TIMKEN

driving innovative solutions for customers

advancing technology for global growth

2000 ANNUAL REPORT

cover

www.timken.com

During 2000, The Timken Company accelerated its transformation to a global enterprise. The company aligned its businesses with global industries, and it took actions to improve performance and achieve profitable growth.

With our new global organization, advanced technologies, increased customer focus and commitment to continuously improving performance, the new Timken Company is moving rapidly to strengthen its leadership in key markets and deliver greater value to shareholders and customers.

The Timken Company is a leading international manufacturer of highly engineered bearings and alloy steels and a provider of related products and services. Headquartered in Canton, Ohio, Timken serves every major manufacturing industry and has operations in 24 countries.

contents

financial summary

	2000	1999
(Thousands of dollars, except per share data)		
Net sales	**$2,643,008**	$ 2,495,034
Impairment and restructuring charges	**27,754**	-
Income before income taxes	**70,597**	98,991
Provision for income taxes	**24,709**	36,367
Net income	**$ 45,888**	$ 62,624
Earnings per share	**$ .76**	$ 1.01
Earnings per share - assuming dilution	**$ .76**	$ 1.01
Dividends per share	**$ .72**	$ .72

quarterly financial data

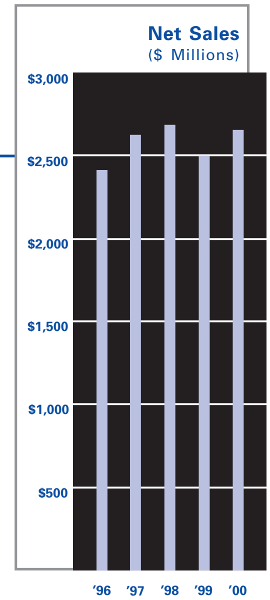
2000	Net Sales	Gross Profit	Impairment & Restructuring	Net Income	Earnings per Share[1] Basic	Earnings per Share[1] Diluted	Dividends per Share
(Thousands of dollars, except per share data)							
Q1	**$ 685,791**	**$ 144,965**	**$ 14,759**	**$ 16,040**	**$ .26**	**$ .26**	**$ .18**
Q2	**693,263**	**142,476**	**3,322**	**21,240**	**.35**	**.35**	**.18**
Q3	**632,243**	**109,545**	**3,453**	**7,685**	**.13**	**.13**	**.18**
Q4	**631,711**	**103,887**	**6,220**	**923**	**.02**	**.02**	**.18**
	$2,643,008	**$ 500,873**	**$ 27,754**	**$ 45,888**	**$ .76**	**$ .76**	**$ .72**

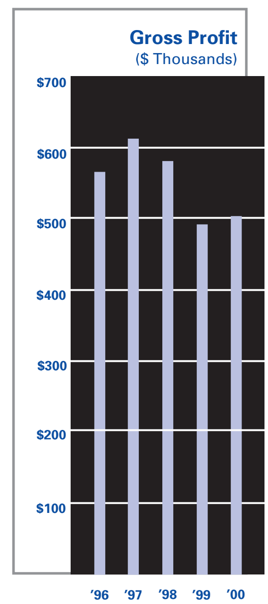
1999							
(Thousands of dollars, except per share data)							
Q1	$ 625,370	$ 126,559	$ -	$ 16,579	$ .27	$ .27	$ .18
Q2	636,099	119,601	-	12,264	.20	.20	.18
Q3	601,703	116,341	-	12,442	.20	.20	.18
Q4	631,862	130,167	-	21,339	.35	.35	.18
	$ 2,495,034	$ 492,668	$ -	$ 62,624	$ 1.01	$ 1.01	$ .72

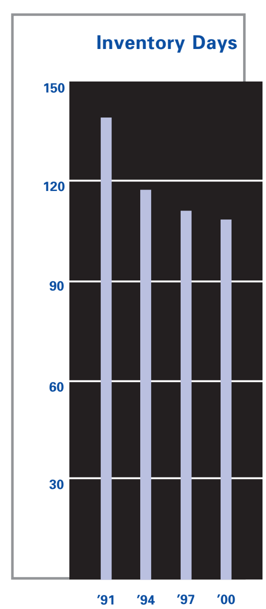
(1) Annual earnings per share do not equal the sum of the individual quarters due to differences in the average number of shares outstanding during the respective periods.

2000 Stock Prices High	Low
$20 3/16	**$14**
20 13/16	**15 1/2**
20 1/2	**13 9/16**
15 13/16	**12 5/8**

1999 Stock Prices High	Low
$22 3/16	$16 1/8
25 13/16	15 15/16
19 11/16	15 3/4
20 9/16	15 5/8







to our shareholders

transformation

Amidst a U.S. and global economic slowdown in the second half of the year, The Timken Company made good progress in 2000. In the first year of our second century, we moved ahead on several fronts in transforming the company. Organizationally, by creating eight new global businesses, we are better able to draw on global capacity, talent and resources. Our market reach is broader, resulting in greater ability to work more closely with customers. The pace of innovation at Timken is quickening, and the range of products and services is widening well beyond tapered roller bearings and alloy steels. It is exciting to see the enthusiasm of our associates as they work on myriad possibilities for sales and earnings growth in the years ahead.

During 2000, we had to combat the effects of higher interest rates and tightening credit conditions, higher energy prices, the overvalued dollar and slumping consumer demand. They combined to weaken the economy, particularly in 2000's second half. U.S. manufacturers reacted more quickly to cut inventory than ever before. As of January 2001, most economists concede that U.S. manufacturing is in a recession.

The weak Euro – down at times as much as 30 percent against the dollar – and other devalued currencies hit hard. It made the products that we – and our customers – ship from the U.S. and UK to Continental Europe far less affordable. And, of course, imports into the U.S. became markedly cheaper. Imports especially hammered our Timken Latrobe Steel operation, which sold more steel but had narrower margins due to lower prices.

Still, the company's earnings in 2000, exclusive of special charges, topped those of 1999 by 19 percent – due largely to our restructuring in which we rationalized operations, used new technology and drove down costs. Our bearing businesses reflected this restructuring. Despite slowing sales in the second half, they had increased operating profit, reflecting significant improvements in operating efficiency. In our steel business, energy cost increases, pricing pressures, inventory reductions and shifting product mix negatively affected operating profit, despite productivity improvements. The steel business improved its penetration in targeted markets, and its performance was strong compared to the overall North American steel industry.

Our company's sales in 2000 totaled $2.6 billion, up about 6 percent from 1999. Earnings before restructuring and reorganization charges totaled $74.6 million, up from $62.6 million in 1999.

At the end of 2000, debt stood at $515 million, compared to $450 million a year earlier. We used the increased borrowing to fund growth initiatives, repurchase 1.35 million shares and increase working capital. We further reduced capital spending in 2000 after a 33 percent reduction in 1999. Our balance sheet remains healthy as we are committed to a strong capital structure. Reflecting the company's growth potential, a new repurchase plan authorizes the company to buy up to four million shares through 2006. We believe working capital utilization can be further improved in 2001.

Research findings tell us that few brands are better recognized or respected throughout the world than Timken. Customers and other constituents firmly link the Timken brand with superior quality, innovation and integrity. As a result, we are a preferred partner of the world's manufacturers. In 2000, several developments further differentiated and strengthened our brand.

Timken Polska is a prime example. Acquired in 1996, it continues to achieve successes. Demand for products made there is growing. As a result, we are using 100 percent of current capacity – up from 33 percent at the time of acquisition. Timken Polska now is producing 16.5 million bearing components yearly and, with innovation and productivity improvements, we see that figure growing significantly. Simultaneously, product quality is increasing further. As a result, Polska now is shipping bearings that carry the Timken brand.

Speeding Up Technology Transfer

Timken Romania is not far behind. Acquired in 1997, that operation also has significantly upgraded product quality. It, too, is now shipping Timken-branded bearings, both tapered and cylindrical. Sales rose 50 percent from 1999 to 2000, and we expect similar growth in 2001.

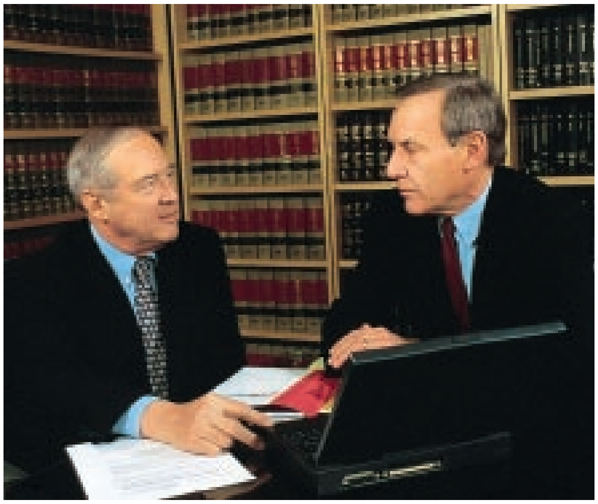
Inch-based and metric bearings share the world bearing market. Historically, Timken specialized principally in the former. Just a little more than two years ago, we introduced Timken® IsoClass™, a line of metric bearings designed to serve customers mainly outside North America. Customer acceptance of the new line is straining capacity to produce it.

In China, we bought our partner's interest in Yantai Timken, a joint venture formed in 1996 to give us a bridgehead in a market with great potential. Now, by owning 100 percent, we will be speeding up technology transfer, further improving product quality and productivity, and strengthening the Timken brand. We have reduced employment there from 1,360 to 950 and simultaneously increased output. The operation already has orders for shipping product to western hemisphere nations for certain applications, including truck trailers.

All three of those acquisitions – in Poland, Romania and China – significantly improved their financial results in 2000.

W.R. Timken, Jr., chairman and chief executive officer (center); James W. Griffith, president and chief operating officer (left); and Bill J. Bowling, executive vice president and chief operating officer and president – steel.

Precision Steel Components continues its growth path. Sales now are approaching $175 million, with more growth expected. This business is expanding from bearing and automotive into industrial applications, including construction equipment. Penetration into those markets currently is small, but potential is big.



In 2001, W.R. Timken, Jr. (left) is chairing the National Association of Manufacturers (NAM). Here he confers with Jerry Jasinowski, NAM president, on the association's pro-growth agenda.

The core of our transformation is a greater shift toward customer centricity. What does that mean? Instead of selling what we have, we create what customers want. That requires innovative thinking, which can be seen in the number of growth programs in our global Industrial business. In the space of a year, they have grown from 13 to 57. And they range beyond bearings and steel to include biomechanics (replacement human joints), engineered surfaces (sophisticated friction-reducing coatings) and gearboxes for windmill farms that must perform reliably high in the air for 20 years. Overall, we see Industrial non-traditional products and services growing faster than traditional offerings.

We also are transforming the company's bearing products into higher value automotive offerings. For example, we continue to advance our state-of-the-art sensorized bearings into more complex modules that add value for customers by reducing weight and improving braking performance. We are approved on a number of new automotive platforms to commence production this year.

A key to growth is our continuing commitment to research and development. Indeed, we are expanding research capability to provide a broader range of innovative solutions for customers. In the U.S. in 2001, we are enlarging our main research center. In India, in just the last two years, our technology center team has grown from a dozen to 40 members and is expected to double again this year. Worldwide, our research team is working more closely with our eight global businesses. Part of that trend involves co-locating customer engineers with the research team. And Internet technology is linking more tightly our research network, which has facilities in the U.S., Asia and Europe. Local proximity enables us to work more closely and quickly with Timken customers.

E-business holds vast potential for our company and customers, and you can learn more about that on page 11. We believe we are a leader in the application of information technology to improve performance.

With competitive global pressures mounting and customer needs evolving, we are becoming a leaner organization, more nimble and adaptive. You can see this as we accelerate rationalizing operations – and are more creative in doing so. One example: we have teamed with competitor SKF in Brazil to machine components for tapered roller bearings. This joint venture will make greater use of available capacity and save money for both companies.

In Europe, we have taken significant actions to improve performance. They include reducing costs, improving productivity and shifting more production to central Europe. Key to this is converting our UK bearing manufacturing operation to specialist production. Our focus there is serving the automotive market, especially advanced package bearings for trucks. We are shifting other production to facilities with their own specialties. This will reduce UK employment significantly as we respond to the strong pound sterling.

At Timken Desford Steel in the UK, acquired in 1998, an accelerated continuous improvement initiative has eliminated one-third of salaried positions, while achieving annual productivity savings of $10 million and increasing capacity by 30 percent. Half of Timken Desford's output is exported to Continental Europe. Even with the strong pound having to contend with the weak Euro, Timken Desford is turning the corner to profitability.

The National Association of Manufacturers, which W.R. Timken, Jr., is chairing this year, has growth-oriented monetary and fiscal policy at the core of its pro-growth agenda. During the second half of 2000, the world economy slowed considerably. But a prolonged downturn needn't be inevitable. In the U.S., we can ward off a hard economic landing. It requires making the right choices. One would be for the Federal Reserve to continue reducing interest rates swiftly and significantly. Another would be for governments to lower taxes. Both choices would buoy consumer and business confidence, lift stock markets and spark renewed economic growth later in the year. In 1970, foreign trade comprised 10 percent of the U.S. economy. Today the figure is 25 percent. What happens to the world economy is correspondingly more important in the U.S., so it is important for other nations to stimulate their economies. Expanded exports would help U.S. economic growth. Simultaneously, imports must meet the legal and moral tests of fair trade.

Making the Right Choices

Year One of our company's transformation has seen good progress. When comparing our overall financial and competitive position with that of 12 months ago, we see added strength in our base businesses and aggressive expansion opportunities in non-traditional areas. Although we start 2001 with weak economic conditions, we expect demand to improve later in the year as the economy improves.

