited's (IR's) Engineered Solutions business, a leading worldwide producer of needle roller, heavy-duty roller and ball bearings, and motion control components and assemblies for approximately \$840,000 plus \$24,414 of acquisition costs incurred in connection with the acquisition. IR's Engineered Solutions business, was comprised of certain operating assets and subsidiaries, including The Torrington Company. With the strategic acquisition of IR's Engineered Solutions business, hereafter referred to as Torrington, the company is able to expand its global presence and market share as well as broaden its product base in addition to reducing costs through realizing economies of scale, rationalizing facilities and eliminating duplicate processes. The company's consolidated financial statements include the results of operations of Torrington since the date of the acquisition.

The company paid IR \$700,000 in cash, subject to post-closing purchase price adjustments, and issued \$140,000 of its common stock (9,395,973 shares) to Ingersoll-Rand Company, a subsidiary of IR. To finance the cash portion of the transaction the company utilized, in addition to cash on hand: \$180,010, net of underwriting discounts and commissions, from a public offering of 12,650,000 shares of common stock at \$14.90 per common share; \$246,900, net of underwriting discounts and commissions, from a public offering of \$250,000 of 5.75% senior unsecured notes due 2010; \$125,000 from its Asset Securitization facility; and approximately \$86,000 from its senior credit facility.

The final purchase price for the acquisition of Torrington is subject to adjustment upward or downward based on the differences for both net working capital and net debt as of December 31, 2001 and February 15, 2003, both calculated in a manner as set forth in The Stock and Asset Purchase Agreement. These adjustments have not been finalized as of December 31, 2003.

The preliminary allocation of the purchase price has been performed based on the assignment of fair values to assets acquired and liabilities assumed. Fair values are based primarily on appraisals performed by an independent appraisal firm. Items that may affect the ultimate purchase price allocation include

finalization of integration initiatives or plant rationalizations that qualify for accrual in the opening balance sheet and other information that provides a better estimate of the fair value of assets acquired and liabilities assumed. The company continues to evaluate possible plant rationalizations for sites that it acquired in the Torrington acquisition. In March 2003, the company announced the planned closing of its plant in Darlington, England. This plant has ceased manufacturing as of December 31, 2003. In July 2003, the company announced that it would close its plant in Rockford, Illinois. As of December 31, this plant has closed, and the fixed assets have been either sold or scrapped. The building has not yet been sold and is classified as an "asset held for sale" in miscellaneous receivables and other assets on the consolidated balance sheet. In October 2003, the company announced that it reached an agreement in principle with Roller Bearing Company of America, Inc. for the sale of the company's airframe business, which includes certain assets at its Standard plant in Torrington, Connecticut. This transaction closed on December 22, 2003. In connection with the Torrington integration efforts, the company incurred severance, exit and other related costs of \$16,325 for former Torrington associates, which are considered to be costs of the acquisition and are included in the purchase price allocation. Severance, exit and other related costs associated with former Timken associates have been expensed during 2003 and are not included in the purchase price allocation. Refer to footnote 6 for further discussion of impairment and restructuring charges.

In accordance with FASB EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the company recorded accruals of \$8,536 for severance costs, \$2,530 for exit costs and \$5,259 for relocation costs in the purchase price allocation. In 2003, payments were made for: severance of \$4,631; exit costs of \$205; and relocation costs of \$3,362. The remaining accrual balance at December 31, 2003 was \$8,127.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. While the third-party valuations have been completed, the allocation of the purchase price is subject to further refinement through the first quarter of 2004.

At February 18, 2003

Accounts receivable	\$ 177,112
Inventory	195,466
Other current assets	2,429
Property, plant & equipment	434,740
In-process research and development	1,800
Intangible assets subject to amortization – (12-year weighted average useful life)	91,674
Goodwill	46,951
Equity investment in needle bearing joint venture	146,335
Other non-current assets, including deferred taxes	36,217
Total Assets Acquired	\$1,132,724
Accounts payable and other current liabilities	177,129
Non-current liabilities, including accrued postretirement benefits cost	91,181
Total Liabilities Assumed	\$ 268,310
Net Assets Acquired	\$ 864,414

There is no tax basis goodwill associated with the Torrington acquisition.

The \$1,800 related to in-process research and development was written off at the date of acquisition in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." The write-off is included in selling, administrative and general expenses in the consolidated statement of operations. The fair value assigned to the in-process research and development was determined by an independent valuation using the discounted cash flow method.

In July 2003, the company sold to NSK Ltd. its interest in a needle bearing manufacturing venture in Japan that had been operated by NSK and Torrington for \$146,335 before taxes, which approximated the carrying value at the time of the sale.

The following unaudited pro forma financial information presents the combined results of operations of the company and Torrington as if the acquisition had occurred at the beginning of the periods presented. The unaudited pro forma financial information does not purport to be indicative of the results that would have been obtained if the acquisition had occurred as of the beginning of the periods presented or that may be obtained in the future:

	Unaudited	
	Year Ended December 31	
	2003	2002
Net sales	\$3,939,340	\$3,756,652
Income before cumulative effect of change in accounting principle	29,629	104,993
Net income	29,629	92,291
Earnings per share – assuming dilution:		
Income before cumulative effect of change in accounting principle	\$ 0.36	\$ 1.25
Cumulative effect of change in accounting principle	\$ -	\$ (0.15)
Earnings per share – assuming dilution	\$ 0.36	\$ 1.10

In October 2003, the company completed a public offering of 3,500,000 shares of common stock at \$15.85 per common share. The 2003 earnings per share impact from these additional shares did not affect the calculation of the pro forma financial results for 2002.

Other Acquisitions in 2002 and 2001

During 2002 and 2001, the company finalized several acquisitions. The total cost of these acquisitions amounted to \$6,751 in 2002 and \$12,957 in 2001. The purchase price was allocated to the assets and liabilities acquired, based on their fair values at the dates of acquisition. The fair value of the assets was \$6,751 in 2002 and \$25,408 in 2001; and the fair value of the liabilities assumed was \$6,751 in 2002 and \$16,396 in 2001. The excess of the purchase

price over the fair value of the net assets acquired was allocated to goodwill. The acquisitions were accounted for as purchases. The company's consolidated financial statements include the results of operations of the acquired businesses for the periods subsequent to the effective dates of the acquisitions. Pro forma results of operations have not been presented because the effect of these acquisitions was not significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

3 Earnings Per Share

The following table sets forth the **reconciliation** of the numerator and the denominator of earnings per share and earnings per share - assuming dilution for the years ended December 31:

	2003	2002	2001
Numerator:			
Net income (loss) for earnings per share and earnings per share - assuming dilution – income available to common shareholders	\$ 36,481	\$ 38,749	\$ (41,666)
Denominator:			
Denominator for earnings per share – weighted-average shares	82,945,174	61,128,005	59,947,568
Effect of dilutive securities:			
Stock options and awards – based on the treasury stock method	214,147	507,334	⁽¹⁾
Denominator for earnings per share - assuming dilution – adjusted weighted-average shares	83,159,321	61,635,339	59,947,568
Earnings per share	\$ 0.44	\$ 0.63	\$ (0.69)
Earnings per share - assuming dilution	\$ 0.44	\$ 0.62	\$ (0.69)

⁽¹⁾ Addition of 161,211 shares would result in antidilution.

The exercise prices for certain of the stock options that the company has awarded exceed the average market price of the company's common stock. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding were 4,414,626 and 4,083,100 at December 31, 2003 and 2002, respectively.

Under the performance unit component of the company's long-term incentive plan, the Compensation Committee of the Board of Directors can elect to make payments that become due in the form of cash or shares of the company's common stock (refer to Note 9 - Stock Compensation Plans for additional discussion). Performance units granted if fully earned would represent 452,344 shares of the company's common stock at December 31, 2003.

4 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following:

	2003	2002	2001
Foreign currency translation adjustment	\$ (5,458)	\$ (80,520)	\$ (94,570)
Minimum pension liability adjustment	(351,282)	(383,095)	(128,777)
Fair value of open foreign currency cash flow hedges	(1,642)	(2,062)	(1,191)
	\$ (358,382)	\$ (465,677)	\$ (224,538)

5 Financing Arrangements

Long-term debt at December 31, 2003 and 2002 was as follows:

	2003	2002
Fixed-rate Medium-Term Notes, Series A, due at various dates through May 2028, with interest rates ranging from 6.20% to 7.76%	\$ 287,000	\$ 292,000
Variable-rate State of Ohio Air Quality and Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (1.12% at December 31, 2003)	21,700	21,700
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (1.12% at December 31, 2003)	17,000	17,000
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on May 1, 2007 (1.15% at December 31, 2003)	8,000	8,000
Variable-rate State of Ohio Water Development Authority Solid Waste Revenue Bonds, maturing on July 1, 2032 (1.18% at December 31, 2003)	24,000	24,000
Fixed-rate Unsecured Notes, maturing on February 15, 2010 with an interest rate of 5.75%	250,000	-
Other	12,471	11,166
	620,171	373,866
Less current maturities	6,725	23,781
Long-term debt	\$ 613,446	\$ 350,085

The maturities of long-term debt for the five years subsequent to December 31, 2003, are as follows: 2004—\$6,725; 2005—\$3,400; 2006—\$91,106; 2007—\$8,538; and 2008—\$17,299.