We want to tell our shareholders they have 20,500 very capable, very committed associates working harder than ever to improve The Timken Company. We, on behalf of our shareholders, wish to thank these same Timken associates for their great efforts. We are convinced that a transformed Timken Company is on track for a strong and growing second century.

W. R. Timken, Jr.

W. R. Timken, Jr.

James W. Griffith

James W. Griffith

Bill J. Bowling

Bill J. Bowling

February 1, 2001

effective globalization

timken

Key to The Timken Company's transformation was the creation of eight global business units, focused on major industries. This structure and new leadership team includes Automotive, headed by Karl Kimmerling; Industrial, by Mike Arnold; Aerospace & Super Precision, by Donna Demerling; Rail, by Vinnie Dasari; Alloy Steel, by Bill Bowling; Specialty Steel, by Hans Sack; Precision Steel Components, by Mark Samolczyk; and Emerging Markets, by Gordon Robinson.

Our company's structural changes have added flexibility to our operations and an unprecedented simplicity in the way customers communicate their needs to us. For example, aerospace customers now work with a single source in the company to meet their needs for tapered roller bearings, ball bearings, bearing repair and spare parts. Many of these communications are further streamlined via our growing e-business interactive services.

Our industry-based focus is also creating value through effective plant rationalizations, including capitalizing on the strengths of our newest acquisitions. In 2000, we initiated the sale of the tool and die steel operations of Timken Latrobe Steel – Europe, after concluding they were not key to the company's future. We realigned our plant in Duston, England, to specialize in advanced package bearings for the heavy truck market and shifted other Duston products to lower-cost facilities in central Europe. In the U.S., we expanded production capabilities for sensor-equipped package bearings. We also closed three Rail Bearing Service facilities in Tennessee, consolidating these operations at a new facility in Knoxville. In addition, we closed a Rail Bearing Service facility in Arkansas.

Aligned with Global Industries

Many of our newest acquisitions turned in stellar performances in 2000. Timken Polska in Poland, acquired five years ago, is operating at full capacity and providing tapered roller bearings carrying the Timken brand to major European, Asian and North American automotive customers. Timken Romania, which was acquired in 1997, increased sales by 50 percent from 1999 to 2000, while supplying industrial markets around the world. Similar growth is expected in 2001. Yantai Timken in China and Timken Desford in the UK both improved their product quality and increased their sales in 2000. Early in 2001, we bought out our joint-venture partner in China, and Yantai Timken will grow as an export base for Timken branded products.

Our new global structure brings more resources closer to our customers, and it will drive greater productivity, quality and cost reduction efforts at a faster pace.

With its new organizational structure in place, Timken is operating globally with greater efficiencies.

"Following significant investments in Poland and Romania, we've increased bearing production in central Europe to satisfy the needs of our customers for high-quality, cost-effective products," says Yves Peyronnaud, Timken sales manager – France (opposite, right). Timken Polska supplies Timken® tapered roller bearings to France's leading automaker, PSA Peugeot Citroën, for gearbox assemblies in the luxury Peugeot 607 (above). Alain Hamm (opposite, left) is director of the huge Sochaux, France, assembly plant, where the cars are produced.

customer centric

Building on the Timken Brand

A newly emphasized term in our lexicon – customer centric – has roots in the company's earliest mission. From the days of our founder Henry Timken, we have concentrated on supplying customers with superior products and exemplary service. But today, we are taking the concept of "customer centric" a giant step forward. It means working so closely with customers that we contribute strategically to their success. We do more for them today than ever before. Our increased focus on customers and markets is helping identify new growth opportunities. And, because customers recognize that the name "Timken" stands for quality and reliability, we have been able to penetrate new markets with more value-added products and services. In an era of supplier-customer partnerships, The Timken Company is a preferred partner.

A sterling example of this can be found in India. Some time ago, Timken associates convinced certain rolling mill customers that we could add more value to their operations if we operated their entire roll shop. In 2000, we introduced to rolling mill operators a new concept in technical problem-solving and roll shop management called Milltech℠ services. These services draw upon our expertise with steel rolling mills and knowledge of bearing performance. They encompass round-the-clock management of the mill's roll shop and associated chock and bearing maintenance. Our management of Tata Iron and Steel Company's roll shop (at right) has helped this customer achieve rapid and efficient start-up of their new tandem cold mill.

Increased focus on customers and markets is helping us to identify new growth opportunities.

"Using our firsthand knowledge of rolling mill operations, Timken provides on-site management of the roll shop (above) at Tata Iron and Steel Company (TISCO), India's largest private steel producer," says Shyamal Gupta (opposite, left), program manager at Timken India. Timken performs all of the mill roll maintenance, inspection and assembly for TISCO'S ultramodern cold rolling mill in Jamshedpur. Timken's on-site crew supports customer Anjan Sengupta (opposite, right), who heads the cold rolled process at TISCO.

Our increased customer focus also is leading to very promising opportunities through new alliances and the use of e-business. For example, to improve our capabilities and those of our distributors in the power transmission and motion control industry, we formed e-business joint ventures with Rockwell Automation, SKF, INA and Sandvik Group. Distributors in North America and Europe will now have at their fingertips a central Web-based market resource for premium global brands. "Together with our joint-venture partners, we will build quickly on our respective e-business capabilities and distributor relationships to benefit the entire supply chain," says Mike Arnold, president – industrial.

In Canton, the Harrison Steel Plant's new high-speed rolling mill is yielding high-quality products at lower costs and strengthening the company's competitive position in markets for intermediate-sized alloy steel bars. This has resulted in new applications in engine crankshafts, HDTV towers and airport superstructures.

Entering New Markets

Our Specialty Steel business identified new customer needs and launched new product lines in 2000. First, it introduced powder metal steels for applications requiring high wear resistance and high strength, such as tooling. Second, it introduced super-clean mold steels for die makers in the plastics industry. Mold makers need this type of steel, for example, to produce molds for automotive headlight and taillight lenses. These applications require steel that can be polished to a reflective, mirror-finish, free from impurities that can cause pits and other imperfections in the mold and ruin lens reflectivity.

Value-Added Products and Services

From steel that polishes into reflective mirror finishes to bearings that must perform untouched for 20 years, Timken technology is finding new ways to please customers. Wind energy is gaining ground as an alternative energy source. Huge windmills, some standing higher than 200 feet, harness this energy and contain gearboxes that must keep working with little maintenance. With gear drive manufacturers, Timken is developing high-performance bearing products that should keep these windmills turning reliably year after year. We're also expanding our products and services for the dental handpiece market, a fast-growing segment in many areas of the world. Our Super Precision business now supplies this market with Timken bearing assemblies, repair services and replacement parts. Through a recent acquisition, this business also will offer dentists do-it-yourself toolkits and supplies for handpiece repair. "We've cut our lead times, improved productivity and lowered our cost structure significantly, which allows us to give this industry the premier products and services they want, when and where they want them," says Donna Demerling, president – aerospace and super precision.

Enhancing Relationships with Customers

Nowhere is our customer centricity more apparent than in our Precision Steel Components business. By providing preformed components, finished components and subassemblies, we reduce customers' processing costs. For example, at a customer's request, we developed and produced a new line of components for a specific transmission application in record time, which allowed our customer to avoid purchasing expensive equipment to produce it in-house. Instead, the customer was able to use those capital funds toward expanding its own product portfolio, which in turn created more jobs at the customer's plant. For Timken, this success increased our annual business potential with the customer by threefold and strengthened the trust and reliability bond between us.

"Adding value for customers is what we're all about," says Mark Samolczyk, president – precision steel components. "Our unparalleled knowledge and expertise in bearing and steel manufacturing is paving the way for continued growth of this business. In addition to growing our range of products, we are expanding beyond serving the bearing and automotive industries to provide similar savings to our industrial customers."

Paving the Road for Further Growth

Year One of The Timken Company's global transformation has been demanding on all 20,500 associates. Amid the work done on organizational restructuring, many areas of the company also achieved significant cost reductions, productivity improvements and increased sales. Here are a few examples: Alloy Steel's piercing operations increased capacity and throughput by 17 percent; Industrial formed alliances with several key customers that should significantly increase business in 2001; Precision Steel Components increased sales by 23 percent; Specialty Steel improved weekly productivity by 20 percent; Aerospace implemented lean manufacturing techniques, and in a manufacturing cell reduced costs by 41 percent and scrap by 53 percent and increased throughput by 44 percent. Early this year, we created a joint venture in Brazil with a bearing competitor that will supply both companies with steel rings for use in bearing manufacture. This joint effort will create efficiencies for both companies, while allowing each to independently produce differentiated bearing products.

These continuing improvements enable us to grow our product and service offerings and expand into new, challenging markets.

e-business

"E-business enhances our ability to provide innovative solutions to customers, while creating new growth opportunities and improving our productivity," says Curt Andersson, the company's new senior vice president of e-business.

One such opportunity is a premium-brand joint venture formed early this year among Timken, SKF, Rockwell Automation and INA. "This venture will provide industrial distributors with a central Web-based source for the companies' products and the efficiencies of pooled logistics in North America. And we've joined with these partners and Sandvik Group in Europe to provide Web-based services there as well," says Mr. Andersson.

E-business is also increasing productivity. "Through Timken Direct SM, for example, we have reduced the time and resources needed to answer questions by phone about our products," he continues. "Now our bearing distributors and steel customers have real-time, 24-hour access to product specifications and availability, as well as order placement.

"We are also increasing productivity and improving services to both associates and customers, using the Timken intranet," Mr. Andersson says. "Our HR Self-Serv intranet site lets associates instantly update personnel information and make benefit selections on-line." At the Timken distribution center in Bucyrus, Ohio, another intranet application automates retrieval of customer-specific shipping and packaging information.

And, the company's Web site – www.timken.com – with its new look and industry focus, is giving potential customers a window into Timken, its products and services.

innovative solutions

Our new industry-based structure with eight global businesses allows us to bring the Timken brand to customers in an ever-increasing range of products and services. Our global transformation also is strengthening our reputation as the leading provider of innovative solutions for customers.

The new, patented TracGlide™ system, illustrated on the opposite page, represents our commitment to use the knowledge and experience we've gained in our core competencies to expand beyond providing traditional bearing and steel products. Launched by our new joint venture, Friction Management Services, LLC, this revolutionary top-of-rail lubrication system for the railroad industry includes an on-board lubrication control computer that collects specific speed and load data, then calculates the precise amount of friction modifier to dispense to the rails. During the rolling motion, the system reduces friction and, under braking conditions, generates friction for more efficient braking. The lubrication is environmentally friendly, using a water-based agent that dissipates as the rail cars pass over it.

Expanding New Product Offerings

Innovating for Eight Global Businesses

Closer alignment of our research and customer engineering functions is strengthening our ability to support creative customer solutions in all of our businesses. We are transforming our research and development facilities into a globally managed, integrated network encompassing North America, Europe and Asia. A planned 85,000-square-foot

We're introducing innovative solutions and advanced products that expand our range beyond bearings and steel.

"Our new joint venture – Friction Management Services, LLC – illustrates the company's drive to develop businesses that expand our traditional bearing and steel product lines. It delivers innovative solutions for rail industry customers to lower their costs and increase productivity," says Warren Waldorff (opposite, left), Timken new business development director – rail. "TracGlide™, a new *smart* top-of-rail lubrication system, produced fuel savings of up to 42 percent during testing with major U.S. railroads," says Eric Wolf, (opposite, right), Friction Management Services president. Wheeling & Lake Erie Railroad (above) represents the first commercial installation.

expansion of our Timken Research facility in Canton, Ohio, will bring together North American research and customer engineering personnel and increase our capacity to serve global customers. A new technology center to be located at our manufacturing facility in Colmar, France, will move innovation and engineering resources closer to our European customers' design centers.

Timken Engineering and Research – India, established in Bangalore two years ago, is actively recruiting engineers and specialists, with plans to double in size by the end of 2001. Supporting growth in Asia, this technology center provides cost-effective technical resources for the company's global businesses and in-depth support for information technology and e-business initiatives.

Similar to India, our Romanian Technology Center is rapidly taking form. "Industrial customers worldwide will benefit directly from this customer-oriented engineering group dedicated to product design and development," says Mike Arnold, president – industrial. All of these efforts are clearly focused on creating a global network of experts in research and development who will work in concert with our

Global Network of Experts

customer engineering associates, all of whom are strategically located close to the key customers they serve. These refinements are strengthening and quickening our abilities to develop innovative, cost-effective solutions, from a customer's earliest design phase of a new product or process, through delivery of the product, to service in the aftermarket.

Our global investment in technology has continued to provide the bedrock for improving our competitiveness. In 2000, our research and development efforts produced a record 1,050 prototypes for customers. Our long-standing commitment to innovation also extends into finding creative ways to protect the environment. Throughout our history, we have implemented innovative ways to control, treat and recycle byproducts of our steel and bearing manufacturing processes. We recently affiliated with Phoenix Environmental, Ltd., to turn our alloy steel business into a 100 percent environmentally friendly business by converting the last remaining waste streams – electric arc furnace dust and mill scale – into an inert, saleable product called "magnetite." This compound, which exists naturally in the environment, is highly prized by a variety of industries from ink makers for ink-jet printers to cement and brick makers.

Endless Possibilities

Today's rapidly changing world is creating an endless stream of innovative possibilities for companies such as ours. If you're thinking "old economy" when you think of Timken, think again. Air bearings that operate at slow speeds and float

Our Generation III integrated package bearing was created with advanced hub-forming technology. It will go into production this year in Lincolnton, N.C., for 2002 light trucks and sport utility vehicles. This integrated hub and bearing unit saves weight and reduces assembly costs for automotive customers.

on a cushion of air, for example, have existed in the market for many years. But imagine an air bearing, operating at very high speeds with low heat generation, that could revolutionize the industry for hard-disk computer drives; or advanced sensorized bearing assemblies that make your vehicle safer, lighter and easier to maneuver. We have, and we're working on those possibilities.

A Strong Technology Stream

Our portfolio is full of similar projects, some already providing added value for customers, some on the horizon and some nearing completion. Our extensive surface engineering knowledge has enabled us to develop a growing business in advanced surface coatings and to tailor them to a customer's specific need, whether that is hardness, wear resistance, heat dissipation, corrosion resistance or friction reduction. We are pursuing work in biomechanical engineering as well. Today, Timken Latrobe Steel produces MP35N, a specialty steel used for certain body implants. We are combining that experience with our knowledge of special metals and bearings to explore possibilities for longer-lasting, better-performing artificial human joints.

In India, we guaranteed customers a way to buy genuine Timken products in the aftermarket by developing tamper-proof packaging. This customer success grew into a new business of supplying customers with high-performance lubricants and seals, also in tamper-proof packaging. Timken India also is now providing a unique just-in-time packaging and delivery service to the tractor industry. Timken associates place a specified set of bearings into specialized containers in quantities sufficient for a customer's tractor production for a single shift. The containers then are delivered to a warehouse close to that customer's plant and are available as the customer needs them for each shift.

In the U.S., our new Generation III integrated package bearing, featuring active sensing technology, design flexibility and bolt-on simplicity for the auto industry will go into production this year and will be used in 2002 model vehicles. This assembly is a sophisticated, high-value-added product, offering automotive customers improved vehicle maneuverability and increased fuel efficiency. It is anchored by a proven platform, the Timken® SENSOR-PAC™ bearing. "We continue to move into more complex components and modules that are of increased value to our customers," says Karl Kimmerling, president – automotive. "By integrating the wheel hub into the bearing, we reduce assembly costs for customers. It also addresses myriad problems, including reducing vehicle weight, minimizing brake warranty issues and improving brake performance."

Other innovations on the horizon include proprietary tube-cutting and forming technology that will launch our next generation of precision steel components and robust solutions with minimum operator intervention for one of the most hostile and challenging of industrial environments – the rolling mill.

In 2000, we successfully tested one such solution – the TQTM assembly, a new back-up roll bearing – at a customer's cold rolling mill. The design has generated keen interest throughout the industry because of its increased gauge accuracy and higher operating speed. In 2001, as a result of the successful test, the new bearing will be installed in the customer's high-production cold strip mill.

corporate profile

As a worldwide leader in highly engineered bearings and alloy steels, The Timken Company serves every major manufacturing industry. The company is the world's largest manufacturer of tapered roller bearings and seamless mechanical steel tubing. It also produces and services ball, cylindrical and spherical bearings for select markets, ships more than one million tons of premium alloy steel annually and provides related products and services. Through its eight business units profiled here, Timken serves some 24,000 customers around the globe.

Automotive

Applications

Provides bearings and related parts for light-, medium- and heavy-duty trucks, passenger cars, motorcycles, racing and recreational vehicles and heavy-duty truck trailers. Applications include axles, front and rear wheels, transmissions, transaxles and continuously variable transmissions.

Highlights/Facts

- Received Automotive Industry's Quest for Excellence Award for second consecutive year.
- Expanded package bearing and subassembly capabilities in Altavista, Va.
- Expanded full line of bearings, seals and other components for aftermarket.
- Demand for complex automotive driveline bearings increased.
- Improved product quality and increased capacity at Timken Polska.

Outlook

- North American and European automotive markets softening.
- Consolidation of truck industry to continue worldwide, with globally weak market activity predicted for 2001 first half.
- Highly automated large-volume production line for Gen II and Gen III bearings installed in Lincolnton, N.C.

Aerospace & Super Precision

Applications

Supplies bearings, new and refurbished components and precision assemblies to aerospace, medical, dental, computer, robotics, semiconductor and space flight industries. Aerospace applications: aircraft and helicopter engines, gearboxes, transmissions, landing wheels, flight and fuel controls. Super precision applications: dental handpiece components, assemblies and repairs; semiconductor robotic equipment; X-ray machines; medical instruments and other industrial assemblies.

Highlights/Facts

- Most aircraft produced or operated in North America and Western Europe use Timken® tapered roller bearings in landing gear.
- Implemented Six Sigma process to achieve operational excellence and global cost competitiveness.
- Acquired a manufacturer of dental handpiece repair equipment.
- Launched Handpiece Headquarters e-commerce site for dental handpiece products and services.
- Introduced new bearings and bearing assemblies for robotic applications in the semiconductor equipment industry.

Outlook

- Aerospace market steady with modest growth expected.
- Increase in aerospace bearing refurbishment anticipated.
- Growth in dental business expected.
- Steady growth in semiconductor equipment industry predicted.

Industrial

Applications

Serves construction, agriculture, mining, oil and gas, power generation, rolling mill, pulp and paper, and printing industries. Provides bearings, bearing refurbishment services and diagnostics for transmissions, wheels, axles, crankshafts and hydraulic cylinders for excavators, haulage trucks, crawler dozers, backhoes, combines, tractors and drilling tools.

Highlights/Facts

- Increased customer alliances in mobile equipment industry.
- Expanded development project portfolio in biomechanics and engineered surfaces.
- Developed and tested new back-up roll bearing for rolling mills.
- Increased global penetration for tapered, cylindrical and spherical bearings in rolling mill, oilfield and gear drive applications.
- Timken Romania now a full supplier to construction, oilfield and rolling mill industries.
- Expanded sales of Z-Spexx™ Sendzimir rolling mill bearings.
- Increased development of wind energy applications.

Outlook

- Modest growth anticipated in all segments in Europe and Asia; flat demand in North America.
- Bearing reconditioning services in primary metals market to expand.

Rail

Applications

Provides bearings for wheels, drive trains, and motor suspension units in rail transit and passenger cars, freight cars and locomotives. Also remanufactures bearings and housings and provides friction management systems.

Highlights/Facts

- World leader in high-speed rail applications.
- Demand from North American locomotive manufacturers improved.
- Launched Friction Management Services, LLC, and began marketing TracGlide™, a top-of-rail lubrication delivery system.
- Consolidated bearing repair operations.

Outlook

- Reduced demand expected in North America for new rail equipment.
- Greater freight-hauling market penetration anticipated as a result of increased diesel fuel costs in trucking industry.
- Startup of rail bearing refurbishment facilities in Brazil and Mexico expected.
- Strong demand expected in global rail passenger market.

Emerging Markets

Applications

Provides tapered roller, cylindrical and spherical bearings and bearing repair and maintenance in China, India, central Europe and Russia. Serves automotive, industrial and rail markets.

Highlights/Facts

- Secured management contract to maintain roll shop operations of rolling mill customer in India.
- Enhanced bearing distributor network in central Europe through telemarketing program.
- Created tamper-proof packaging to assure genuine Timken aftermarket products in India.
- Increased sales of high-performance lubricants and seals as part of new packaging.
- Supplied first package bearings for tractor customers in India.

Outlook

- Sourcing from emerging markets expected to increase.
- Operations in Yantai, China to expand, and sales and marketing in Russia to increase.

Specialty Steel

Applications

Produces and distributes more than 300 specialty grades of steel for medical implants, aircraft landing gear, corrosion-resistant petrochemical equipment, high-performance metal cutting and forming tools, custom knife blades and high-temperature fasteners.

Highlights/Facts

- Expanded distributor and customer access through Timken Direct™ Web site.
- Developed high-performance powder metal steels for plastics industry.
- Initiated the sale of the precision flat-ground tool steel business of Timken Latrobe Steel – Europe and refocused its high-speed steel business in UK as part of Timken Desford Steel.
- Increased weekly manufacturing productivity by 20%.

Outlook

- Continue to explore growth initiatives for Timken Latrobe.
- General tooling market expected to show modest decline, while high-performance demand grows.
- Aerospace recovery should continue, with strong activity in jet engine bearing steels.

Precision Steel Components

Applications

Supplies automotive and industrial customers with semifinished and finished parts for power transfer drive-train applications, including internal ring gears, sun gears, races, hubs, clutch shafts, axle shafts, track pins, constant velocity joint cages and outer race prop shafts.

Highlights/Facts

- Achieved 23% sales growth in 2000.
- Expanded semifinished and finished product offerings.
- Increased penetration in industrial markets.

Outlook

- Industrial and international business opportunities should grow in 2001.
- Expanding product portfolio to include subassemblies.
- North American automotive business expected to grow, despite market slowdown.

Alloy Steel

Applications

Produces high-quality bar and seamless mechanical tubing for: bearings of all types; aerospace industry uses, including aircraft engine main shafts, landing gears and high-strength fasteners; oil and gas drilling tools and perforating guns; construction and farm applications, including hydraulic cylinders, axles, crankshafts; and automotive and truck applications, including transmissions, gears and differential ring gears, piston pins, crankshafts and shifter sleeves.

Highlights/Facts

- World's largest producer of seamless mechanical steel tubing.
- Completed R & D of laser gauging system for seamless mechanical steel tubing.
- Unveiled Timken Fast Track Tubing™ Web site for ordering tubing products.
- Began selling alloy steel and carbon bar product through Metalsite, an on-line, metal industry sales channel.
- Launched Impact™ Steel, a modified 4130 alloy for high performance in energy exploration.
- Major supplier to the HDTV tower industry.

Outlook

- Steady growth predicted in energy sector, both oil and gas.
- E-business sales expected to increase.
- Cold finish sizes and capabilities to expand.

TIMKEN

financial information

contents

consolidated Statement of Income

(Thousands of dollars, except per share data)	2000	1999	1998
		Year Ended December 31	
Net sales	**$ 2,643,008**	$ 2,495,034	$ 2,679,841
Cost of products sold	**2,142,135**	2,002,366	2,098,186
Gross Profit	**500,873**	492,668	581,655
Selling, administrative and general expenses	**367,499**	359,910	356,672
Impairment and restructuring charges	**27,754**	-0-	-0-
Operating Income	**105,620**	132,758	224,983
Interest expense	**(31,922)**	(27,225)	(26,502)
Interest income	**3,479**	3,096	2,986
Other expense	**(6,580)**	(9,638)	(16,117)
Income Before Income Taxes	**70,597**	98,991	185,350
Provision for income taxes	**24,709**	36,367	70,813
Net Income	**$ 45,888**	$ 62,624	$ 114,537
Earnings Per Share	**$ 0.76**	$ 1.01	$ 1.84
Earnings Per Share - Assuming Dilution	**$ 0.76**	$ 1.01	$ 1.82

See accompanying Notes to Consolidated Financial Statements on pages 29 through 38.

MD&A summary

Despite a slowing global economy and weakening of North American automotive markets, The Timken Company reported solid increases in sales and earnings in 2000, excluding special charges. In 2000, net sales were the second highest in the company's history at $2.643 billion compared to $2.495 billion in 1999.

Through the end of 2000, the company recorded $38.9 million in pretax charges for impairment, restructuring and reorganization to streamline operations, reduce costs and realign businesses with global industries. Excluding these charges, after-tax earnings in 2000 were $74.6 million. Including these charges, earnings were $45.9 million, down from $62.6 million a year ago.

Debt increased to $514.6 million at the end of 2000, from $449.9 million in 1999, as the company increased working capital, funded growth initiatives and repurchased shares of its common stock.

Strong automotive demand and recovery of North American industrial markets boosted sales of bearing products in the first half of 2000, but weaker automotive demand slowed sales in the second half. Demand for industrial products slowed and Asia Pacific and European markets weakened in the last three months of 2000, while aerospace demand continued to strengthen. Net sales of steel products increased during 2000, but profitability in the steel businesses was hurt by the Euro's devaluation, higher energy prices and inventory corrections late in the year.

In 2000, the company rationalized operations, improved operating efficiencies and created alliances to expand product offerings and market reach. As a result of the restructuring, the company reduced its workforce by 612 positions by the end of 2000.

In the first quarter, the company announced plans to refocus bearing manufacturing in Duston, England, to specialize in products for the automotive industry and shift manufacturing of other products to facilities in Eastern Europe and the United States. A consolidation of European distribution operations was also launched.

In the second quarter, operations of three rail bearing reconditioning facilities were consolidated into one new facility in Knoxville, Tennessee. The closing of another rail bearing reconditioning facility in Little Rock, Arkansas, was announced in December.

In the third quarter, the company entered into a joint venture to bring advanced technology to the rail industry with a "smart" top-of-rail lubrication system that is designed to reduce fuel costs and improve productivity.

In the fourth quarter, the company agreed to sell the flat-ground tool steel business of Timken Latrobe Steel – Europe in Sheffield, England, to a group of private investors, and it refocused its high-speed steel business in the United Kingdom as part of Timken Desford Steel. The completion of this sale is expected by the end of the first quarter, 2001.

Three initiatives and an acquisition aimed at accelerating growth in specific markets were announced during the first part of January 2001. The company entered into a joint venture with another bearing manufacturer to produce forged and turned steel rings in Brazil, which is expected to reduce costs and create a local, high-quality source for these bearing components. The company entered into an e-business joint venture with three other manufacturing companies to provide North American distributors of industrial products with Web-based access and integrated logistics for premium brands. The company also joined these three companies and a fourth manufacturing company in forming a joint venture to provide e-business services for European distributors. It also acquired a manufacturer of dental handpiece repair equipment, and announced a buyout of its joint-venture partner in Yantai Timken Company Limited.