Interest paid was approximately \$43,000 in 2003 and \$33,000 in 2002 and 2001. This differs from interest expense due to timing of payments and interest capitalized of \$0 in 2003; \$436 in 2002; and \$1,400 in 2001 as a part of major capital additions. The weighted-average interest rate on commercial paper borrowings during the year was 1.7% in 2003, 2.1% in 2002 and 4.3% in 2001. The weighted-average interest rate on short-term debt, the majority of which related to foreign debt, was 4.1% in 2003, 4.8% in 2002 and 5.8% in 2001.

In connection with the Torrington acquisition, the company entered into new \$875 million senior credit facilities on December 31, 2002, with a syndicate of financial institutions, comprised of a five-year revolving credit facility of up to \$500 million and a one-year term loan facility of up to \$375 million. The one-year term loan facility expired unused on February 18, 2003. The new revolving facility replaced the company's then existing senior credit facility. Proceeds of the new senior credit facility were used to repay the amounts outstanding under the then existing credit facility.

Under the \$500 million senior credit facility, the company has three financial covenants: consolidated net worth; leverage ratio; and fixed charge coverage ratio. At December 31, 2003, the company was in compliance with the covenants under its senior credit facility and its other debt agreements. At December 31, 2003, the company had outstanding letters of credit totaling \$64.1 million,

which reduced the availability under the \$500 million senior credit facility to \$435.9 million.

On December 19, 2002, the company entered into an Accounts Receivable Securitization financing agreement (Asset Securitization), which provides for borrowings up to \$125 million, limited to certain borrowing base calculations, and is secured by certain trade receivables. Under the terms of the Asset Securitization, 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 the borrowings, which are funded through a vehicle that issues commercial paper in the short-term market. As of December 31, 2003, there were no amounts outstanding under this facility. Any amounts outstanding under this facility would be reported on the company's consolidated balance sheet in short-term debt. The yield on the commercial paper, which is the commercial paper rate plus program fees, is considered a financing cost, and is included in interest expense on the consolidated statement of operations. This rate was 1.56% at December 31, 2003.

The company and its subsidiaries lease a variety of real property and equipment. Rent expense under operating leases amounted to \$19,374, \$14,536, and \$16,799 in 2003, 2002 and 2001, respectively. At December 31, 2003, future minimum lease payments for noncancelable operating leases totaled \$81,052 and are payable as follows: 2004—\$15,726; 2005—\$14,747; 2006—\$10,142; 2007—\$8,050; 2008—\$6,933; and \$25,454 thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

6 Impairment and Restructuring Charges

Impairment and restructuring charges are comprised of the following:

	2003	2002	2001
(Amounts in millions)			
Impairment charges	\$ 12.5	\$ 17.9	\$ 5.3
Severance expense and related benefit costs	2.9	10.2	48.0
Exit costs	3.7	4.0	1.4
Total	\$ 19.1	\$ 32.1	\$ 54.7

In 2003, impairment charges represented the write-off of the remaining goodwill for the Steel Group in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," of \$10.2 million and impairment charges for the Columbus, Ohio plant of \$2.3 million. The severance and related benefit costs of \$2.9 million related to associates who exited the company as a result of the integration of Torrington and other actions taken by the company to reduce costs. The exit costs were comprised of \$3.0 million for the Columbus, Ohio plant and \$0.7 million for the Duston, England plant as a result of changes in estimates for these two projects.

Manufacturing operations at Columbus and Duston ceased in 2001 and 2002, respectively.

In 2002, the impairment charges and exit costs were related to the Duston, England and Columbus, Ohio plant closures. The severance and related benefit costs related primarily to a salaried workforce reduction throughout the company.

In 2001, the impairment charges and exit costs were related primarily to the Duston, England and Columbus, Ohio plant closures. The severance and related benefit costs were related to the Duston, England and Columbus, Ohio plant closures and a salaried workforce reduction.

Impairment and restructuring charges by segment are as follows:

Year ended December 31, 2003:

	Auto	Industrial	Steel	Total
(Dollars in millions)				
Impairment charges	\$ -	\$ 2.3	\$ 10.2	\$ 12.5
Severance expense and related benefit costs	0.5	2.2	0.2	2.9
Exit costs	0.7	3.0	-	3.7
Total	\$ 1.2	\$ 7.5	\$ 10.4	\$ 19.1

Year ended December 31, 2002:

	Auto	Industrial	Steel	Total
(Dollars in millions)				
Impairment charges	\$ 14.2	\$ 3.7	\$ -	\$ 17.9
Severance expense and related benefit costs	0.9	5.5	3.8	10.2
Exit costs	3.9	0.1	-	4.0
Total	\$ 19.0	\$ 9.3	\$ 3.8	\$ 32.1

Year ended December 31, 2001:

	Auto	Industrial	Steel	Total
(Dollars in millions)				
Impairment charges	\$ 1.1	\$ 3.8	\$ 0.4	\$ 5.3
Severance expense and related benefit costs	25.8	20.9	1.3	48.0
Exit costs	0.4	1.0	-	1.4
Total	\$ 27.3	\$ 25.7	\$ 1.7	\$ 54.7

As of December 31, 2003, the remaining accrual balance for severance and exit costs was \$4.5 million. The activity for 2003 included expense accrued of \$6.1 million, payments of \$6.5 million and accrual reversals of \$1.1 million. In 2003, the restructuring

accrual balance was reduced for severance that was accrued, but not paid as a result of certain associates retiring or finding other employment. As of December 31, 2002, the accrual balance was \$6.0 million.

7 Contingencies

The company and certain of its U.S. subsidiaries have been designated as potentially responsible parties (PRPs) by the United States Environmental Protection Agency for site investigation and remediation under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund) with respect to certain sites. The claims for 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. 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 environmental and legal 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 operations, cash flows or financial position.

The company is the guarantor of \$27,000 in debt for PEL Technologies, LLC, (PEL) an equity investment of the company. A \$23,500 letter of credit was provided by the company to secure payment on Ohio Water Development Authority revenue bonds held by PEL, as well as a guarantee for a \$3,500 bank loan.

In case of default by PEL on either obligation, the company agrees to pay existing balances due as of the date of default. The letter of credit expires on July 30, 2004. The bank loan obligation expires on the earlier of March 27, 2012 or on the date that PEL maintains a certain debt coverage ratio for a specified period. During 2003, the company recorded the amounts outstanding at December 31, 2003 on the debts underlying the guarantees, which totaled \$26,500 and approximated the fair value of the guarantees. Refer to Note 12 – Equity Investments for additional discussion.

The company is a guarantor of an operating lease for a subsidiary located in Vienna, Ohio. In case of a default, the company is obligated to pay the remaining balance due. This guarantee expires on June 1, 2016. The total future lease payments related to this lease are \$15,900 as of December 31, 2003. This amount has been included in the company's future minimum lease payment disclosure in Note 5 Financing Arrangements.

In connection with the Ashland plant sale, the company entered into a four-year supply agreement with the buyer. The company agrees to purchase a fixed amount each year ranging from \$8,500 in the first year to \$4,650 in year four or an aggregate total of \$25,900. The agreement also details the payment terms and penalties assessed if the buyer does not meet the company's performance standards as outlined. This agreement expires on June 30, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

8 Goodwill and Other Intangible Assets

Effective January 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Intangible assets that are separable and have a definite life continue to be amortized over the estimated useful lives.

As part of the adoption, the company evaluated the impairment of indefinite lived intangible assets and determined that none were impaired based on estimations in market value. The company completed the required transitional goodwill impairment analysis for SFAS No. 142 adoption purposes and recorded a \$12.7 million impairment loss, net of tax benefits of \$7.8 million, relating to its Specialty Steel business, which was treated as a cumulative effect of a change in accounting principle.

The company engages an independent valuation firm and performs its annual impairment test during the fourth quarter after the annual forecasting process is completed. Due to recent trends in the steel industry, the guideline company values for the Steel reporting unit have been revised downward. The valuation which uses the guideline company method results in a fair market value that is less than the carrying value for the company's Steel reporting unit. Accordingly, the company has concluded that the entire amount of goodwill for its Steel reporting unit is impaired and has recorded a pre-tax impairment loss of \$10.2 million which is reported in impairment and restructuring charges.

If SFAS No. 142 had been adopted in 2001, ceasing goodwill amortization would have reduced the net loss in 2001 by \$4.8 million or \$0.08 per diluted share.