Management's Discussion and Analysis of the Statement of Income

2000 compared to 1999

Net sales were $2.643 billion, 5.9% above 1999's $2.495 billion. Although sales increased during 2000 as compared to 1999, they were lower in the second half of 2000 than the first half. North American light vehicle demand remained steady through October 2000, but began to decline during the fourth quarter and fell sharply in December as manufacturers lowered production and worked down inventories. Heavy truck demand weakened significantly in the second half of 2000. Industrial markets, which began recovering in 1999's fourth quarter, have stagnated or shown slight weakening during the second half of 2000. Also, while the Euro strengthened in late 2000, its earlier devaluation against the U.S. dollar and British pound enabled European producers, especially steel manufacturers, to export into North America with lower prices, which has put more pressure on prices and operating margins. In addition, the Euro's earlier depressed value substantially eroded margins on products manufactured in the U.S. and the United Kingdom and sold throughout the rest of Europe. The North American rail industry has been weak since mid-1999, while aerospace and super precision markets have strengthened slightly in the second half of 2000. Latin America remained strong during 2000, but it showed some signs of weakening in the last few months. Sales in Asia Pacific were up slightly over 1999's levels.

Gross profit in 2000 was $500.9 million (19.0% of net sales), up from $492.7 million (19.7% of net sales). Gross profit in 2000 would have been higher except for $4.1 million in reorganization costs related to the company's global restructuring and reorganization. The stronger performance in 2000 was driven by changes in sales mix, with growth in higher margin industrial sales offsetting weakening automotive sales. Additionally, higher manufacturing volumes and cost improvements made during the year offset higher contract wage and benefit costs in the U.S.

In March 2000, the company announced an acceleration of its global restructuring to position itself for profitable growth, to streamline operations, to reduce costs and to improve European profitability. These initiatives also are to improve competitiveness and transform the company into global business units. Implementation, employee severance and non-cash impairment charges of $55 million are expected through the first quarter of 2001, with $38.9 million recorded during 2000. The originally announced $35 million in annual savings has been revised to $29 million. This reduction is primarily driven by the cancellation of certain tax initiatives and problems experienced in the consolidation of European distribution operations.

Of the $38.9 million of charges recorded by the company in 2000, about $16.8 million related to non-cash asset impairment and abandoned acquisition expenses. Severance expenses accounted for $11.0 million, and reorganization implementation costs were $11.1 million. The company had originally announced that 600 positions would be eliminated worldwide. Through the 2000 year-end, the workforce has been reduced by 612 positions.

The impairment charges of $16.8 million were primarily the result of the consolidation of Steel business operations. The Steel business consolidation was in three areas: small bar finish equipment related to the exit of the small bar business; the write-off of excess equipment as a result of the successful operation of the new bar mill; and the idling of rotoroll equipment as a result of product rationalization between the Wooster Steel plant and Timken Desford Steel. Also included were $4.0 million related to abandoned acquisition, affiliation and divestiture efforts by the Steel business. Additionally, $2.1 million in impairment charges related to bearing operations.

Projects undertaken by the Bearings business to shift manufacturing, consolidate European distribution and streamline management structure accounted for $10.3 million of the $11.0 million in severance. A key component of the manufacturing shift is the company's bearing manufacturing facility in Duston, England. It will be refocused to specialize and fuel growth in advanced automotive bearings, roller production and formed products and to transfer manufacturing to lower cost facilities in Romania, Poland and the United States. During 2000, the company reduced staff in Duston by 102, incurring separation costs of $2.8 million. An additional 54 position reductions are expected in 2001. In China, as announced in January 2001, the company is buying out its Chinese joint-venture partner in Yantai Timken Company, Limited, to obtain total management control, achieve greater productivity and efficiency, and grow export sales. To achieve efficiencies, Yantai Timken completed a labor management program, which reduced the workforce by 403 associates. The severance costs incurred were $2.4 million.

Consolidation of the European distribution operation was undertaken in 2000 to reduce logistics costs through greater distribution efficiencies. However, operational issues resulted in the suspension of the project; currently, an intense review is in progress to re-evaluate the implementation. Relocation of the Haan, Germany, warehouse to France occurred in 2000, and restructuring costs include $1.1 million for the separation expenses of 47 operative associates. Additional consolidation of warehousing and shipping facilities have been delayed; accordingly, $0.8 million of severance charges were reversed in the fourth quarter of 2000.

The company's reorganization into global business units drove the streamlining of the management structure. Severance costs of $4.0 million in the Bearings business and $0.7 million in Steel were recorded in 2000 related to 60 administrative staff reductions. Reorganization and implementation expenses of $11.1 million represent professional fees, relocation expenses, and the write-off of obsolete inventory.

Cash expenditures relating to the restructuring efforts in 2000 amounted to $8.0 million and were paid from operations. Additional cash expenditures of $3.0 million in 2001 are anticipated to pay out severance liabilities at December 31, 2000.

Operating income decreased to $105.6 million in 2000 compared to $132.8 million in 1999. Operating income in 2000 would have been higher, except for $27.8 million in restructuring costs as well as $11.1 million in reorganization costs. Selling, administrative and general expenses increased to $367.5 million (13.9% of net sales) in 2000 as compared to $359.9 million (14.4% of net sales) in 1999, largely because of reorganization costs, which totaled $7.0 million. As a percentage of sales, selling, administrative and general expenses decreased in 2000.

Other expense decreased in 2000 as a result of lower foreign currency exchange losses in 2000. The company's subsidiary in Romania operates in a highly inflationary economy. During 2000, translational losses relating to Timken Romania declined by $5.0 million. Other expense in 1999 was higher, primarily as a result of the January 1999 devaluation of the Brazilian real and transaction losses recorded by the company's operations in France and the United Kingdom.

Taxes in 2000 represented 35.0% of income before taxes compared to 36.7% in 1999. The lower effective tax rate in 2000 was due primarily to use of foreign and state tax credits, as well as benefits derived from settlement of federal income tax issues and amended foreign sales corporation income tax returns.

Bearings' net sales in 2000 were $1.763 billion, about even with $1.760 billion in 1999. Global Automotive sales decreased by approximately 5%, while global Industrial sales increased by 11%. In the first half of 2000, net sales benefited from continued automotive demand for sport utility vehicles and strong production levels in the light and heavy truck industry, as well as recovery of the North American industrial sector (original equipment and aftermarket). However, in the second half of 2000, demand for cars and trucks weakened and recovery in the industrial sector stalled. Sales for the global Rail business were down 12% compared to 1999. Although Aerospace and Super Precision sales declined 3% from 1999, the business unit experienced strengthening sales during the second half of 2000. Emerging Markets' sales increased 12% as compared to 1999. The company anticipates that the global light vehicle industry will remain sluggish during the first part of 2001, but it should improve as the year progresses. Additionally, the company anticipates heavy truck demand in 2001 will be comparable to second half 2000 levels. The Industrial business in Europe is expected to have moderate growth, while North American rail sales are expected to remain weak in 2001. The Aerospace and Super Precision business, which showed signs of recovery in 2000, is expected to show modest growth in 2001.

Excluding $21.1 million in restructuring, impairment and reorganization charges, Bearings' earnings before interest and income taxes (EBIT) in 2000 increased 24% to $100.0 million, compared to $80.5 million in 1999. Including those charges, Bearings' EBIT was $78.9 million, down 2% from 1999. Bearings' EBIT in 2000 was positively impacted in the first half by the profitable changes in the sales mix, with the growth in higher margin industrial sales as well as increased aftermarket business fueled by the recovery in Latin America and North America. In addition, higher manufacturing volumes in 2000 compared to 1999 and cost improvements made during the year offset the effect of higher contract wage and benefit costs in the U.S. Selling, administrative and general expenses were higher in 2000, primarily due to $5.6 million in reorganization expenses.

Steel's net sales, including intersegment sales, increased in 2000 by 13.6% to $1.076 billion versus $947 million in 1999. They included Precision Steel Components sales, which were $166.7 million in 2000. Sales to external customers increased about 10%. In 2000, sales to the automotive industry increased, primarily as a result of 18% sales growth in Precision Steel Components. Automotive demand weakened in the fourth quarter of 2000. Softer automotive demand is expected to continue in early 2001, with some improvements expected throughout the year. Industrial steel sales strengthened significantly during the year. This reflects increased demand in the North American industrial sector throughout the year. Sales to the aerospace industry increased by about 16%. Sales to oil country customers more than doubled in 2000 because of higher energy prices, which caused an increase in active drilling rigs. Although sales to service centers approached 1998 levels after experiencing a decline in 1999, a slight weakening was noted late in 2000 as customers continued to adjust excess inventories. Steel's net sales were negatively impacted by the Euro's devaluation throughout much of 2000. This enabled European and other overseas producers to export into North America at lower prices, exerting downward pressure on pricing and operating margins. Although price increases were announced in the first half of 2000, they affected only a small percentage of the total business and were not enough to offset these pricing pressures. The company expects overall demand for steel products in 2001 to be stable, with slight increases in the industrial and aerospace sectors. Late in 2000, the automotive and service center industries began inventory corrections.

Excluding $17.8 million in restructuring, impairment and reorganization charges, Steel's EBIT in 2000 decreased about 16% to $37.1 million, compared to $44.0 million in 1999. Including restructuring, impairment and reorganization charges, Steel's EBIT was $19.3 million, a decrease of 56%. Adjusting Steel's EBIT in 1999 for the favorable LIFO impact of $10 million, EBIT in 2000 would have decreased 43%. Due to pressure from imports, alloy steel had to lower prices to maintain penetration in certain markets, which resulted in lower margins in 2000. In addition, Steel EBIT was negatively impacted in the second half of the year by higher energy costs, especially in the last quarter of 2000, as well as low capacity utilization and inventory reductions. Energy costs increased by more than $0.5 million per month during the fourth quarter. This was primarily attributed to higher natural gas prices. Higher energy costs are expected to continue in early 2001. A portion of these energy cost increases were reflected in higher prices for non-contract customers. Although Steel's inventory reduction during 2000 resulted in fewer days' supply compared to year-end 1999, it reduced profitability due to lower manufacturing volumes. Selling, administrative and general expenses were higher in 2000 as a result of $1.4 million in reorganization expenses.

1999 compared to 1998

Net sales decreased in 1999 by 6.9% to $2.495 billion. Although the North American automotive industry continued to show strength, industrial sales, including original equipment and aftermarket, were down significantly, as were sales in rail and aerospace. Steel's oil country and service center businesses remained weak. Asia Pacific region sales continued to improve throughout the year from 1998's extremely depressed levels. Sales in Europe were well below 1998's levels; however, markets there showed some signs of improvement during the last half of the year. Sales from Timken Desford Steel and Timken India Limited, acquired in December 1998 and consolidated in March 1999, respectively, added about $54 million to 1999's sales. Gross profit decreased 15.3% from $581.7 million (21.7% of net sales) in 1998 to $492.7 million (19.7% of net sales) in 1999. Lower sales volumes (particularly of industrial and aftermarket products), a less favorable product mix, weakening prices and lower production levels resulting in higher unabsorbed fixed costs contributed to the decline in profits. These factors, along with substantial inventory reductions and exchange rate changes, contributed to weaker performance in the company's European operations. Gross profit in 1998 included approximately $15.0 million of expense related to unusual occurrences and $15.4 million related to structural changes and cost-reduction initiatives. Operating income also declined in 1999. Selling, administrative and general expenses were up slightly from $356.7 million (13.3% of net sales) in 1998 to $359.9 million (14.4% of net sales) in 1999. Excluding the $6.0 million of expense recorded in 1998 related to severance costs and abandoned potential business opportunities, the year-to-year change in expenses would have reflected an increase of 2.6%. Normal administrative expenses for Timken Desford Steel and Timken India Limited, acquisitions completed during 1999, account for most of the year-to-year increase. Other expense decreased in 1999 as a result of the company recording $7.4 million of expense in 1998 for the disposal of certain fixed assets related to a company-initiated internal fixed asset review conducted approximately every five years. Taxes represented 36.7% of income before taxes compared to 38.2% in 1998. The company's effective tax rate in 1999 was lower due primarily to greater utilization of foreign and state tax credits.

consolidated Balance Sheet

	December 31	
	2000	1999
(Thousands of dollars)		
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 10,927**	$ 7,906
Accounts receivable, less allowances: 2000–$11,259; 1999–$9,497	**354,972**	339,326
Deferred income taxes	**43,094**	39,706
Inventories:		
Manufacturing supplies	**40,515**	38,655
Work in process and raw materials	**247,806**	235,251
Finished products	**201,228**	172,682
Total Inventories	**489,549**	446,588
Total Current Assets	**898,542**	833,526
Property, Plant and Equipment		
Land and buildings	**489,254**	483,810
Machinery and equipment	**2,485,125**	2,428,923
	2,974,379	2,912,733
Less allowances for depreciation	**1,610,607**	1,531,259
Property, Plant and Equipment-Net	**1,363,772**	1,381,474
Other Assets		
Costs in excess of net assets of acquired businesses, less accumulated amortization: 2000–$41,228; 1999–$34,879	**151,487**	153,847
Intangible pension asset	**88,405**	840
Miscellaneous receivables and other assets	**43,974**	43,668
Deferred charges and prepaid expenses	**17,925**	27,963
Total Other Assets	**301,791**	226,318
Total Assets	**$2,564,105**	$ 2,441,318

Management's Discussion and Analysis of the Balance Sheet

Maintaining a strong balance sheet and strong credit ratings are important objectives for the company. During 2000, the company maintained a single A rating on its long-term debt by two rating agencies.

Total assets increased by $122.8 million. This increase is a function of changes in working capital and accounting for pensions throughout the year. Accounts receivable increased by $15.6 million since December 31, 1999. Bearings' and Steel's number of days' sales in receivables increased four and six days, respectively, compared to December 31, 1999. The increase is due primarily to the temporary slowing of customer payments in December.