Changes in the carrying value of goodwill are as follows:

Year ended December 31, 2003

	Beginning Balance	Impairment	Acquisitions	Other	Ending Balance
Goodwill:					
Automotive	\$ 1,633	\$ -	\$ 39,614	\$ 4,367	\$ 45,614
Industrial	119,440	-	7,337	708	127,485
Steel	8,870	(10,237)	-	1,367	-
Totals	\$ 129,943	\$ (10,237)	\$ 46,951	\$ 6,442	\$ 173,099

Year ended December 31, 2002

	Beginning Balance	Impairment	Acquisitions	Other	Ending Balance
Goodwill:					
Automotive	\$ 1,577	\$ -	\$ -	\$ 56	\$ 1,633
Industrial	120,426	-	-	(986)	119,440
Steel	28,038	(20,488)	-	1,320	8,870
Totals	\$ 150,041	\$ (20,488)	\$ -	\$ 390	\$ 129,943

The following table displays other intangible assets as of December 31:

	2003			2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Automotive:						
Customer relationships	\$ 21,960	\$ 960	\$ 21,000	\$ -	\$ -	\$ -
Engineering drawings	3,000	616	2,384	-	-	-
Land use rights	622	24	598	-	-	-
Patents	18,094	1,685	16,409	-	-	-
Technology use	11,654	927	10,727	-	-	-
Trademarks	2,295	507	1,788	-	-	-
Unpatented technology	10,800	945	9,855	-	-	-
Industrial:						
Customer relationships	14,640	641	13,999	-	-	-
Engineering drawings	2,000	411	1,589	-	-	-
Know-how transfer	417	360	57	417	341	76
Land use rights	4,484	1,075	3,409	4,484	905	3,579
Patents	646	94	552	-	-	-
Trademarks	1,492	366	1,126	712	213	499
Unpatented technology	7,200	630	6,570	-	-	-
Steel trademarks	450	112	338	-	-	-
	\$ 99,754	\$ 9,353	\$ 90,401	\$ 5,613	\$ 1,459	\$ 4,154
Intangible assets not subject to amortization:						
Goodwill	\$ 173,099	\$ -	\$ 173,099	\$ 129,943	\$ -	\$ 129,943
Intangible pension asset	106,518	-	106,518	129,042	-	129,042
Automotive land use rights	115	-	115	112	-	112
Industrial license agreements	959	-	959	951	-	951
	\$ 280,691	-	\$ 280,691	\$ 260,048	\$ -	\$ 260,048
Total intangible assets	\$ 380,445	\$ 9,353	\$ 371,092	\$ 265,661	\$ 1,459	\$ 264,202

Amortization expense for intangible assets was approximately \$7,900 and \$288 for the years ended December 31, 2003 and 2002, and is estimated to be approximately \$8,700 annually for the next

five years. The other intangible assets that are subject to amortization acquired in the Torrington acquisition have useful lives ranging from 2 to 20 years with a weighted average useful life of 12 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

9 Stock Compensation Plans

Under the company's stock option plans, shares of common stock have been made available to grant at the discretion of the Compensation Committee of the Board of Directors to officers and key associates in the form of stock options, stock appreciation rights, restricted shares, performance units, and deferred shares. In addition, shares can be awarded to directors not employed by the company. The options have a ten-year term and vest in 25% increments annually beginning twelve months after the date of grant. Pro forma information regarding net income and

earnings per share is required by SFAS No. 123, and has been determined as if the company had accounted for its associate stock options under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model. For purposes of pro forma disclosures, the estimated fair value of the options granted under the plan is amortized to expense over the options' vesting periods.

Following are the **related assumptions** under the Black-Scholes method:

	2003	2002	2001
Assumptions:			
Risk-free interest rate	3.94%	5.29%	6.32%
Dividend yield	3.69%	3.57%	3.36%
Expected stock volatility	0.504	0.506	0.480
Expected life - years	8	8	8

A summary of activity related to **stock options** for the above plans is as follows for the years ended December 31:

	2003		2002		2001	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding - beginning of year	7,310,026	\$21.21	6,825,412	\$20.22	5,720,990	\$21.41
Granted	1,491,230	17.56	1,118,175	25.01	1,367,400	15.05
Exercised	(93,325)	15.65	(499,372)	16.30	(54,528)	14.67
Canceled or expired	(373,011)	20.02	(134,189)	20.61	(208,450)	20.35
Outstanding - end of year	8,334,920	\$18.63	7,310,026	\$21.21	6,825,412	\$20.22
Options exercisable	5,771,810		4,397,590		3,745,131	

The company sponsors a performance target option plan that is contingent upon the company's common shares reaching specified fair market values. Under the plan, no awards were issued in 2003 and 2001 and 20,000 shares were awarded in 2002. No compensation expense was recognized in 2003, 2002 or 2001.

Exercise prices for options outstanding as of December 31, 2003, range from \$15.02 to \$19.56, \$22.06 to \$26.44 and \$33.75; the number of options outstanding at December 31, 2003 that correspond to these ranges are 5,377,684, 2,196,636 and 760,600, respectively; and the number of options exercisable at December 31, 2003 that correspond to these ranges are 3,402,154, 1,609,056 and 760,600, respectively. The weighted-average remaining contractual life of these options is 6 years. The estimated weighted-average fair values of stock options granted during 2003, 2002 and 2001 were \$6.78, \$10.36 and \$6.36, respectively. At December 31, 2003, a total of 203,950 restricted stock

rights, restricted shares or deferred shares have been awarded under the above plans and are not vested. The company distributed 125,967, 100,947 and 61,301 common shares in 2003, 2002 and 2001, respectively, as a result of awards of restricted stock rights, restricted shares and deferred shares.

The company offers a performance unit component under its long-term incentive plan to certain employees in which grants are earned based on company performance measured by several metrics over a three-year performance period. The Compensation Committee of the Board of Directors can elect to make payments that become due in the form of cash or shares of the company's common stock. 48,225 and 44,375 performance units have been granted in 2003 and 2002, respectively. Each performance unit has a cash value of \$100.

The number of shares available for future grants for all plans at December 31, 2003, including stock options, is 1,555,559.

10 Financial Instruments

As a result of the company's worldwide operating activities, it is exposed to changes in foreign currency exchange rates, which affect its results of operations and financial condition. The company and certain subsidiaries enter into forward exchange contracts to manage exposure to currency rate fluctuations, primarily related to anticipated purchases of inventory and equipment. At December 31, 2003 and 2002, the company had forward foreign exchange contracts, all having maturities of less than eighteen months, with notional amounts of \$145,590 and \$72,070, and fair values of \$4,416 and \$2,503, respectively. The forward foreign exchange contracts were entered into primarily by the company's domestic entity to manage Euro exposures relative to the U.S. dollar and its European subsidiaries to manage Euro and U.S. dollar exposures. The realized and unrealized gains and

losses on these contracts are deferred and included in inventory or property, plant and equipment, depending on the transaction. These deferred gains and losses are reclassified from accumulated other comprehensive loss and recognized in earnings when the future transactions occur, or through depreciation expense.

The carrying value of cash and cash equivalents, accounts receivable, commercial paper, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. The fair value of the company's fixed-rate debt, based on quoted market prices, was \$533,000 and \$325,000 at December 31, 2003 and 2002, respectively. The carrying value of this debt was \$546,000 and \$308,000.

11 Research and Development

Expenditures committed to research and development amounted to approximately \$53,000 in 2003 and 2002; and \$54,000 in

2001. Such expenditures may fluctuate from year to year depending on special projects and needs.

12 Equity Investments

The company, prior to the Torrington acquisition, owned equity interests in certain joint ventures. As part of the Torrington acquisition, several additional equity interests were acquired. The balances related to investments accounted for under the equity method are reported in miscellaneous receivables and other assets on the consolidated balance sheets, which were approximately \$34,000 and \$25,100 at December 31, 2003 and 2002, respectively.

Equity investments are reviewed for impairment when circumstances (such as lower than expected financial performance or change in strategic direction) indicate that the carrying value of the investment may not be recoverable. If an impairment does exist, the equity investment is written down to its fair value with a corresponding charge to the consolidated statement of operations.

During 2000, the company's Steel Group invested in a joint venture, PEL, to commercialize a proprietary technology that converts iron units into engineered iron oxides for use in pigments, coatings and abrasives. In the fourth quarter of 2003, the company concluded its investment in PEL was impaired due to the following indicators of impairment: history of negative cash flow and losses; 2004 operating plan with continued losses and negative cash flow; and the continued required support from the company or another party. In the fourth quarter of 2003, the company recorded a non-cash impairment loss of \$45,700, which is reported in other expense-net on the consolidated statement of operations.

The company has guaranteed certain of PEL's indebtedness. Refer to Note 7-Contingencies. The amounts outstanding on the debts underlying these guarantees totaled \$26,500 at December 31, 2003, which approximates their fair value. During the fourth quarter of 2003, the company recorded these guarantees and has reported them in short-term debt on the consolidated balance sheet at December 31, 2003. Additionally, during its involvement with PEL that began in 2000, the company made advances to and investments in PEL, the net balance of which totaled \$19,200, exclusive of the debt guarantees.