The increase in inventories between years was $43.0 million. Although the number of days' supply in inventory for the consolidated company was comparable to last year, Bearings' increased by approximately ten days while Steel's decreased approximately 14 days from December 31, 1999. The increase in Bearings' inventories was primarily a result of reduced shipments in December and temporary buildup of industrial customer inventory for anticipated increase in demand. Steel's inventories decreased due to concerted efforts to bring inventories more in line with customer demand. The company uses the LIFO method of accounting for approximately 77% of its inventories. Under this method, the cost of products sold approximates current costs and, therefore, reduces distortion in reporting due to inflation. Depreciation charged to operations is based on historical cost and is significantly less than if it were based on replacement value.

(Thousands of dollars)	December 31 2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Commercial paper	**$ 76,930**	$ 35,937
Short-term debt	**105,519**	81,296
Accounts payable and other liabilities	**239,182**	236,602
Salaries, wages and benefits	**137,320**	120,295
Income taxes	**1,527**	5,627
Current portion of long-term debt	**26,974**	5,314
Total Current Liabilities	**587,452**	485,071
Non-Current Liabilities		
Long-term debt	**305,181**	327,343
Accrued pension cost	**237,952**	148,595
Accrued postretirement benefits cost	**394,097**	394,084
Deferred income taxes	**11,742**	6,147
Other non-current liabilities	**22,999**	34,097
Total Non-Current Liabilities	**971,971**	910,266
Shareholders' Equity		
Class I and II Serial Preferred Stock without par value:		
Authorized–10,000,000 shares each class, none issued	**-0-**	-0-
Common stock without par value:		
Authorized–200,000,000 shares		
Issued (including shares in treasury) 63,082,626 shares		
Stated capital	**53,064**	53,064
Other paid-in capital	**256,873**	258,287
Earnings invested in the business	**839,242**	836,916
Accumulated other comprehensive income	**(84,913)**	(64,134)
Treasury shares at cost (2000 – 3,117,469 shares; 1999 – 1,886,537 shares)	**(59,584)**	(38,152)
Total Shareholders' Equity	**1,004,682**	1,045,981
Total Liabilities and Shareholders' Equity	**$2,564,105**	$ 2,441,318

See accompanying Notes to Consolidated Financial Statements on pages 29 through 38.

The intangible pension asset increased by $87.6 million from December 31, 1999. In 2000, the company recorded $86.8 million in additional pension liability, which is included in accrued pension cost and is offset by the intangible pension asset. The increase in the pension liability is due to improvements to the U.S. bargaining unit contract ratified in 2000.

The 33.9% debt-to-total-capital ratio was higher than the 30.1% at the end of 1999. Debt increased by $64.7 million for the year, from $449.9 million at the end of 1999 to $514.6 million at December 31, 2000. The increase in debt was used primarily to fund increases to working capital and fund capital expenditures. Capital spending in 2000 was slightly lower than 1999's spending levels, which was curtailed to conserve cash.

Shareholders' equity decreased primarily as a result of the repurchase of common shares under the company's 1998 common stock purchase plan, payment of dividends to shareholders, which remained at $0.72 per share for the year, and foreign currency translation adjustments related to the company's foreign units.

consolidated **Statement of Cash Flows**

(Thousands of dollars)	2000	1999	1998
CASH PROVIDED (USED)			
Operating Activities			
Net income	$ 45,888	$ 62,624	$ 114,537
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	151,047	149,949	139,833
Deferred income tax provision	10,585	20,760	6,935
Common stock issued in lieu of cash to benefit plans	1,303	467	46,396
Non-cash portion of impairment and restructuring charges	16,813	-0-	-0-
Changes in operating assets and liabilities:			
Accounts receivable	(22,536)	12,390	13,037
Inventories	(52,566)	6,551	2,478
Other assets	(172)	13,307	(5,046)
Accounts payable and accrued expenses	4,046	13,291	(27,223)
Foreign currency translation (gain) loss	(1,296)	(1,921)	919
Net Cash Provided by Operating Activities	153,112	277,418	291,866
Investing Activities			
Purchases of property, plant and equipment–net	(152,506)	(164,872)	(237,835)
Acquisitions	-	(29,240)	(41,667)
Net Cash Used by Investing Activities	(152,506)	(194,112)	(279,502)
Financing Activities			
Cash dividends paid to shareholders	(43,562)	(44,502)	(44,776)
Purchases of treasury shares	(24,149)	(14,271)	(80,462)
Proceeds from issuance of long-term debt	3,478	4,076	139,666
Payments on long-term debt	(3,595)	(20,867)	(23,333)
Short-term debt activity–net	70,865	(411)	(12,918)
Net Cash Provided (Used) by Financing Activities	3,037	(75,975)	(21,823)
Effect of exchange rate changes on cash	(622)	255	(45)
Increase (Decrease) In Cash and Cash Equivalents	3,021	7,586	(9,504)
Cash and cash equivalents at beginning of year	7,906	320	9,824
Cash and Cash Equivalents at End of Year	$ 10,927	$ 7,906	$ 320

Year Ended December 31

See accompanying Notes to Consolidated Financial Statements on pages 29 through 38.

Management's Discussion and Analysis of the Statement of Cash Flows

2000 compared to 1999

Cash and cash equivalents increased $3.0 million in 2000. Net cash provided by operating activities in 2000 was $153.1 million compared to $277.4 million in 1999. Cash generated from income in 2000 was used to fund working capital changes and capital expenditures. Accounts receivable used $22.5 million in cash. The increase in inventories required $52.6 million of cash during 2000. Cash was provided by a $4.0 million increase in accounts payable and accrued expenses, which resulted primarily from increases in amounts payable to suppliers.

Purchases of property, plant and equipment – net during the twelve months ended December 31, 2000, were $152.5 million compared to $164.9 million in 1999. The company continued to support activities consistent with its strategies to fund growth initiatives and improve the core businesses.

The company also used funds during the year to repurchase shares of the company's common stock and, by November 3, 2000, completed the 1998 common stock purchase plan. During 2000, the company acquired 1,354,000 shares to be held in treasury as authorized under the 1998 plan. Also in November, the company announced board approval of a new 2000 common stock purchase plan. The 2000 common stock purchase 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 expects that any cash requirements in excess of cash generated from operating activities (such as those which may be required for potential future acquisitions and affiliations as well as cash contributions to the company's pension plans) could be met by short-term borrowing and issuance of medium-term notes.

Management's Discussion and Analysis of Other Information

In the second quarter of 2000, the U.S. International Trade Commission (ITC) voted to revoke the industry's antidumping orders on imports of tapered roller bearings from Japan, Romania and Hungary. The ITC determined that revocation of the antidumping duty orders on tapered roller bearings from those countries was not likely to lead to continuation or recurrence of material injury to the domestic industry within a reasonably foreseeable time. The ITC upheld the antidumping duty order against China. The company has filed an appeal of the ITC's decision regarding Japan. If, following the revocation of the orders and contrary to the ITC's finding, injurious dumping from these countries continues or recurs, the improved conditions of trade of tapered roller bearings in the U.S., which resulted from the orders, could deteriorate. If injurious dumping does occur, such dumping could have a material adverse effect on the company's business, financial condition or results of operations. The company would explore alternatives to remedy this material adverse effect as the law provides for expedited investigations in cases where an order was revoked as a result of this review.

The ITC separately extended the antidumping duty orders on ball bearings from Germany, France, Japan and several other countries. These extended orders should continue to provide the company's Aerospace business with fair competition for these products in the U.S.

In 2000, the company decreased its discount rate for U.S.-based pension and postretirement benefit plans from 8.25% to 8.0% to reflect the decrease in year-end interest rates. The company also increased its health care cost trend rate assumptions for its postretirement benefit plans effective on 2001 expense. The expected long-term return on plan assets was increased from 9.25% to 9.5% to be consistent with the expected long-term market returns. Primarily due to plan amendments, the combined expense for U.S.-based pension and postretirement benefits plans is expected to increase by about $24 million in 2001.

Changes in short-term interest rates related to three separate funding sources impact the company's earnings. These sources are commercial paper issued in the United States, 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 changed by 1% around the globe, the impact would be a change in interest expense of $2.2 million with the corresponding change in income before taxes of the same amount. The company determined this amount 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 product shipped between the company's European operations and the United States. Foreign currency forward contracts and options are used to hedge these intracompany transactions. Additionally, hedges are used to cover third-party purchases of product and equipment. As of December 31, 2000, there were $10.9 million of hedges in place. A uniform 10% revaluing of the dollar against all currencies would have resulted in a change of $0.2 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 the foreign currency sales price, as competitors' products become more or less attractive.

The Occupational Safety and Health Administration issued a far-reaching and potentially costly final standard on ergonomics on November 14, 2000. It became effective January 13, 2001 with a compliance date for the majority of the requirements of October 14, 2001. The company is in the process of reviewing the standard and developing and/or modifying programs and procedures to comply with the standard. It is not possible at this time to develop any estimate of the cost of compliance.

The company continues to protect the environment and comply with environmental protection laws. Additionally, it has invested in pollution control equipment and updated plant operational practices. In 1999, the company committed to becoming certified under the ISO 14001 environmental management system within the next several years. 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 to 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 U.S. Supreme Court is expected to rule by Spring 2001.

The company and certain of its U.S. subsidiaries have been designated as potentially responsible parties (PRP's) 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 operations, cash flows or consolidated financial position.

consolidated Statement of Shareholders' Equity

	Total	Common Stock: Stated Capital	Common Stock: Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive Income	Treasury Stock
(Thousands of dollars)						
Year Ended December 31, 1998						
Balance at January 1, 1998	$1,032,076	$ 53,064	$ 273,873	$ 749,033	$ (38,026)	$ (5,868)
Net income	114,537			114,537		
Foreign currency translation adjustments (net of income tax of $1,315)	(8,096)				(8,096)	
Minimum pension liability adjustment (net of income tax of $2,106)	(3,594)				(3,594)	
Total comprehensive income	102,847					
Dividends–$0.72 per share	(44,776)			(44,776)		
Purchase of 3,012,900 shares for treasury	(80,462)					(80,462)
Issuance of 1,981,065 shares from treasury(1)	46,396		(12,717)			59,113
Balance at December 31, 1998	$1,056,081	$ 53,064	$ 261,156	$ 818,794	$ (49,716)	$ (27,217)
Year Ended December 31, 1999						
Net income	62,624			62,624		
Foreign currency translation adjustments (net of income tax of $2,829)	(13,952)				(13,952)	
Minimum pension liability adjustment (net of income tax of $274)	(466)				(466)	
Total comprehensive income	48,206					
Dividends–$0.72 per share	(44,502)			(44,502)		
Purchase of 804,500 shares for treasury	(14,271)					(14,271)
Issuance of 152,425 shares from treasury(1)	467		(2,869)			3,336
Balance at December 31, 1999	$1,045,981	$ 53,064	$ 258,287	$ 836,916	$ (64,134)	$ (38,152)
Year Ended December 31, 2000						
Net income	**45,888**			**45,888**		
Foreign currency translation adjustments (net of income tax of $1,137)	**(21,293)**				**(21,293)**	
Minimum pension liability adjustment (net of income tax of $301)	**514**				**514**	
Total comprehensive income	**25,109**					
Dividends–$0.72 per share	**(43,562)**			**(43,562)**		
Purchase of 1,354,000 shares for treasury	**(24,149)**					**(24,149)**
Issuance of 123,068 shares from treasury(1)	**1,303**		**(1,414)**			**2,717**
Balance at December 31, 2000	**$1,004,682**	**$ 53,064**	**$256,873**	**$839,242**	**$ (84,913)**	**$(59,584)**

(1) Share activity was in conjunction with employee benefit and stock option plans. See accompanying Notes to Consolidated Financial Statements on pages 29 through 38.

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.

Revenue Recognition: The company recognizes revenue when title passes to the customer, which is FOB shipping point except for certain exported goods, which is FOB destination. Revenue relating to services is recognized when services are rendered.

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 77% valued by the last-in, first-out (LIFO) method. If all inventories had been valued at current costs, inventories would have been $140,473,000 and $142,806,000 greater at December 31, 2000 and 1999, respectively.

Property, Plant and Equipment: Property, plant and equipment is valued at cost less accumulated depreciation. 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.

Costs in Excess of Net Assets of Acquired Businesses: Costs in excess of net assets of acquired businesses (goodwill) are amortized on the straight-line method over 25 years for businesses acquired after 1991 and over 40 years for those acquired before 1991. The carrying value of goodwill is reviewed for recoverability based on the undiscounted cash flows of the businesses acquired over the remaining amortization period. Should the review indicate that goodwill is not recoverable, the company's carrying value of the goodwill would be reduced to the acquired company's fair value. In addition, the company assesses long-lived assets for impairment under Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable.

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 its non-U.S. subsidiaries. The amount of undistributed earnings that is considered to be indefinitely reinvested for this purpose was approximately $34,000,000 at December 31, 2000. Accordingly, U.S. income taxes have not been provided on such earnings. While the amount of any U.S. income taxes on these reinvested earnings – if distributed in the future – is not presently determinable, it is anticipated that they would be reduced substantially by the utilization of tax credits or deductions. Such distributions would be subject to withholding taxes.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 income. 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 $1,467,000 in 2000, $9,856,000 in 1999 and $1,332,000 in 1998.

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

Derivative Instruments: In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." This pronouncement amended portions of SFAS No. 133 and will be applied prospectively as the cumulative effect of an accounting change with SFAS No. 133 effective January 1, 2001. The company has completed its review to determine the impact of the new standard on income and equity and has determined the adoption to be insignificant.

Reclassifications: Certain amounts reported in the 1999 financial statements have been reclassified to conform to the 2000 presentation.

2 Impairment and Restructuring Charges

It is the company's policy to recognize restructuring costs in accordance with Emerging Issues Task Force 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)" and the SEC Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." Impairment charges are recognized to write down assets to their fair value when assets that are identified have a history of negative operating results or cash flows, have limited or no future strategic use, or when it is probable that the undiscounted cash flows of an asset are less than the current net book value.