Through December 31, 2003, the company recorded its proportional share (20.5%) of PEL's operating results using the equity method since the company does not own a majority voting interest in PEL. The company is currently evaluating the effects of the FASB Interpretation No. 46 on the accounting for its ownership interest in PEL. Based on its preliminary analysis, the company has concluded that PEL is a variable interest entity and that the company is the primary beneficiary. The company will adopt Interpretation No. 46 during the first quarter of 2004. The company does not expect that the adoption of FASB Interpretation No. 46 will have a material effect on the company's financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

13 Retirement and Postretirement Benefit Plans

The company sponsors defined contribution retirement and savings plans covering substantially all associates in the United States and certain salaried associates at non-U.S. locations. The company contributes Timken Company common stock to certain plans based on formulas established in the respective plan agreements. At December 31, 2003, the plans had 13,019,194 shares of Timken Company common stock with a fair value of \$261,165. Company contributions to the plans, including performance sharing, amounted to \$21,029 in 2003; \$14,603 in 2002; and \$13,289 in 2001. The company paid dividends totaling \$6,763 in 2003; \$6,407 in 2002; and \$8,192 in 2001, to plans holding common shares.

The company and its subsidiaries sponsor several unfunded postretirement plans that provide health care and life insurance benefits for eligible retirees and dependents. Depending on retirement date and associate classification, certain health care plans contain contributions and cost-sharing features such as deductibles and coinsurance. The remaining health care and life insurance plans are noncontributory.

The company and its subsidiaries sponsor a number of defined benefit pension plans, which cover many of their associates

except those at certain locations who are covered by government plans.

As part of the Torrington purchase agreement, the company agreed to prospectively provide former Torrington associates with substantially comparable retirement benefits for a specified period of time. The active Torrington associates became part of Timken's defined benefit pension plans, but prior service liabilities and defined benefit plan assets remained with IR for the U.S.-based pension plans; however, the company did assume prior service liabilities for certain non-U.S.-based pension plans.

During 2003, the company made revisions, which became effective on January 1, 2004, to certain of its benefit programs for its U.S.-based employees resulting in a pre-tax curtailment gain of \$10,720. Depending on an associate's combined age and years of service with the company, defined benefit pension plan benefits were reduced or replaced by a new defined contribution plan. The company will no longer subsidize retiree medical coverage for those associates who do not meet a threshold of combined age and years of service with the company.

The company uses a measurement date of December 31 to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans.

The following tables set forth the **change in benefit obligation, change in plan assets, funded status and amounts recognized in the consolidated balance sheet** of the defined benefit pension and postretirement benefits as of December 31, 2003 and 2002:

	Defined Benefit Pension Plans		Postretirement Plans	
	2003	2002	2003	2002
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 2,117,144	\$1,825,602	\$ 720,675	\$ 640,701
Service cost	47,381	36,115	6,765	4,357
Interest cost	137,242	132,846	49,459	47,505
Amendments	(2,350)	4,165	(3,586)	-
Actuarial losses	111,230	223,763	20,228	77,224
Associate contributions	821	936	-	-
Acquisition	34,905	-	65,516	-
International plan exchange rate change	33,278	20,791	479	29
Curtailment loss (gain)	1,066	6,706	(8,097)	980
Benefits paid	(142,995)	(133,780)	(49,221)	(50,121)
Benefit obligation at end of year	\$ 2,337,722	\$2,117,144	\$ 802,218	\$ 720,675
Change in plan assets⁽¹⁾				
Fair value of plan assets at beginning of year	\$ 1,198,351	\$1,295,214		
Actual return on plan assets	287,597	(91,994)		
Associate contributions	821	936		
Company contributions	173,990	112,297		
Acquisition	7,009	-		
International plan exchange rate change	22,349	15,678		
Benefits paid	(141,975)	(133,780)		
Fair value of plan assets at end of year	\$ 1,548,142	\$1,198,351		
Funded status				
Projected benefit obligation in excess of plan assets	\$ (789,580)	\$ (918,793)	\$ (802,218)	\$ (720,675)
Unrecognized net actuarial loss	657,781	711,396	307,003	306,520
Unrecognized net asset at transition dates, net of amortization	(660)	(1,102)	-	-
Unrecognized prior service cost (benefit)	109,421	131,173	(37,701)	(45,335)
Accrued benefit cost	\$ (23,038)	\$ (77,326)	\$ (532,916)	\$ (459,490)
Amounts recognized in the consolidated balance sheet				
Accrued benefit liability	\$ (674,502)	\$ (802,327)	\$ (532,916)	\$ (459,490)
Intangible asset	106,518	129,042	-	-
Minimum pension liability included in accumulated other comprehensive loss	544,946	595,959	-	-
Net amount recognized	\$ (23,038)	\$ (77,326)	\$ (532,916)	\$ (459,490)

⁽¹⁾ Plan assets are primarily invested in listed stocks and bonds and cash equivalents.

The current portion of accrued pension cost, which is included in salaries, wages and benefits on the consolidated balance sheet, was \$250,088 and \$79,139 at December 31, 2003 and 2002, respectively. The current portion of accrued postretirement

benefit cost, which is included in salaries, wages and benefits on the consolidated balance sheet, was \$55,950 and \$48,186 at December 31, 2003 and 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

13 Retirement and Postretirement Benefit Plans (continued)

In 2003, improved investment performance, which primarily reflected higher stock market returns, increased the company's pension fund asset values. At the same time, the company's defined benefit pension liability also increased as a result of lowering the discount rate from 6.6% to 6.3% and the Torrington acquisition.

The accumulated benefit obligations at December 31, 2003 exceeded the market value of plan assets for the majority of the company's plans. For these plans, the projected benefit obligation was \$2,312,000; the accumulated benefit obligation was \$2,206,000; and the fair value of plan assets was \$1,527,000 at December 31, 2003.

In 2003, improved investment performance more than offset the increase in the company's defined benefit pension liability. As a result, the company's minimum pension liability decreased by

\$73,501 and a non-cash aftertax benefit of \$31,813 was recorded to accumulated other comprehensive loss. For 2004 expense, the company's discount rate has been reduced from 6.6% to 6.3%. This change will result in an increase in 2004 pretax pension expense of approximately \$5,000.

On September 10, 2002, the company issued 3,000,000 shares of its common stock to The Timken Company Collective Investment Trust for Retirement Trusts (Trust) as a contribution to three company-sponsored pension plans. The fair market value of the 3,000,000 shares of common stock contributed to the Trust was approximately \$54,500, which consisted of 2,766,955 shares of the company's treasury stock and 233,045 shares issued from authorized common stock. As of December 31, 2003, the company's defined benefit pension plans held 2,393,000 common shares with fair value of \$48,003. The company paid dividends totaling \$1,309 in 2003 to plans holding common shares.

The following table summarizes the **assumptions** used by the consulting actuary and the **related benefit cost** information:

	Pension Benefits			Postretirement Benefits		
	2003	2002	2001	2003	2002	2001
Assumptions						
Discount rate	6.3%	6.6%	7.5%	6.3%	6.6%	7.5%
Future compensation assumption	3% to 4%	3% to 4%	3% to 4%			
Expected long-term return on plan assets	8.75%	9.5%	9.5%			
Components of net periodic benefit cost						
Service cost	\$ 47,381	\$ 36,115	\$ 35,313	\$ 6,765	\$ 4,357	\$ 4,047
Interest cost	137,242	132,846	126,809	49,459	47,505	48,380
Expected return on plan assets	(133,474)	(135,179)	(126,882)	-	-	-
Amortization of prior service cost	18,506	19,725	19,919	(5,700)	(6,408)	(4,376)
Recognized net actuarial loss (gain)	19,197	473	(292)	14,997	11,827	9,646
Curtailment loss (gain)	560	6,706	6,333	(8,856)	-	8,738
Amortization of transition asset	(574)	(1,143)	(982)	-	871	-
Net periodic benefit cost	\$ 88,838	\$ 59,543	\$ 60,218	\$ 56,665	\$ 58,152	\$ 66,435

For measurement purposes, the company assumed a weighted-average annual rate of increase in the per capita cost (health care cost trend rate) for medical benefits of 7.5% for 2004; declining gradually to 6.0% in 2006 and thereafter for pre-age 65 benefits; 6.0% for post-age 65 benefits for all years; and 13.5% for 2004, declining gradually to 6.0% in 2014 and thereafter for prescription drug benefits.

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point increase in the assumed health care cost trend rate would increase the 2003 total service and interest cost components by \$2,492 and would increase the postretirement benefit obligation by \$36,953. A one-percentage-point decrease would provide corresponding reductions of \$2,182 and \$32,507, respectively.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. In accordance with FASB Staff Position 106-1, any measures of the APBO or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect

the effects of the Act on the plan, and specific authoritative guidance on the accounting for the federal subsidy is pending. When guidance is issued, previously reported information may be required to change.