In March 2000, the company initiated a global restructuring and reorganization to position itself for profitable growth, streamline operations, reduce costs and improve European profitability. Implementation, employee severance, exit costs and non-cash impairment charges of $55,000,000 are expected to be recorded by the end of the first quarter of 2001. Of the $38,870,000 in charges recorded through December 31, 2000, $27,754,000 were impairment and restructuring charges, and $11,116,000 were reorganization charges. The company recorded $7,008,000 of reorganization charges as selling, administrative and general expenses with the remaining $4,108,000 recorded in cost of products sold. Impairment charges of $16,813,000 were primarily the result of the consolidation of the Steel business operations and included $4,000,000 related to abandoned acquisition, affiliation and divestiture efforts by the Steel business. The majority of the restructuring provision of $10,941,000 related to severance costs associated with the termination of 612 operative and administrative positions in Asia, Europe and North America. The separation costs are comprised of severance payments and outplacement benefits associated with the terminations.

The consolidation of the company's European distribution operations experienced start-up problems, which resulted in the suspension of the project in the fourth quarter and resulted in a reversal of expense in the amount of $780,000. Payments charged against the restructuring liability were $7,981,000, resulting in an accrual balance of $2,960,000 at December 31, 2000.

Activity against the restructuring provision is summarized as follows:

(Thousands of dollars)	Separation Costs Operations	Separation Costs Administration	Exit Costs	Total
Restructuring:				
Current year provision	$ 7,619	$ 4,055	$ 47	$ 11,721
Less: Adjustments	(780)			(780)
Less: Payments	(4,640)	(3,315)	(26)	(7,981)
Balance at December 31, 2000	**$ 2,199**	**$ 740**	**$ 21**	**$ 2,960**

3 Comprehensive Income

Accumulated ***other comprehensive income*** consists of the following:

(Thousands of dollars)	**2000**	1999	1998
Foreign currency translation adjustment	**$(78,656)**	$ (57,363)	$ (43,411)
Minimum pension liability adjustment	**(6,257)**	(6,771)	(6,305)
	$(84,913)	$ (64,134)	$ (49,716)

4 Acquisitions

In March 1999, the company increased its ownership of Timken India Limited (formerly Tata Timken Limited) from 40% to 80%. Prior to the additional investment, the company accounted for Timken India using the equity method. As a result of the transaction, the Timken India financial position and operating results are consolidated into the company's financial statements.

In December 1998, the company purchased Desford Steel Tubes Ltd. of Leicester, England, to form Timken Desford Steel, a manufacturer of seamless mechanical tubing for bearing, automotive, off-highway and defense applications. During 1998, the company completed the acquisition of Bearing Repair Specialists, an industrial bearing repair business that reconditions or modifies a wide variety of bearing types for industrial customers in the United States and Canada.

The total cost of these acquisitions amounted to $29,240,000 in 1999 and $41,667,000 in 1998. A portion of the purchase price has been allocated to the assets and liabilities acquired based on their fair values at the dates of acquisition. The fair value of the assets was $30,425,000 in 1999 and $50,115,000 in 1998; the fair value of liabilities assumed was $9,790,000 in 1999 and $13,026,000 in 1998. The excess of the purchase price over the fair value of the net assets acquired has been allocated to goodwill. All of the acquisitions were accounted for as purchases. The company's consolidated financial statements include the results of operations of the acquired businesses for the period subsequent to the effective date of these acquisitions. Pro forma results of operations have not been presented because the effect of these acquisitions was not significant.

In January 2001, the company announced the buyout of its Chinese joint-venture partner in Yantai Timken Company Limited. This transaction is expected to be completed in the first quarter of 2001.

5 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:

(Thousands of dollars, except per share data)	**2000**	1999	1998
Numerator:			
Net income for earnings per share and earnings per share - assuming dilution – income available to common shareholders	**$ 45,888**	$ 62,624	$ 114,537
Denominator:			
Denominator for earnings per share – weighted-average shares	**60,556,595**	61,795,162	62,244,097
Effect of dilutive securities:			
Stock options and awards – based on the treasury stock method	**166,577**	230,651	565,672
Denominator for earnings per share - assuming dilution – adjusted weighted-average shares	**60,723,172**	62,025,813	62,809,769
Earnings per share	**$ 0.76**	$ 1.01	$ 1.84
Earnings per share - assuming dilution	**$ 0.76**	$ 1.01	$ 1.82

6 Financing Arrangements

Long-term debt at December 31, 2000 and 1999 was as follows:

(Thousands of dollars)	2000	1999
Fixed-rate Medium-Term Notes, Series A, due at various dates through May 2028, with interest rates ranging from 6.20% to 7.76%	$ 252,000	$ 252,000
Variable-rate State of Ohio Air Quality and Water Development Revenue Refunding Bonds, maturing on June 1, 2001 (5.00% at December 31, 2000)	21,700	21,700
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on July 1, 2003 (5.00% at December 31, 2000)	17,000	17,000
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing May 1, 2007 (5.00% at December 31, 2000)	8,000	8,000
Variable-rate State of Ohio Water Development Authority Solid Waste Revenue Bonds, maturing on July 2, 2032 (5.10% at December 31, 2000)	24,000	24,000
Other	9,455	9,957
	332,155	332,657
Less current maturities	26,974	5,314
	$ 305,181	$ 327,343

The aggregate maturities of long-term debt for the five years subsequent to December 31, 2000, are as follows: 2001–$26,974,000; 2002–$36,996,000; 2003–$18,090,000; 2004–$5,871,000; and 2005–$224,000.

Interest paid in 2000, 1999 and 1998 approximated $33,000,000, $32,000,000 and $28,000,000, respectively. This differs from interest expense due to timing of payments and interest capitalized of $1,600,000 in 2000; $3,700,000 in 1999; and $4,800,000 in 1998 as a part of major capital additions. The weighted-average interest rate on commercial paper borrowings during the year was 6.5% in 2000, 5.2% in 1999 and 5.6% in 1998. The weighted-average interest rate on short-term debt during the year was 6.3% in 2000 as well as 1999, and 7.4% in 1998.

At December 31, 2000, the company had available $223,000,000 through an unsecured $300,000,000 revolving or competitive bid credit agreement with a group of banks. The agreement, which expires in June 2003, bears interest based upon any one of four rates at the company's option–adjusted prime, Eurodollar, competitive bid Eurodollar, or the competitive bid absolute rate. Also, the company has a shelf registration filed with the Securities and Exchange Commission which, as of December 31, 2000, enables the company to issue up to an additional $200,000,000 of long-term debt securities in the public markets.

The company and its subsidiaries lease a variety of real property and equipment. Rent expense under operating leases amounted to $14,719,000, $17,724,000 and $16,934,000 in 2000, 1999 and 1998, respectively. At December 31, 2000, future minimum lease payments for noncancelable operating leases totaled $61,406,000 and are payable as follows: 2001–$12,056,000; 2002–$9,714,000; 2003–$8,385,000 ; 2004–$7,008,000; 2005–$5,516,000; and $18,727,000 thereafter.

7 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 the purchases of inventory and equipment. The purpose of these foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 2000 and 1999, the company had forward foreign exchange contracts, all having maturities of less than one year, with notional amounts of $10,948,000 and $27,393,000, respectively, which approximates their fair value. The forward foreign exchange contracts were primarily entered into by the company's European subsidiaries to manage Euro, U.S. dollar and British pound 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 recognized in earnings when the future sales 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 discounted cash flow analysis, was $255,000,000 and $241,000,000 at December 31, 2000 and 1999, respectively. The carrying value of this debt was $270,000,000 and $264,000,000.

8 Stock Compensation Plans

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, because 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 recognized.

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 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. The pro forma information indicates a decrease in net income of $6,014,000 in 2000; $5,056,000 in 1999; and $3,787,000 in 1998.

Following is the ***pro forma information*** and the ***related assumptions*** under the Black-Scholes method:

(Thousands of dollars except per share data)	**2000**	1999	1998
Pro forma net income	**$ 39,874**	$ 57,568	$ 110,750
Earnings per share	**$ 0.66**	$ 0.93	$ 1.78
Earnings per share - assuming dilution	**$ 0.66**	$ 0.93	$ 1.76
Assumptions:			
Risk-free interest rate	**6.31%**	5.33%	5.74%
Dividend yield	**3.01%**	2.79%	2.78%
Expected stock volatility	**0.481**	0.444	0.271
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:

	2000		1999		1998	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding - beginning of year	**4,515,676**	**$22.90**	3,526,301	$23.73	3,180,136	$20.15
Granted	**1,356,400**	**15.88**	1,186,100	19.45	861,900	33.35
Exercised	**(88,761)**	**12.96**	(186,774)	16.72	(510,635)	17.71
Canceled or expired	**(62,325)**	**21.28**	(9,951)	22.13	(5,100)	21.47
Outstanding - end of year	**5,720,990**	**$21.41**	4,515,676	$22.90	3,526,301	$23.73
Options exercisable	**2,910,271**		2,171,996		1,710,031	

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 nor was compensation expense recognized during 2000, 1999 or 1998.

Exercise prices for options outstanding as of December 31, 2000, range from $12.88 to $33.75; the weighted-average remaining contractual life of these options is 7 years. The estimated weighted-average fair values of stock options granted during 2000, 1999 and 1998 were $7.01, $8.11 and $10.19, respectively. At December 31, 2000, a total of 207,293 restricted stock rights, restricted shares or deferred shares have been awarded under the above plans and are not vested. The company distributed 100,832, 87,206 and 78,831 common shares in 2000, 1999 and 1998, respectively, as a result of awards of restricted stock rights, restricted shares and deferred shares.

The number of shares available for future grants for all plans at December 31, 2000, including stock options, is 1,982,514.

9 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, 2000, the plans had 12,109,175 shares of Timken Company common stock with a fair value of $183,151,000. Company contributions to the plans, including performance sharing, amounted to $14,384,000 in 2000; $14,891,000 in 1999; and $16,380,000 in 1998. The company paid dividends totaling $7,958,000 in 2000; $6,838,000 in 1999; and $5,519,000 in 1998, to plan participants 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 plans and the 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.

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, 2000 and 1999:

	Defined Benefit Pension Plans		Postretirement Plans	
	2000	1999	**2000**	1999
(Thousands of dollars)				
Change in benefit obligation				
Benefit obligation at beginning of year	**$1,451,729**	$1,496,111	**$ 466,307**	$ 463,385
Service cost	**33,328**	35,876	**4,309**	4,857
Interest cost	**119,943**	103,232	**40,043**	33,525
Amendments	**76,602**	27,514	**8,563**	-0-
Actuarial losses (gains)	**72,869**	(135,485)	**105,987**	(833)
Associate contributions	**1,845**	1,371	**-0-**	-0-
Acquisition	**-0-**	12,155	**-0-**	-0-
International plan exchange rate change	**(14,890)**	(3,997)	**74**	(109)
Benefits paid	**(99,467)**	(85,048)	**(36,459)**	(34,518)
Benefit obligation at end of year	**$1,641,959**	$1,451,729	**$ 588,824**	$ 466,307
Change in plan assets(1)				
Fair value of plan assets at beginning of year	**$1,457,453**	$1,314,158		
Actual return on plan assets	**(17,703)**	171,566		
Associate contributions	**1,845**	1,371		
Company contributions	**56,843**	46,673		
Acquisition	**-0-**	12,155		
International plan exchange rate change	**(15,288)**	(3,422)		
Benefits paid	**(99,467)**	(85,048)		
Fair value of plan assets at end of year	**$1,383,683**	$1,457,453		
Funded status				
Projected benefit obligation (in excess of) or less than plan assets	**$ (258,276)**	$ 5,724	**$(588,824)**	$ (466,307)
Unrecognized net actuarial (gain) loss	**(55,482)**	(261,711)	**181,173**	78,708
Unrecognized net asset at transition dates, net of amortization	**(4,219)**	(6,253)	**-0-**	-0-
Unrecognized prior service cost (benefit)	**168,181**	115,066	**(23,077)**	(35,370)
Accrued benefit cost	**$ (149,796)**	$ (147,174)	**$(430,728)**	$ (422,969)
Amounts recognized in the consolidated balance sheet				
Accrued benefit liability	**$ (248,126)**	$ (158,754)	**$(430,728)**	$ (422,969)
Intangible asset	**88,405**	840	**-0-**	-0-
Minimum pension liability included in accumulated other comprehensive income	**9,925**	10,740	**-0-**	-0-
Net amount recognized	**$ (149,796)**	$ (147,174)	**$(430,728)**	$ (422,969)

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

Due to plan amendments, changes in plan participant demographics and lower capital market performance, the benefit obligations at December 31, 2000, exceeded the market value of plan assets for the majority of the company's U.S. based plans. For these plans, the projected benefit obligation was $1,358,892,000; the accumulated benefit obligation was $1,303,026,000, and the fair value of plan assets was $1,100,309,000 at December 31, 2000.

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

	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	**2000**	1999	1998
Assumptions						
Discount rate	**8.00%**	8.25%	7.00%	**8.00%**	8.25%	7.00%
Future compensation assumption	**3% to 4%**	3% to 4%	3% to 4%			
Expected long-term return on plan assets	**9.50%**	9.25%	9.25%			
Components of net periodic benefit cost						
(Thousands of dollars)						
Service cost	**$ 33,328**	$ 35,876	$ 32,441	**$ 4,309**	$ 4,857	$ 4,562
Interest cost	**119,943**	103,232	95,520	**40,043**	33,525	30,188
Expected return on plan assets	**(116,302)**	(102,148)	(95,083)	**-0-**	-0-	-0-
Amortization of prior service cost	**21,995**	16,412	16,033	**(3,730)**	(4,474)	(4,489)
Recognized net actuarial (gain) loss	**(556)**	1,724	1,646	**3,670**	3,796	544
Amortization of transition asset	**(1,002)**	(1,951)	(2,143)	**-0-**	-0-	-0-
Net periodic benefit cost	**$ 57,396**	$ 53,145	$ 48,414	**$ 44,292**	$ 37,704	$ 30,805

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 9.00% for 2000 through 2002 declining gradually to 6.00% in 2006 and thereafter for pre-65 benefits, 6.00% for post-65 benefits for all years, and 15.00% for 2000 through 2002, declining gradually to 6.00% 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 2000 total service and interest cost components by $2,340,000 and would increase the postretirement benefit obligation by $27,418,000. A one percentage point decrease would provide corresponding reductions of $2,122,000 and $24,800,000, respectively.

10 Research and Development

Expenditures committed to research and development amounted to approximately $52,000,000 in 2000; $50,000,000 in 1999; and $48,000,000 in 1998. Such expenditures may fluctuate from year to year depending on special projects and needs.

11 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. Environmental costs include compensation and related benefit costs associated with associates expected to devote significant amounts of time to the remediation effort and post-monitoring costs. 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 operations, cash flows or consolidated financial position.

12 Segment Information

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

The company has two reportable segments: Bearings and Steel. The company's Bearings business sells directly to customers in the automotive, railroad, aerospace, industrial and service replacement markets. The company's tapered roller bearings are used in a wide variety of products including passenger cars, trucks, railroad cars and locomotives, aircraft wheels, machine tools, rolling mills, and farm and construction equipment. Super precision bearings are used in aircraft, missile guidance systems, computer peripherals and medical instruments. Other bearing products manufactured by the company include cylindrical, spherical, straight and ball bearings for industrial markets.

Steel products include steels 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. Specifically, the company measures segment profit or loss based on earnings before interest and income taxes (EBIT). 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

The company's reportable segments are business units that offer different products. Each reportable segment is managed separately because each manufactures and distributes distinct products with different production processes.

Geographical entities as defined here are not reflective of how the Bearings and Steel businesses 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 (1)	Other Countries	Consolidated
(Thousands of dollars)				
2000				
Net sales	**$ 2,062,306**	**$ 361,649**	**$ 219,053**	**$2,643,008**
Impairment and restructuring	**18,073**	**6,645**	**3,036**	**27,754**
Income (loss) before income taxes	**84,988**	**(35,065) (1)**	**20,674**	**70,597**
Non-current assets	**1,391,080**	**204,135**	**70,348**	**1,665,563**
1999				
Net sales	$ 1,922,092	$ 364,380	$ 208,562	$ 2,495,034
Impairment and restructuring	-0-	-0-	-0-	-0-
Income (loss) before income taxes	112,556	(28,936)	15,371	98,991
Non-current assets	1,303,980	240,020	63,792	1,607,792
1998				
Net sales	$ 2,118,529	$ 373,877	$ 187,435	$ 2,679,841
Impairment and restructuring	-0-	-0-	-0-	-0-
Income before income taxes	172,388	10,757	2,205	185,350
Non-current assets	1,319,043	254,056	26,595	1,599,694

(1) Excluding $6,645,000 of impairment and restructuring costs and reorganization costs of $3,444,000, Europe's loss before income taxes equals $24,976,000.

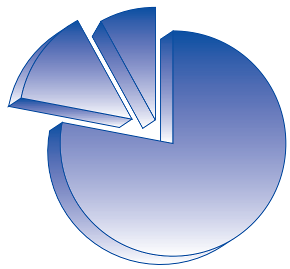
Segment Financial Information	2000	1999	1998
(Thousands of dollars)			
Bearings			
Net sales to external customers	**$1,763,325**	$1,759,871	$1,797,745
Depreciation and amortization	**83,541**	83,255	80,175
Impairment and restructuring charges	**12,642**	-0-	-0-
Earnings before interest and taxes	**78,899**	80,548	133,318
Interest expense	**(25,430)**	(21,817)	(22,425)
Interest income	**3,254**	3,018	2,086
Capital expenditures	**109,922**	116,569	145,613
Assets employed at year-end	**1,577,307**	1,476,545	1,514,780
Steel			
Net sales to external customers	**$ 879,683**	$ 735,163	$ 882,096
Intersegment sales	**196,500**	211,870	200,911
Depreciation and amortization	**67,506**	66,694	59,658
Impairment and restructuring charges	**15,112**	-0-	-0-
Earnings before interest and taxes	**19,349**	44,039	73,825
Interest expense	**(12,034)**	(9,347)	(7,714)
Interest income	**5,767**	4,017	4,537
Capital expenditures	**52,795**	56,653	113,008
Assets employed at year-end	**986,798**	964,773	935,251
Total			
Net sales to external customers	**$2,643,008**	$2,495,034	$2,679,841
Depreciation and amortization	**151,047**	149,949	139,833
Impairment and restructuring charges	**27,754**	-0-	-0-
Earnings before interest and taxes	**98,248**	124,587	207,143
Interest expense	**(37,464)**	(31,164)	(30,139)
Interest income	**9,021**	7,035	6,623
Capital expenditures	**162,717**	173,222	258,621
Assets employed at year-end	**2,564,105**	2,441,318	2,450,031
Income Before Income Taxes			
Total EBIT for reportable segments	**$ 98,248**	$ 124,587	$ 207,143
Interest expense	**(31,922)**	(27,225)	(26,502)
Interest income	**3,479**	3,096	2,986
Intersegment adjustments	**792**	(1,467)	1,723
Income before income taxes	**$ 70,597**	$ 98,991	$ 185,350

Segment interest expense and income include intersegment amounts. Both intersegment interest expense and income of $5,542,000, $3,939,000 and $3,637,000 incurred in 2000, 1999 and 1998, respectively, were deducted from combined segment amounts to reconcile consolidated amounts.

Timken
Net Sales to Customers

Bearings 67%
Steel 33%

Timken Net Sales
by Geographic Area



United States 78%
Europe 14%
Other 8%

Steel
Net Sales – Total

Customers 82%
Intersegment 18%

13 Income Taxes

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

	2000		1999		1998	
	Current	Deferred	Current	Deferred	Current	Deferred
(Thousands of dollars)						
United States:						
Federal	$ (1,093)	$ 13,093	$ 9,988	$ 20,884	$ 50,056	$ 5,173
State and local	1,775	(995)	(552)	2,835	6,212	(1,384)
Foreign	13,442	(1,513)	6,171	(2,959)	7,610	3,146
	$ 14,124	$ 10,585	$ 15,607	$ 20,760	$ 63,878	$ 6,935

The company made income tax payments of approximately $17,520,000 in 2000; $14,760,000 in 1999; and $62,190,000 in 1998. 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, 2000 and 1999 was as follows:

	2000	1999
(Thousands of dollars)		
Deferred tax assets:		
Accrued postretirement benefits cost	$159,014	$156,777
Accrued pension cost	31,920	27,949
Benefit accruals	25,603	24,051
Tax loss and credit carryforwards	16,439	15,041
Other–net	12,960	17,160
Valuation allowance	(18,084)	(15,041)
	227,852	225,937
Deferred tax liability–depreciation	(196,500)	(192,378)
Net deferred tax asset	$ 31,352	$ 33,559

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:

	2000	1999	1998
(Thousands of dollars)			
Income tax at the statutory federal rate	$ 24,709	$ 34,647	$ 64,873
Adjustments:			
State and local income taxes, net of federal tax benefit	507	1,484	3,138
Tax on foreign remittances	1,617	1,216	-0
Non-deductible unrealized exchange losses	587	1,548	-0-
Foreign tax credits	(2,702)	(2,205)	-0-
Losses without current tax benefits	5,177	-0-	2,307
Settlements and claims for prior years	(5,125)	-0-	-0-
Valuation allowance	(1,402)	-0-	-0-
Other items	1,341	(323)	495
Provision for income taxes	$ 24,709	$ 36,367	$ 70,813
Effective income tax rate	35%	37%	38%

Report of Independent Auditors

To the Board of Directors and Shareholders of
The Timken Company

We have audited the accompanying consolidated balance sheets of The Timken Company and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Canton, Ohio
February 1, 2001

Forward-Looking Statements

The statements set forth in this annual report that are not historical in nature are forward-looking. In particular the Corporate Profile on pages 16 through 18 and Management's Discussion and Analysis on pages 20 through 27 contain numerous forward-looking statements. The company cautions readers that actual results may differ materially from those projected or implied in forward-looking statements made by or on behalf of the company due to a variety of important factors, such as:

a) changes in world economic conditions. This includes, but is not limited to, the potential instability of governments and legal systems in countries in which the company conducts business and significant changes in currency valuations.

b) the effects of changes in customer demand on sales, product mix and prices. 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, in light of the ITC voting in second quarter 2000 to revoke the antidumping orders on imports of tapered roller bearings from Japan, Romania and Hungary.

c) competitive factors, including changes in market penetration, 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.

d) 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.

e) the success of the company's operating plans, including its ability to achieve the benefits from its global restructuring as well as its ongoing continuous improvement and rationalization programs; its ability to integrate acquisitions into company operations; the ability of recently acquired companies to achieve satisfactory operating results; its ability to maintain appropriate relations with unions that represent company associates in certain locations in order to avoid disruptions of business and its ability to successfully implement its new organizational structure.

f) unanticipated litigation, claims or assessments. This includes, but is not limited to, claims or problems related to product warranty and environmental issues.

g) changes in worldwide financial markets to the extent they (1) affect the company's ability or costs to raise capital, (2) have an impact on the overall performance of the company's pension fund investments and (3) cause changes in the economy which affect customer demand.

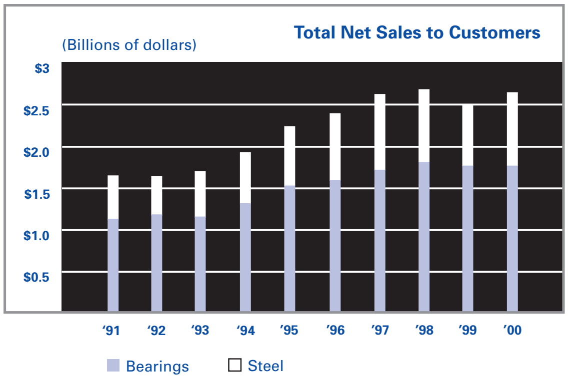
Summary of Operations and other comparative data

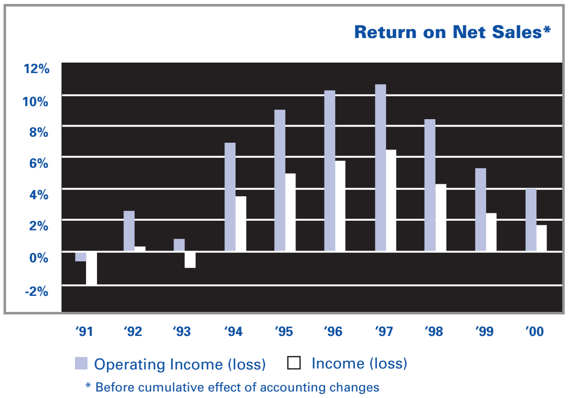
(Thousands of dollars, except per share data)

	2000	1999	1998	1997
Statements of Income				
Net sales:				
Bearings	**$ 1,763,325**	$ 1,759,871	$ 1,797,745	$ 1,718,876
Steel	**879,683**	735,163	882,096	898,686
Total net sales	**2,643,008**	2,495,034	2,679,841	2,617,562
Cost of products sold	**2,142,135**	2,002,366	2,098,186	2,005,374
Selling, administrative and general expenses	**367,499**	359,910	356,672	332,419
Impairment and restructuring charges	**27,754**	-0-	-0-	-0-
Operating income (loss)	**105,620**	132,758	224,983	279,769
Earnings before interest and taxes (EBIT)	**99,040**	123,120	208,866	286,766
Interest expense	**31,922**	27,225	26,502	21,432
Income (loss) before income taxes	**70,597**	98,991	185,350	266,592
Provisions for income taxes (credit)	**24,709**	36,367	70,813	95,173
Income (loss) before cumulative effect of accounting changes	**45,888**	62,624	114,537	171,419
Net income (loss)	**$ 45,888**	$ 62,624	$ 114,537	$ 171,419
Balance Sheets				
Inventory	**$ 489,549**	$ 446,588	$ 457,246	$ 445,853
Current assets	**898,542**	833,526	850,337	855,171
Working capital	**311,090**	348,455	359,914	275,607
Property, plant and equipment (less depreciation)	**1,363,772**	1,381,474	1,349,539	1,220,516
Total assets	**2,564,105**	2,441,318	2,450,031	2,326,550
Total debt	**514,064**	449,890	469,398	359,431
Total liabilities	**1,559,423**	1,395,337	1,393,950	1,294,474
Shareholders' equity	**$ 1,004,682**	$ 1,045,981	$ 1,056,081	$ 1,032,076
Other Comparative Data				
Net income (loss)/Total assets	**1.8%**	2.6%	4.7%	7.4%
Net income (loss)/Net sales	**1.7%**	2.5%	4.3%	6.5%
EBIT/Beginning invested capital (1)	**4.7%**	5.6%	10.5%	16.1%
Inventory days (FIFO)	**108.5**	108.4	109.4	111.5
Net sales per associate (2)	**$ 127.9**	$ 119.1	$ 127.5	$ 130.5
Capital expenditures	**$ 162,717**	$ 173,222	$ 258,621	$ 229,932
Depreciation and amortization	**$ 151,047**	$ 149,949	$ 139,833	$ 134,431
Capital expenditures/Depreciation	**112.4%**	120.3%	192.5%	177.3%
Dividends per share	**$ 0.72**	$ 0.72	$ 0.72	$ 0.66
Earnings per share (3)	**$ 0.76**	$ 1.01	$ 1.84	$ 2.73
Earnings per share - assuming dilution (3)	**$ 0.76**	$ 1.01	$ 1.82	$ 2.69
Debt to total capital	**33.9%**	30.1%	30.8%	25.8%
Number of associates at year-end	**20,474**	20,856	21,046	20,994
Number of shareholders (4)	**42,661**	42,907	45,942	46,394

(1) EBIT/Beginning invested capital, a type of return on asset ratio, is used internally to measure the company's performance. In broad terms, invested capital is total assets minus non-interest-bearing current liabilities.