Plan Assets:

The company's pension asset allocation at December 31, 2003 and 2002, and target allocation are as follows:

Asset Category	Current Target	Percentage of Pension Plan	
	Allocation	Assets at December 31	
	2004	2003	2002
Equity securities	60% - 70%	70%	67%
Debt securities	30% - 40%	30%	33%
Total	100%	100%	100%

The company recognizes its overall responsibility to ensure that the assets of its various pension plans are managed effectively and prudently and in compliance with its policy guidelines and all applicable laws. Preservation of capital is important; however, the company also recognizes that appropriate levels of risk are necessary to allow its investment managers to achieve satisfactory long-term results consistent with the objectives and the fiduciary

character of the pension funds. Asset allocation is established in a manner consistent with projected plan liabilities, benefit payments and expected rates of return for various asset classes. The expected rate of return for the investment portfolio is based on expected rates of return for various asset classes as well as historical asset class and fund performance.

Cash Flows:

Employer Contributions to Defined Benefit Plans

2002	\$ 57,797 ⁽¹⁾
2003	\$ 173,990
2004 (expected)	\$ 175,000

Benefit Payments

	Pension Benefits	Other Benefits
2002	\$133,780	\$50,121
2003	\$142,995	\$49,221

⁽¹⁾In addition to the cash contribution of \$57,797, the company contributed 3,000,000 shares of its common stock, which had a fair market value of approximately \$54,500 at the time of the contribution.

The accumulated benefit obligation was \$2,227,003 and \$2,006,019 at December 31, 2003 and 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

14 Segment Information

Description of types of products and services from which each reportable segment derives its revenues

The company's reportable segments are business units that target different industry segments. Each reportable segment is managed separately because of the need to specifically address customer needs in these different industries. The company has three reportable segments: Automotive, Industrial and Steel Groups.

Beginning in the first quarter of 2003, the company reorganized two of its reportable segments – the Automotive and Industrial Groups. Timken's automotive aftermarket business is now part of the Industrial Group, which manages the combined distribution operations. The company's sales to emerging markets, principally in central and eastern Europe and Asia, previously were reported as part of the Industrial Group. Emerging market sales to automotive original equipment manufacturers are now included in the Automotive Group.

The Automotive Group includes sales of bearings and other products and services (other than steel) to automotive original equipment manufacturers for passenger cars, trucks and trailers. The Industrial Group includes sales of bearings and other products and services (other than steel) to a diverse customer base, including: industrial equipment; off-highway; rail; and aerospace and defense customers. The company's bearing products are used in a variety of products and applications including passenger cars, trucks, aircraft wheels, locomotive and railroad cars, machine tools, rolling mills and farm and construction equipment, in aircraft, missile guidance systems, computer peripherals and medical instruments.

Steel Group includes sales of intermediate alloy, vacuum processed alloys, tool steel and some carbon grades. These are available in a wide range of solid and tubular sections with a

variety of finishes. The company also manufactures custom-made steel products, including precision steel components. A significant portion of the company's steel is consumed in its bearing operations. In addition, sales are made to other anti-friction bearing companies and to aircraft, automotive, forging, tooling, oil and gas drilling industries and steel service centers. Tool steels are sold through the company's distribution facilities.

Measurement of segment profit or loss and segment assets

The company evaluates performance and allocates resources based on return on capital and profitable growth. The primary measurement used by management to measure the financial performance of each Group is adjusted EBIT (earnings before interest and taxes excluding special items such as impairment and restructuring, reorganization and integration costs, one-time gains or losses on sales of assets, allocated receipts received or payments made under the CDSOA, acquisition-related currency exchange gains, and other items similar in nature). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at values based on market prices, which creates intercompany profit on intersegment sales or transfers.

Factors used by management to identify the enterprise's reportable segments

Geographical entities as defined here are not reflective of how the Automotive, Industrial and Steel Groups are operated by the company. Europe information presented reflects shipments from European locations. The information does not include product manufactured by facilities located outside Europe and shipped directly to customers located in Europe.

Geographic Financial Information	United States	Europe	Other Countries	Consolidated
2003				
Net sales	\$ 2,790,359	\$ 674,188	\$ 323,550	\$ 3,788,097
Non-current assets	1,753,221	365,969	193,494	2,312,684
2002				
Net sales	\$ 1,987,499	\$ 365,460	\$ 197,116	\$ 2,550,075
Non-current assets	1,472,680	223,348	84,036	1,780,064
2001				
Net sales	\$ 1,906,823	\$ 351,242	\$ 189,113	\$ 2,447,178
Non-current assets	1,402,780	232,105	69,819	1,704,704

Segment Financial Information	2003	2002	2001
Automotive Group			
Net sales to external customers	\$ 1,396,104	\$ 752,763	\$ 642,943
Depreciation and amortization	82,958	33,866	36,381
EBIT (loss), as adjusted	15,685	11,095	(28,795)
Capital expenditures	69,040	34,948	36,427
Assets employed at year-end	1,180,867	663,864	583,891
Industrial Group			
Net sales to external customers	\$ 1,498,832	\$ 971,534	\$ 990,365
Intersegment sales	837	-	-
Depreciation and amortization	61,018	45,429	48,314
EBIT, as adjusted	128,031	73,040	55,981
Capital expenditures	33,724	32,178	34,646
Assets employed at year-end	1,617,568	1,105,684	1,044,269
Steel			
Net sales to external customers	\$ 893,161	\$ 825,778	\$ 813,870
Intersegment sales	133,356	155,500	146,492
Depreciation and amortization	64,875	67,240	67,772
EBIT (loss), as adjusted	(6,043)	32,520	12,115
Capital expenditures	24,297	23,547	31,274
Assets employed at year-end	891,354	978,808	904,924
Total			
Net sales to external customers	\$ 3,788,097	\$2,550,075	\$2,447,178
Depreciation and amortization	208,851	146,535	152,467
EBIT, as adjusted	137,673	116,655	39,301
Capital expenditures	127,061	90,673	102,347
Assets employed at year-end	3,689,789	2,748,356	2,533,084
Reconciliation to Income Before Income Taxes			
Total EBIT, as adjusted, for reportable segments	\$ 137,673	\$ 116,655	\$ 39,301
Impairment and restructuring	(19,154)	(32,143)	(54,689)
Integration/Reorganization expenses	(33,913)	(18,445)	(12,617)
Gain on sale of assets	1,996	-	-
CDSOA net receipts, net of expenses	65,559	50,202	29,555
Acquisition-related unrealized currency exchange gains	1,696	-	-
Impairment charge for investment in PEL	(45,730)	-	-
Interest expense	(48,401)	(31,540)	(33,401)
Interest income	1,123	1,676	2,109
Intersegment adjustments	(47)	(887)	2,859
Income (loss) before income taxes and cumulative effect of change in accounting principle	\$ 60,802	\$ 85,518	\$ (26,883)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except share data)

*15 Income Taxes*The provision (credit) for *income taxes* consisted of the following:

	2003		2002		2001	
	Current	Deferred	Current	Deferred	Current	Deferred
United States:						
Federal	\$ -	\$ 48	\$ 5,220	\$ 17,808	\$ (18,523)	\$ 22,620
State and local	1,020	1,271	3,936	(1,682)	2,332	(628)
Foreign	18,895	3,087	7,661	1,124	7,961	1,021
	\$ 19,915	\$ 4,406	\$ 16,817	\$ 17,250	\$ (8,230)	\$ 23,013

The company made income tax payments of approximately \$13,830 in 2003, received income tax refunds of approximately \$27,000 in 2002 and made income tax payments of approximately \$7,210 in 2001. Taxes paid differ from current taxes provided, primarily due to the timing of payments.

The effect of temporary differences giving rise to *deferred tax assets and liabilities* at December 31, 2003 and 2002 were as follows:

	2003	2002
Deferred tax assets:		
Accrued postretirement benefits cost	\$ 192,860	\$169,113
Accrued pension cost	145,451	192,983
Benefit accruals	22,908	18,262
Tax loss and credit carryforwards	136,086	63,877
Other—net	21,049	1,818
Valuation allowance	(31,581)	(22,491)
Deferred tax liability—depreciation	(287,700)	(218,508)
Net deferred tax asset	\$ 199,073	\$205,054

The company has U.S. net operating loss carryforwards with benefits totaling \$97,900. These losses will start to expire in 2021. In addition, the company has loss carryforward benefits in various foreign jurisdictions of \$16,400 without expiration dates and state and local loss carryforward benefits of \$5,800, which will begin to expire in 2014. The company has provided a full valuation allowance against the foreign loss carryforward benefits and a \$2,100 valuation allowance against the state and local loss carryforward benefits.

The company has a research tax credit carryforward of \$3,400, an AMT credit carryforward of \$2,900 and state income tax

credits of \$9,700. The research tax credits will expire annually between 2019 and 2023 and the AMT credits do not have any expiration date. The state income tax credits will expire at various intervals beginning in 2004 and are fully reserved by the company.

For financial statement reporting purposes, income (loss) before income taxes, based on geographic location of the operation to which such earnings are attributable, is provided below. The Timken Company has elected to treat certain foreign entities as branches for US income tax purposes; therefore, pretax income by location is not directly related to pretax income as reported to the respective taxing jurisdictions.

	Income (loss) before income taxes		
	2003	2002	2001
United States	\$ 53,560	\$ 191,105	\$ 26,862
Non- United States	\$ 7,242	\$(105,587)	\$(53,745)
Income (loss) before taxes	\$ 60,802	\$ 85,518	\$(26,883)

Following is the **reconciliation** between the provision for income taxes and the amount computed by applying U.S. federal income tax rate of 35% to income before taxes:

	2003	2002	2001
Income tax (credit) at the statutory federal rate	\$ 21,281	\$ 29,931	\$ (9,409)
Adjustments:			
State and local income taxes, net of federal tax benefit	1,489	1,465	1,107
Tax on foreign remittances	1,277	1,105	476
Losses without current tax benefits	8,866	3,598	20,854
Extraterritorial Income Benefit	(8,626)	(980)	(924)
Other items	34	(1,052)	2,679
Provision for income taxes	\$ 24,321	\$ 34,067	\$ 14,783
Effective income tax rate	40%	40%	N/A

In 2003, the company incurred losses without current tax benefits principally related to operations in Germany. In 2002 and 2001, the company incurred losses without current tax benefits in Brazil and China. In addition, the company had losses without current benefit in 2001 related to the shut down of operations in the United Kingdom.

In connection with various investment arrangements, the Company has a "holiday" from income taxes in the Czech Republic and China. These agreements are new to the Company in 2003 and expire in 2010 and 2007, respectively. In total, the agreements reduced income tax expenses by \$2,200 or \$0.03 per diluted share for the year ended 2003.

REPORT OF INDEPENDENT AUDITORS

*To the Board of Directors and Shareholders
The Timken Company*

We have audited the consolidated balance sheets of The Timken Company and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Timken Company and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 8 to the consolidated financial statements, "Goodwill and Other Intangible Assets," the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

Ernst & Young LLP

Canton, Ohio
February 5, 2004

FORWARD-LOOKING STATEMENTS

Certain statements set forth in this annual report (including the company's forecasts, beliefs and expectations) that are not historical in nature are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular the Corporate Profile on pages 16 through 19 and Management's Discussion and Analysis on pages 21 through 33 contain numerous forward-looking statements. 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 important factors, such as:

- a) risks associated with the acquisition of Torrington, including the uncertainties in both timing and amount of actual benefits, if any, that may be realized as a result of the integration of the Torrington business with the company's operations and the timing and amount of the resources required to achieve those benefits; risks associated with diversion of management's attention from routine operations during the integration process; and risks associated with the higher level of debt associated with the acquisition.
- b) changes in world economic conditions, including additional adverse effects from terrorism or hostilities. This includes, but is not limited to, political risks associated with the potential instability of governments and legal systems in countries in which the company or its customers conduct business and significant changes in currency valuations.
- c) the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which the company operates. This includes the effects of customer strikes, the impact of changes in industrial business cycles and whether conditions of fair trade continue in the U.S. market.
- d) 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.
- e) 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; changes resulting from inventory management and cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; changes in the cost of labor and benefits; and the cost and availability of raw materials and energy.
- f) the success of the company's operating plans, including its ability to achieve the benefits from its global restructuring, manufacturing transformation, and administrative cost reduction initiatives as well as its ongoing continuous improvement and rationalization programs; the ability of acquired companies to achieve satisfactory operating results; and its ability to maintain appropriate relations with unions that represent company associates in certain locations in order to avoid disruptions of business.
- g) unanticipated litigation, claims or assessments. This includes, but is not limited to, claims or problems related to intellectual property, product liability or warranty and environmental issues.
- h) changes in worldwide financial markets, including interest rates to the extent they affect the company's ability to raise capital or increase the company's cost of funds, have an impact on the overall performance of the company's pension fund investments and/or cause changes in the economy which affect customer demand.

Additional risks relating to the company's business, the industries in which the company operates or the company's common stock may be described from time to time in the company's filings with the SEC. 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.

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.

QUARTERLY FINANCIAL DATA

2003	Net Sales	Gross Profit	Impairment & Restructuring	Net Income (Loss)	Earnings per Share ⁽¹⁾		Dividends per Share
					Basic	Diluted	
(Thousands of dollars, except per share data)							
Q1	\$ 838,007	\$ 130,266	\$ -	\$ 11,339	\$.15	\$.15	\$.13
Q2	990,253	158,069	853	3,921	.05	.05	.13
Q3	938,012	147,610	1,883	(1,275)	(.01)	(.01)	.13
Q4	1,021,825	195,677	16,418	22,496⁽²⁾⁽⁴⁾	.26	.25	.13
	\$ 3,788,097	\$ 631,622	\$ 19,154	\$ 36,481	\$.44	\$.44	\$.52

2002

(Thousands of dollars, except per share data)

Q1 ⁽¹⁾	\$ 615,757	\$ 118,642	\$ 3,057	\$ (3,514)	\$ (.06)	\$ (.06)	\$.13
Q2	660,829	124,301	14,226	3,960	.07	.07	.13
Q3 ⁽³⁾	628,591	111,262	7,703	1,837	.03	.03	.13
Q4	644,898	115,372	7,157	36,466 ⁽²⁾	.58	.57	.13
	\$ 2,550,075	\$ 469,577	\$ 32,143	\$ 38,749	\$.63	\$.62	\$.52

⁽¹⁾ Annual earnings per share do not equal the sum of the individual quarters due to differences in the average number of shares outstanding during the respective periods.

⁽²⁾ Includes receipt (net of expenses) of \$65.6 million and \$50.2 million in 2003 and 2002 resulting from the U.S. Continued Dumping and Subsidy Offset Act.

⁽³⁾ Net income (loss) and earnings per share for Q1 and Q3 have been adjusted to reflect as if the cumulative effect of change in accounting principle had been recorded in Q1 of 2002 instead of Q3. This adjustment was made in accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

⁽⁴⁾ Includes \$45.7 million for write-off of investment in joint venture, PEL.