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

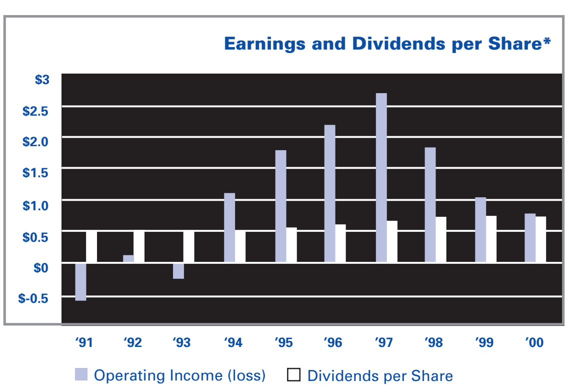


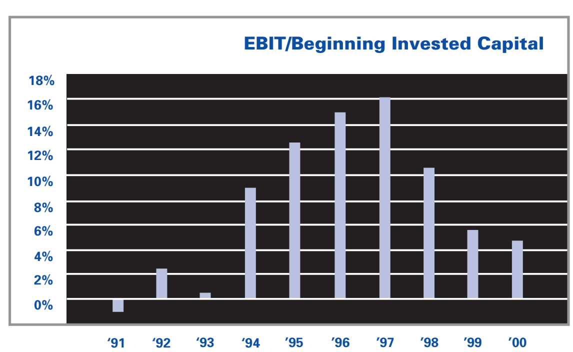


1996	1995	1994	1993	1992	1991
$ 1,598,040	$ 1,524,728	$ 1,312,323	$ 1,153,987	$ 1,169,035	$ 1,128,972
796,717	705,776	618,028	554,774	473,275	518,453
2,394,757	2,230,504	1,930,351	1,708,761	1,642,310	1,647,425
1,828,394	1,723,463	1,514,098	1,369,711	1,300,744	1,315,290
319,458	304,046	283,727	276,928	299,305	300,274
-0-	-0-	-0-	48,000	-0-	41,000
246,905	202,995	132,526	14,122	42,261	(9,139)
242,304	197,957	134,674	7,843	40,606	(16,724)
17,899	19,813	24,872	29,619	28,660	26,673
225,259	180,174	111,323	(20,919)	13,431	(41,950)
86,322	67,824	42,859	(3,250)	8,979	(6,263)
138,937	112,350	68,464	(17,669)	4,452	(35,687)
$ 138,937	$ 112,350	$ 68,464	$ (271,932)	$ 4,452	$ (35,687)
$ 419,507	$ 367,889	$ 332,304	$ 299,783	$ 310,947	$ 320,076
793,633	710,258	657,180	586,384	556,017	562,496
265,685	247,895	178,556	153,971	165,553	148,950
1,094,329	1,039,382	1,030,451	1,024,664	1,049,004	1,058,872
2,071,338	1,925,925	1,858,734	1,789,719	1,738,450	1,759,139
302,665	211,232	279,519	276,476	320,515	273,104
1,149,110	1,104,747	1,125,843	1,104,407	753,387	740,168
$ 922,228	$ 821,178	$ 732,891	$ 685,312	$ 985,063	$ 1,018,971
6.7%	5.8%	3.7%	(15.2)%	0.3%	(2.0)%
5.8%	5.0%	3.5%	(15.9)%	0.3%	(2.2)%
15.1%	12.6%	9.0%	0.5%	2.5%	(1.0)%
117.5	112.2	118.0	122.5	137.8	139.9
$ 132.4	$ 134.2	$ 119.9	$ 104.5	$ 95.3	$ 90.0
$ 155,925	$ 131,188	$ 119,656	$ 92,940	$ 139,096	$ 144,678
$ 126,457	$ 123,409	$ 119,255	$ 118,403	$ 114,433	$ 109,252
127.0%	109.1%	102.6%	80.2%	124.4%	135.6%
$ 0.60	$ 0.555	$ 0.50	$ 0.50	$ 0.50	$ 0.50
$ 2.21	$ 1.80	$ 1.11	$ (0.29)	$ 0.07	$ (0.60)
$ 2.19	$ 1.78	$ 1.10	$ (0.29)	$ 0.07	$ (0.60)
24.7%	20.5%	27.6%	28.7%	24.5%	21.1%
19,130	17,034	16,202	15,985	16,729	17,740
31,813	26,792	49,968	28,767	31,395	26,048

(3) Based on the average number of shares outstanding during the year and excludes the cumulative effect of accounting changes in 1993, which related to the adoption of FAS No. 106, 109 and 112.

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





Directors and Officers

Directors

Stanley C. Gault, 75, 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, 47, Director since 1999
President and Chief Operating Officer
The Timken Company

J. Clayburn La Force, Jr., 72, Director since 1994 (A)
Emeritus Dean and Professor
Anderson Graduate School of Management
University of California at Los Angeles
(Los Angeles, California)

John A. Luke, Jr., 52, Director since 1999 (C)
Chairman and Chief Executive Officer
Westvaco Corporation (New York, New York)

Robert W. Mahoney, 64, Director since 1992 (C)
Retired Chairman
Diebold, Incorporated (Canton, Ohio)

Jay A. Precourt, 63, Director since 1996 (A)
Chairman and Chief Executive Officer
Hermes Consolidated, Inc. (Vail, Colorado)

John M. Timken, Jr., 49, Director since 1986 (A)
Private Investor (Old Saybrook, Connecticut)

Ward J. Timken, 58, Director since 1971
Vice President
The Timken Company

W. R. Timken, Jr., 62, Director since 1965
Chairman and Chief Executive Officer
The Timken Company

Joseph F. Toot, Jr., 65, Director since 1968
Retired President and Chief Executive Officer
The Timken Company

Martin D. Walker, 68, Director since 1995 (C)
Principal
MORWAL Investments (Westlake, Ohio)

Jacqueline F. Woods, 53, Director since 2000 (A)
Retired President
Ameritech Ohio (Cleveland, Ohio)

(A) Member of Audit Committee (C) Member of Compensation Committee

Officers

Curt J. Andersson, 39, 1 year of service
Senior Vice President – e-Business
Officer since 2000

Michael C. Arnold, 44, 21 years of service
President – Industrial
Officer since 2000

Sallie B. Bailey, 41, 5 years of service
Treasurer
Officer since 1999

Bill J. Bowling, 59, 35 years of service
Executive Vice President, Chief Operating Officer
and President – Steel
Officer since 1996

William R. Burkhart, 35, 6 years of service
Senior Vice President and General Counsel
Officer since 2000

Vinod K. Dasari, 34, 8 years of service
President – Rail
Officer since 2000

Donna J. Demerling, 50, 28 years of service
President – Aerospace and Super Precision
Officer since 2000

Jon T. Elsasser, 48, 22 years of service
Senior Vice President – Corporate Development
Officer since 1996

James W. Griffith, 47, 16 years of service
President and Chief Operating Officer
Officer since 1996

Karl P. Kimmerling, 43, 21 years of service
President – Automotive
Officer since 1998

Gene E. Little, 57, 33 years of service
Senior Vice President – Finance
Officer since 1990

Salvatore J. Miraglia, Jr., 50, 28 years of service
Senior Vice President – Technology
Officer since 1996

Stephen A. Perry, 55, 37 years of service
Senior Vice President – Human Resources, Purchasing
and Communications
Officer since 1993

Hans J. Sack, 46, 11 years of service
President – Specialty Steel
Officer since 1998

Mark J. Samolczyk, 45, 19 years of service
President – Precision Steel Components
Officer since 2000

Scott A. Scherff, 46, 21 years of service
Corporate Secretary and Assistant General Counsel
Officer since 1999

Ward J. Timken, 58, 32 years of service
Vice President
Officer since 1992

Ward J. Timken, Jr., 33, 8 years of service
Corporate Vice President – Office of the Chairman
Officer since 2000

W. R. Timken, Jr., 62, 38 years of service
Chairman and Chief Executive Officer
Officer since 1968

International Advisors

International Advisors

Dr. Carl H. Hahn
Wolfsburg, Germany

The Rt. Hon. Lord Eden of Winton
London, England

Madame Marie-France Garaud
Paris, France

Shareholder Information

Corporate Offices
The Timken Company
1835 Dueber Ave., S.W.
Canton, Ohio 44706-2798
Telephone: 330-438-3000

Annual Meeting of Shareholders
10 a.m. Tuesday, April 17, 2001, Corporate Offices.
Direct meeting inquiries to Scott A. Scherff, Corporate Secretary and Assistant General Counsel, at 330-471-4226.

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

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

The Timken Company Investor Services Program allows current shareholders and new investors the opportunity to purchase shares of common stock directly from the company.

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:

The Investor Services Program
for Shareholders of The Timken Company
First Chicago Trust Company
A Division of EquiServe
P. O. Box 2598
Jersey City, NJ 07303-2598

Correspondence concerning dividend payments, change of address or lost certificates should be directed to: First Chicago Trust Company at 1-800-555-9898.

Transfer Agent and Registrar
First Chicago Trust Company of New York
A Division of EquiServe
P. O. Box 2500
Jersey City, New Jersey 07303-2506

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

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 under Investor Relations, or by written request at no charge from:

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

Other Information
Analysts and investors may contact:

Richard J. Mertes, GNE-04
Manager – Investor Relations
The Timken Company
P.O. Box 6928
Canton, Ohio 44706-0928
Telephone: 330-471-3924

Media representatives may contact:

Michael L. Johnson, GNW-37
Vice President – Communications
The Timken Company
P.O. Box 6932
Canton, Ohio 44706-0932
Telephone: 330-471-3910

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

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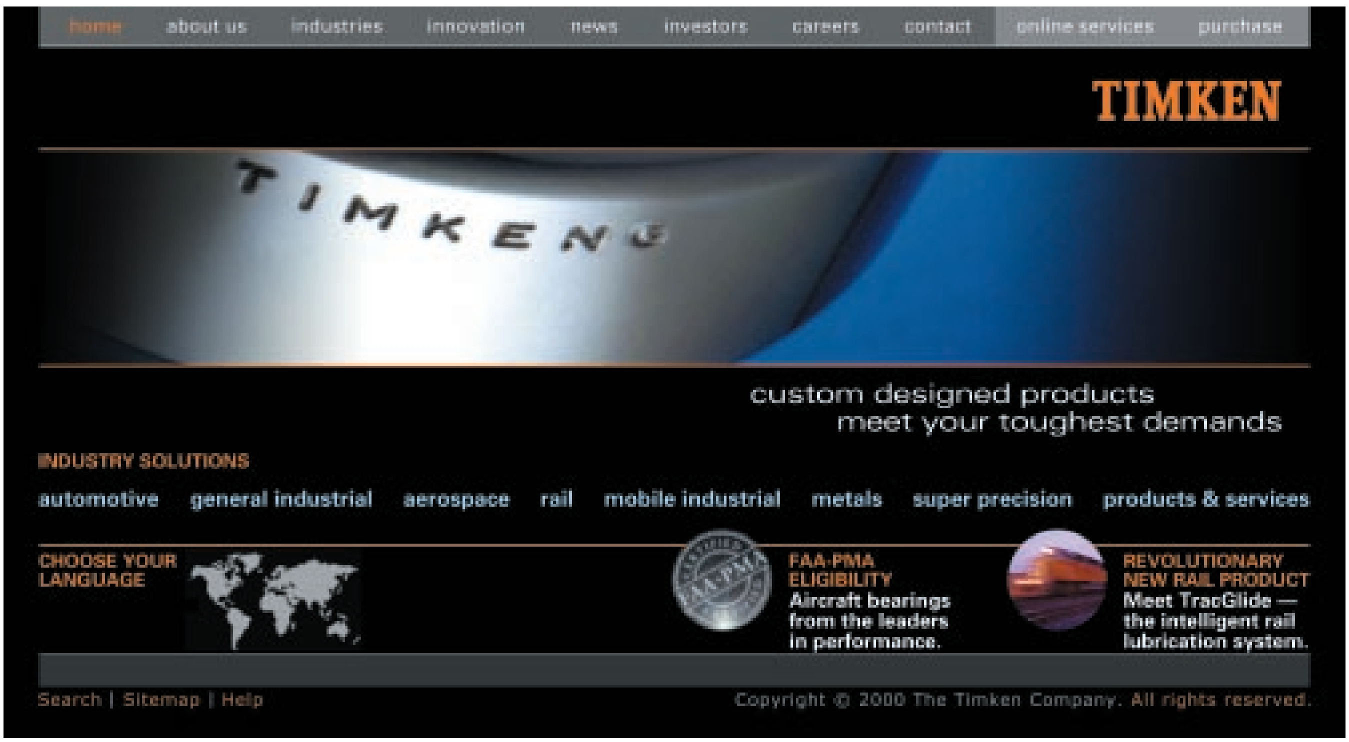
www.timken.com

In 2000, a new **www.timken.com** incorporated user-friendly features that support our customer-centric focus. The new Web site integrates Timken product and service information and presents it by global industry.



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