2003 Stock Prices

	High	Low
Q1	\$20.46	\$14.88
Q2	18.50	15.59
Q3	19.25	14.55
Q4	20.32	15.31

2002 Stock Prices

	High	Low
Q1	\$24.50	\$15.35
Q2	27.41	20.50
Q3	24.00	16.54
Q4	20.27	14.92

SUMMARY OF OPERATIONS AND OTHER COMPARATIVE DATA

	2003	2002	2001	2000
(Thousands of dollars, except per share data)				
Statements of Income				
Net sales:				
Automotive Bearings	\$ 1,396,104	\$ 752,763	\$ 642,943	\$ 839,838 ⁽⁷⁾
Industrial Bearings	1,498,832	971,534	990,365	923,477 ⁽⁷⁾
Total Bearings	2,894,936	1,724,297	1,633,308	1,763,315
Steel	893,161	825,778	813,870	879,693
Total net sales	3,788,097	2,550,075	2,447,178	2,643,008
Cost of products sold				
Selling, administrative and general expenses	3,156,475	2,080,498	2,046,458	2,142,135
Impairment and restructuring charges	514,221	358,866	363,683	367,499
Operating income (loss)	19,154	32,143	54,689	27,754
Other income (expense) - net	98,247	78,568	(17,652)	105,620
Earnings before interest and taxes (EBIT) ⁽¹⁾	9,833	36,814	22,061	(6,580)
Interest expense	108,080	115,382	4,409	99,040
Income (loss) before income taxes	48,401	31,540	33,401	31,922
Provision (credit) for income taxes	60,802	85,518	(26,883)	70,597
Income (loss) before cumulative effect of accounting changes	24,321	34,067	14,783	24,709
Net income (loss)	36,481	51,451	(41,666)	45,888
	\$ 36,481	\$ 38,749	\$ (41,666)	\$ 45,888
Balance Sheets				
Inventory	\$ 695,946	\$ 488,923	\$ 429,231	\$ 489,549
Current assets	1,377,105	968,292	828,380	898,542
Working capital	322,549	334,222	187,224	311,090
Property, plant and equipment - net	1,608,594	1,226,244	1,305,345	1,363,772
Total assets	3,689,789	2,748,356	2,533,084	2,564,105
Total debt:				
Commercial paper	-	8,999	1,962	76,930
Short-term debt	114,469	78,354	84,468	105,519
Current portion of long-term debt	6,725	23,781	42,434	26,974
Long-term debt	613,446	350,085	368,151	305,181
Total debt	734,640	461,219	497,015	514,604
Total liabilities	2,600,162	2,139,270	1,751,349	1,559,423
Shareholders' equity	\$ 1,089,627	\$ 609,086	\$ 781,735	\$ 1,004,682
Other Comparative Data				
Net income (loss) /Total assets	1.0%	1.4%	(1.6)%	1.8%
Net income (loss) /Net sales	1.0%	1.5%	(1.7)%	1.7%
EBIT/Beginning invested capital ⁽²⁾	5.6%	6.0%	0.2%	4.9%
Beginning invested capital:				
Total assets	2,748,356	2,533,084	2,564,105	2,441,318
Less: cash and cash equivalents	(82,050)	(33,392)	(10,927)	(7,906)
Current portion of deferred income taxes	(36,003)	(42,895)	(43,094)	(39,706)
Long term portion of deferred income taxes	(169,051)	(27,164)	-	-
Accounts payable and other liabilities	(296,543)	(258,001)	(239,182)	(236,602)
Salaries, wages and benefits	(222,546)	(254,291)	(137,320)	(120,295)
Accrued pension cost	-	-	-	-
Accrued postretirement benefits cost	-	-	-	-
Income taxes	(3,847)	-	(1,527)	(5,627)
Beginning invested capital	1,938,316	1,917,341	2,132,055	2,031,182
Inventory days (FIFO)	101.7	111.1	104.8	108.5
Net sales per associate ⁽³⁾	\$ 172.0	\$ 139.0	\$ 124.8	\$ 127.9
Capital expenditures	\$ 127,062	\$ 90,673	\$ 102,347	\$ 162,717
Depreciation and amortization	\$ 208,851	\$ 146,535	\$ 152,467	\$ 151,047
Capital expenditures/Depreciation	60.8%	61.9%	69.9%	112.4%
Dividends per share	\$ 0.52	\$ 0.52	\$ 0.67	\$ 0.72
Earnings per share ⁽⁴⁾	\$ 0.44	\$ 0.63	\$ (0.69)	\$ 0.76
Earnings per share - assuming dilution ⁽⁴⁾	\$ 0.44	\$ 0.62	\$ (0.69)	\$ 0.76
Debt to total capital ⁽⁵⁾	40.3%	43.1%	38.9%	33.9%
Number of associates at year-end	26,073	17,963	18,735	20,474
Number of shareholders ⁽⁶⁾	42,184	44,057	39,919	42,661

⁽¹⁾ EBIT is defined as operating income plus other income (expense) - net.

⁽²⁾ EBIT/Beginning invested capital is a type of return ratio that gauges profitability. EBIT is defined as operating income plus other income (expense) - net. Beginning invested capital is calculated as total assets less the following balance sheet line items: cash and cash equivalents; the current and long-term portions of deferred income taxes; accounts payable and other liabilities; salaries, wages and benefits; and income taxes.

⁽³⁾ Based on the average number of associates employed during the year.

⁽⁴⁾ Based on the average number of shares outstanding during the year and includes the cumulative effect of accounting change in 2002, which related to the adoption of SFAS No. 142.

	1999	1998	1997	1996	1995	1994
\$	\$	\$	\$	\$	\$	\$
1,759,871	1,797,745	1,718,876	1,598,040	1,524,728	1,312,323	
735,163	882,096	898,686	796,717	705,776	618,028	
2,495,034	2,679,841	2,617,562	2,394,757	2,230,504	1,930,351	
2,002,366	2,098,186	2,005,374	1,828,394	1,723,463	1,514,098	
359,910	356,672	332,419	319,458	304,046	283,727	
-	-	-	-	-	-	
132,758	224,983	279,769	246,905	202,995	132,526	
(9,638)	(16,117)	6,005	(3,747)	(10,229)	(2,380)	
123,120	208,866	286,766	242,304	197,957	134,674	
27,225	26,502	21,432	17,899	19,813	24,872	
98,991	185,350	266,592	225,259	180,174	111,323	
36,367	70,813	95,173	86,322	67,824	42,859	
62,624	114,537	171,419	138,937	112,350	68,464	
\$ 62,624	\$ 114,537	\$ 171,419	\$ 138,937	\$ 112,350	\$ 68,464	
\$ 446,588	\$ 457,246	\$ 445,853	\$ 419,507	\$ 367,889	\$ 332,304	
833,526	850,337	855,171	793,633	710,258	657,180	
348,455	359,914	275,607	265,685	247,895	178,556	
1,381,474	1,349,539	1,220,516	1,094,329	1,039,382	1,030,451	
2,441,318	2,450,031	2,326,550	2,071,338	1,925,925	1,858,734	
35,937	29,873	71,566	46,977	5,037	57,759	
81,296	96,720	61,399	59,457	54,727	40,630	
5,314	17,719	23,620	30,396	314	30,223	
327,343	325,086	202,846	165,835	151,154	150,907	
449,890	469,398	359,431	302,665	211,232	279,519	
1,395,337	1,393,950	1,294,474	1,149,110	1,104,747	1,125,843	
\$ 1,045,981	\$ 1,056,081	\$ 1,032,076	\$ 922,228	\$ 821,178	\$ 732,891	
2.6%	4.7%	7.4%	6.7%	5.8%	3.7%	
2.5%	4.3%	6.5%	5.8%	5.0%	3.5%	
6.0%	11.4%	17.7%	16.9%	14.1%	10.1%	
2,450,031	2,326,550	2,071,338	1,925,925	1,858,734	1,789,719	
(320)	(9,824)	(5,342)	(7,262)	(12,121)	(5,284)	
(42,288)	(42,071)	(54,852)	(50,183)	(49,222)	(58,220)	
(20,409)	(26,605)	(3,803)	(31,176)	(45,395)	(52,902)	
(221,823)	(253,033)	(237,020)	(229,096)	(216,568)	(221,265)	
(106,999)	(134,390)	(86,556)	(76,460)	(68,812)	(60,680)	
-	-	(18,724)	(43,241)	(29,502)	(11,377)	
-	-	(19,746)	(22,765)	(21,932)	(24,330)	
(17,289)	(22,953)	(29,072)	(30,723)	(13,198)	(19,443)	
2,040,903	1,837,674	1,616,223	1,435,019	1,401,984	1,336,218	
108.4	109.4	111.5	117.5	112.2	118.0	
\$ 119.1	\$ 127.5	\$ 130.5	\$ 132.4	\$ 134.2	\$ 119.9	
\$ 173,222	\$ 258,621	\$ 229,932	\$ 155,925	\$ 131,188	\$ 119,656	
\$ 149,949	\$ 139,833	\$ 134,431	\$ 126,457	\$ 123,409	\$ 119,255	
120.3%	192.5%	177.3%	127.0%	109.1%	102.6%	
\$ 0.72	\$ 0.72	\$ 0.66	\$ 0.60	\$ 0.56	\$ 0.50	
\$ 1.01	\$ 1.84	\$ 2.73	\$ 2.21	\$ 1.80	\$ 1.11	
\$ 1.01	\$ 1.82	\$ 2.69	\$ 2.19	\$ 1.78	\$ 1.10	
30.1%	30.8%	25.8%	24.7%	20.5%	27.6%	
20,856	21,046	20,994	19,130	17,034	16,202	
42,907	45,942	46,394	31,813	26,792	49,968	

⁽⁶⁾ Debt to total capital equals total debt divided by total debt plus shareholders' equity.

⁽⁶⁾ Includes an estimated count of shareholders having common stock held for their accounts by banks, brokers and trustees for benefit plans.

⁽⁷⁾ It is impractical for Timken to reflect 2000 segment financial information related to the 2003 reorganization of its Automotive and Industrial Groups, as this structure was not in place at the time.

⁽⁸⁾ It is impracticable for the company to restate prior year segment financial information into Automotive Bearings and Industrial Bearings as this structure was not in place until 2000.

DIRECTORS

W.R. Timken, Jr., Director since 1965
Chairman – Board of Directors
The Timken Company

Stanley C. Gault, Director since 1988 (C)
Retired Chairman and Chief Executive Officer
The Goodyear Tire and Rubber Company (Akron, Ohio)
Retired Chairman and Chief Executive Officer
Rubbermaid, Inc. (Wooster, Ohio)

James W. Griffith, Director since 1999
President and Chief Executive Officer
The Timken Company

John A. Luke, Jr., Director since 1999 (C, N)
Chairman and Chief Executive Officer
MeadWestvaco (New York, New York)

Robert W. Mahoney, Director since 1992 (A, N)
Retired Chairman
Diebold, Incorporated (Canton, Ohio)

Jay A. Precourt, Director since 1996 (A)
Chairman and Chief Executive Officer
ScissorTail Energy (Vail, Colorado)
Chairman of the Board
Hermes Consolidated Inc. (Denver, Colorado)

Joseph W. Ralston, Director since 2003 (A,C)
Vice Chairman
The Cohen Group (Washington, D.C.)

Frank C. Sullivan, Director since 2003 (A)
President and Chief Executive Officer
RPM International Inc. (Medina, Ohio)

John M. Timken, Jr., Director since 1986 (A)
Private Investor (Old Saybrook, Connecticut)

Ward J. Timken, Director since 1971
President
Timken Foundation

Ward J. Timken, Jr., Director since 2002
Executive Vice President and President – Steel
The Timken Company

Joseph F. Toot, Jr., Director since 1968 (N)
Retired President and Chief Executive Officer
The Timken Company

Martin D. Walker, Director since 1995 (C)
Principal
MORWAL Investments (Westlake, Ohio)

Jacqueline F. Woods, Director since 2000 (C, N)
Retired President
SBC Ohio (Cleveland, Ohio)

(A) Member of Audit Committee

(C) Member of Compensation Committee

(N) Member of Nominating and Corporate Governance Committee

OFFICERS AND EXECUTIVES

James W. Griffith*

President and Chief Executive Officer

Glenn A. Eisenberg*Executive Vice President –
Finance and Administration**Sallie B. Bailey***

Senior Vice President – Finance and Controller

Jerry C. Begue

Managing Director – Europe

William R. Burkhart*

Senior Vice President and General Counsel

Charles M. Byrnes, Jr.

Vice President – Purchasing

Donna J. DemerlingSenior Vice President – Supply Chain
Transformation**Jon T. Elsasser**Senior Vice President
and Chief Information Officer**Robert J. Lapp**

Vice President – Government Affairs

Roger W. Lindsay*Senior Vice President – Human Resources
and Organizational Advancement**Debra L. Miller**Senior Vice President – Communications
and Community Affairs**Salvatore J. Miraglia, Jr.***

Senior Vice President – Technology

Gordon W. Robinson

Managing Director – Asia Pacific

Mark J. SamolczykSenior Vice President – Corporate Planning
and Development**Scott A. Scherff**Corporate Secretary
and Assistant General Counsel**John C. Skurek**

Vice President – Treasury

Dennis R. Vernier

Vice President – Auditing

Mary A. Wilson

Vice President – Tax and Tax Counsel

*Automotive Group***Jacqueline A. Dedo***

President – Automotive Group

Richard D. AdamsVice President – Automotive –
Global Business Development**John W. Begg**Vice President – Automotive –
Needle Bearing Solutions**H. Roger Ellis**

Vice President – Operations – Automotive

Robert W. Logston

Vice President – Automotive – Europe

Marc A. WestonVice President – Automotive –
Tapered Roller Bearing Solutions*Industrial Group***Michael C. Arnold***

President – Industrial Group

Christopher A. Coughlin

Vice President – Industrial Equipment

Thomas O. Dwyer

Vice President – Off-Highway

Mathew W. Happach

Vice President – Rail

Michael J. Hill

Vice President – Manufacturing

J. Ron Menning

Vice President – Aerospace and Defense

Daniel E. Muller

Vice President – Distribution Management

*Steel Group***Ward J. Timken, Jr.***Executive Vice President and President –
Steel Group**Hans J. Sack**

President – Specialty Steel

Donald L. Walker

President – Precision Steel Components

Nicholas P. Luchitz

Vice President – Tube Manufacturing – Steel

Linn B. OstermanVice President – Sales and Marketing –
Alloy Steel**R. Lee Sholley**

Vice President – Bar Manufacturing – Steel

*Required to file reports under Section 16 of the Securities
Exchange Act of 1934.

SHAREHOLDER INFORMATION

Annual Meeting of Shareholders

Tuesday, April 20, 2004, 10 a.m., Corporate Offices.
Direct meeting inquiries to Scott A. Scherff, corporate secretary and assistant general counsel, at 330-471-4226.

Shareholder Information

Dividends on common stock are generally payable in March, June, September and December.

The Timken Company offers an open enrollment dividend reinvestment and stock purchase plan through its transfer agent. This program allows current shareholders and new investors the opportunity to purchase shares of common stock without a broker.

Shareholders of record may increase their investment in the company by reinvesting their dividends at no cost. Shares held in the name of a broker must be transferred to the shareholder's name to permit reinvestment.

Please direct inquiries to:

National City Bank Reinvestment Services
P.O. Box 94946
Cleveland, Ohio 44101-4946

Inquiries concerning dividend payments, change of address or lost certificates should be directed to National City Bank at 1-800-622-6757.

Transfer Agent and Registrar

National City Bank Shareholder Services
P.O. Box 92301
Cleveland, Ohio 44193-0900

Independent Auditors

Ernst & Young LLP
200 Market Ave., N.
Canton, Ohio 44702-1418

Stock Listing

New York Stock Exchange trading symbol, "TKR."
Abbreviation used in most newspaper stock listings is "Timken."

Publications

The Annual Meeting Notice, Proxy Statement and Proxy Form are mailed to shareholders in March.

Copies of Forms 10-K and 10-Q may be obtained from the company's Web site, www.timken.com/investors, or by written request at no charge from:

The Timken Company
Shareholder Relations, GNE-04
P.O. Box 6928
Canton, Ohio 44706-0928

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The Timken Company's Web site:
www.timken.com.

CONTACT INFORMATION

CORPORATE OFFICES

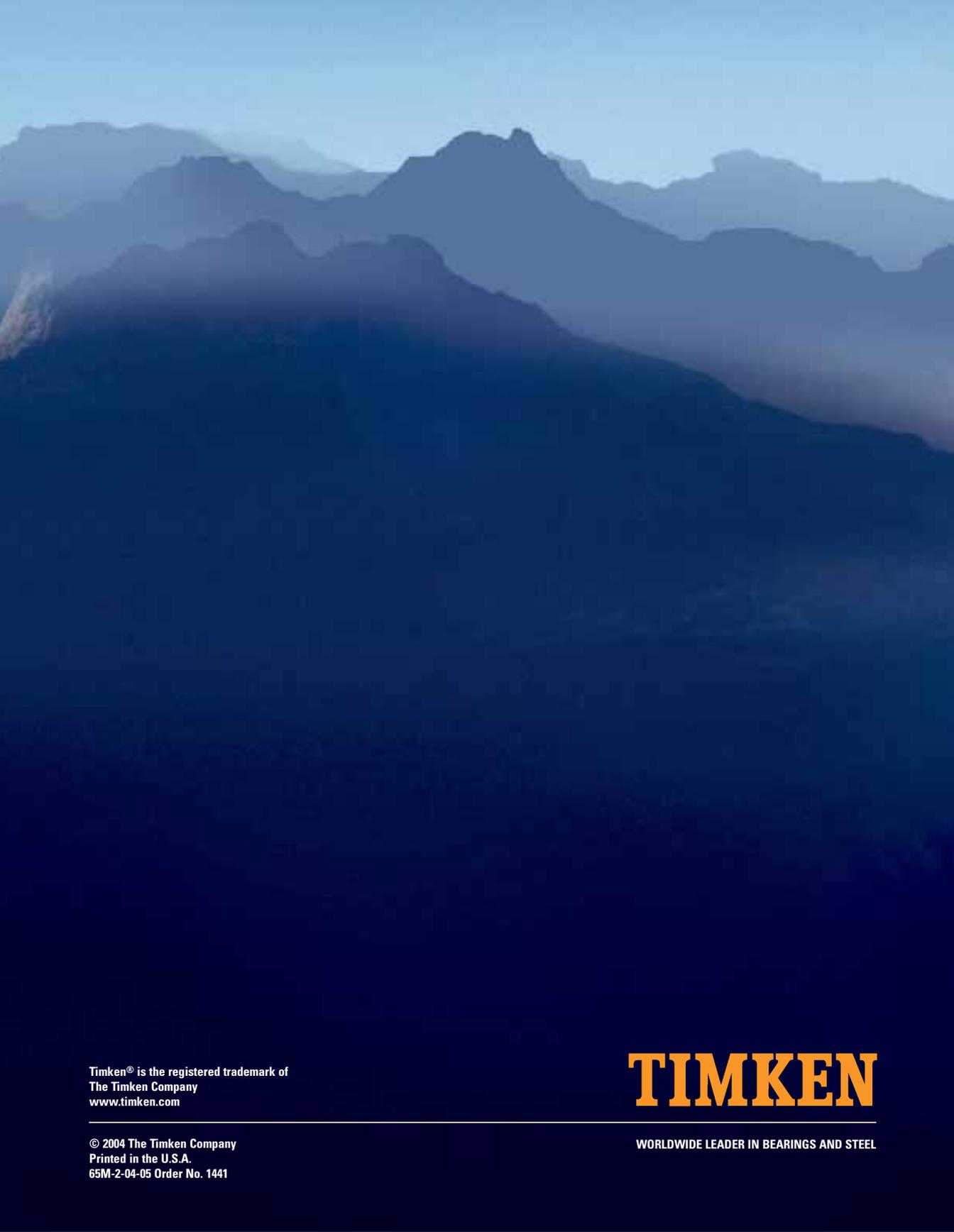
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WORLDWIDE LEADER IN BEARINGS AND STEEL