TIMKEN

Where You Turn

Supply OE's and End-Users:
When is partnering an option?

J. Ron Menning, President
Timken Aerospace & Defense
Gorham Conference
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About The Timken Company

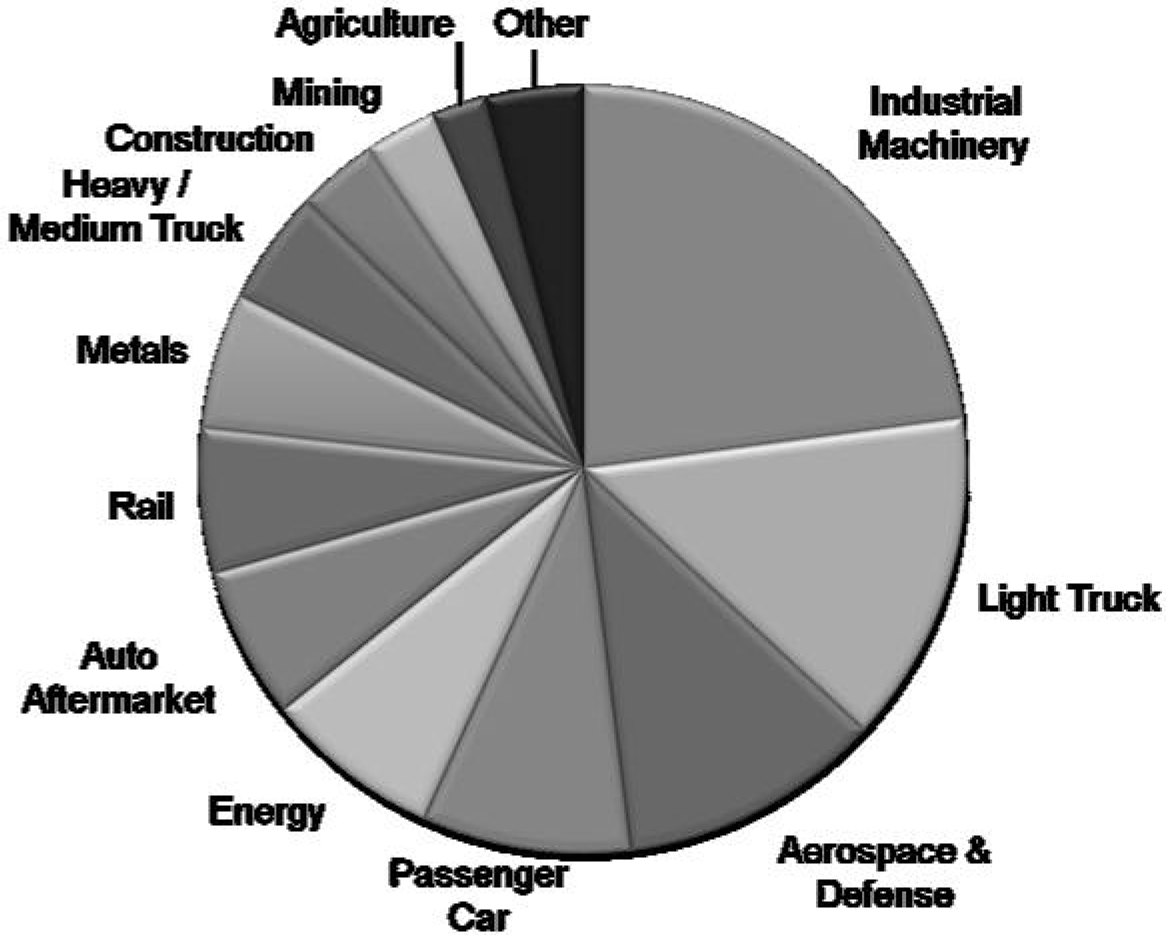
- A leading provider of friction management and power transmission solutions for diverse markets, including:

- Aerospace	- Construction
- Mining	- Truck
- Energy	- Automotive
- Rail	- Distribution


- Established in 1899
- Headquartered in Canton, Ohio, USA
- Global manufacturing footprint with operations in 26 countries/territories
- 2009 sales: $3.1 billion
- 17,000 associates


Diverse Global Industrial Portfolio

2009 Sales: $3.1 Billion



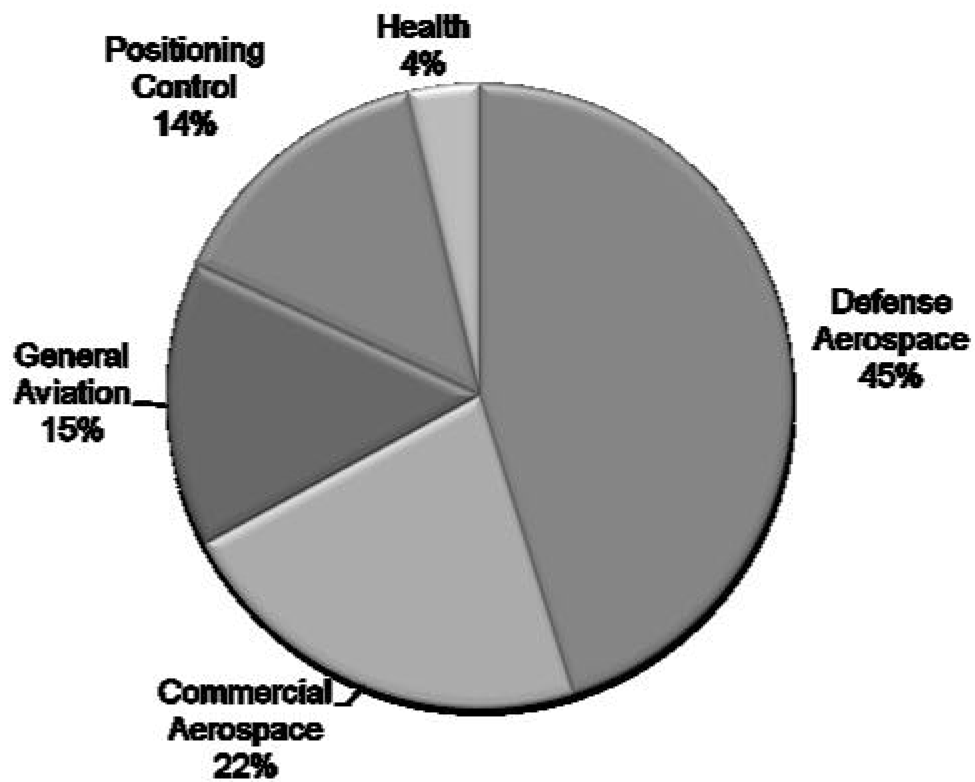
Our strategy:

- Grow with differentiated products and services in attractive markets
- Increased sales from demanding applications in industrial markets, including:
  - Aerospace
  - Energy
  - Heavy Industries
- Expand channels into the aftermarket

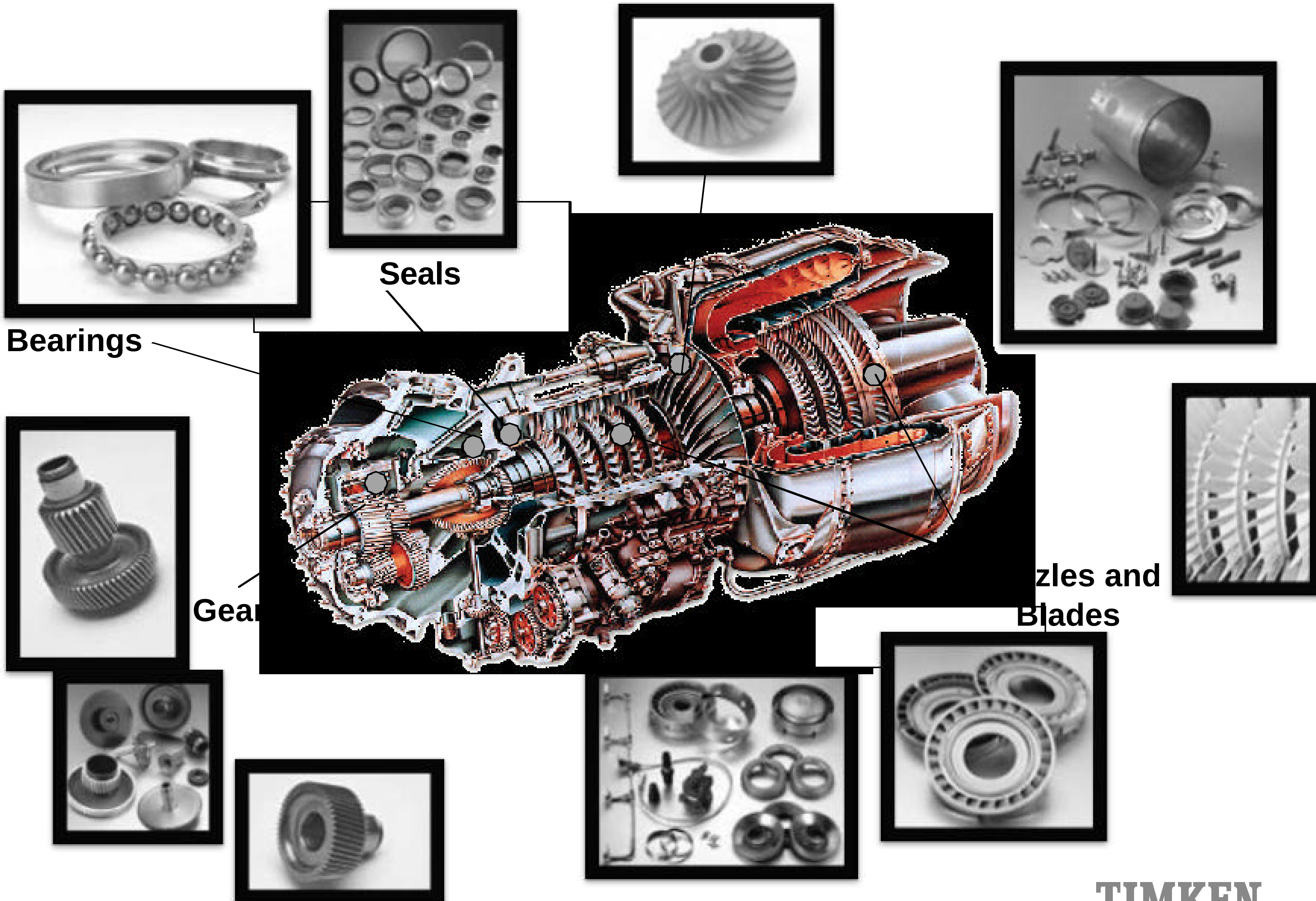
Aerospace and Defense

- **Power transmission** and flight-critical components and systems for civil and military aircraft:
  - Helicopter transmissions, rotor head assemblies
  - Bearings, Gears, Gearboxes and Housings
  - Turbine engine components
- **Product design, development & testing**
- **Aftermarket engine** overhaul, reconditioning and extensive line of replacement parts for aircraft service life

2009 Sales: $418M



Fixed Wing Engine Components



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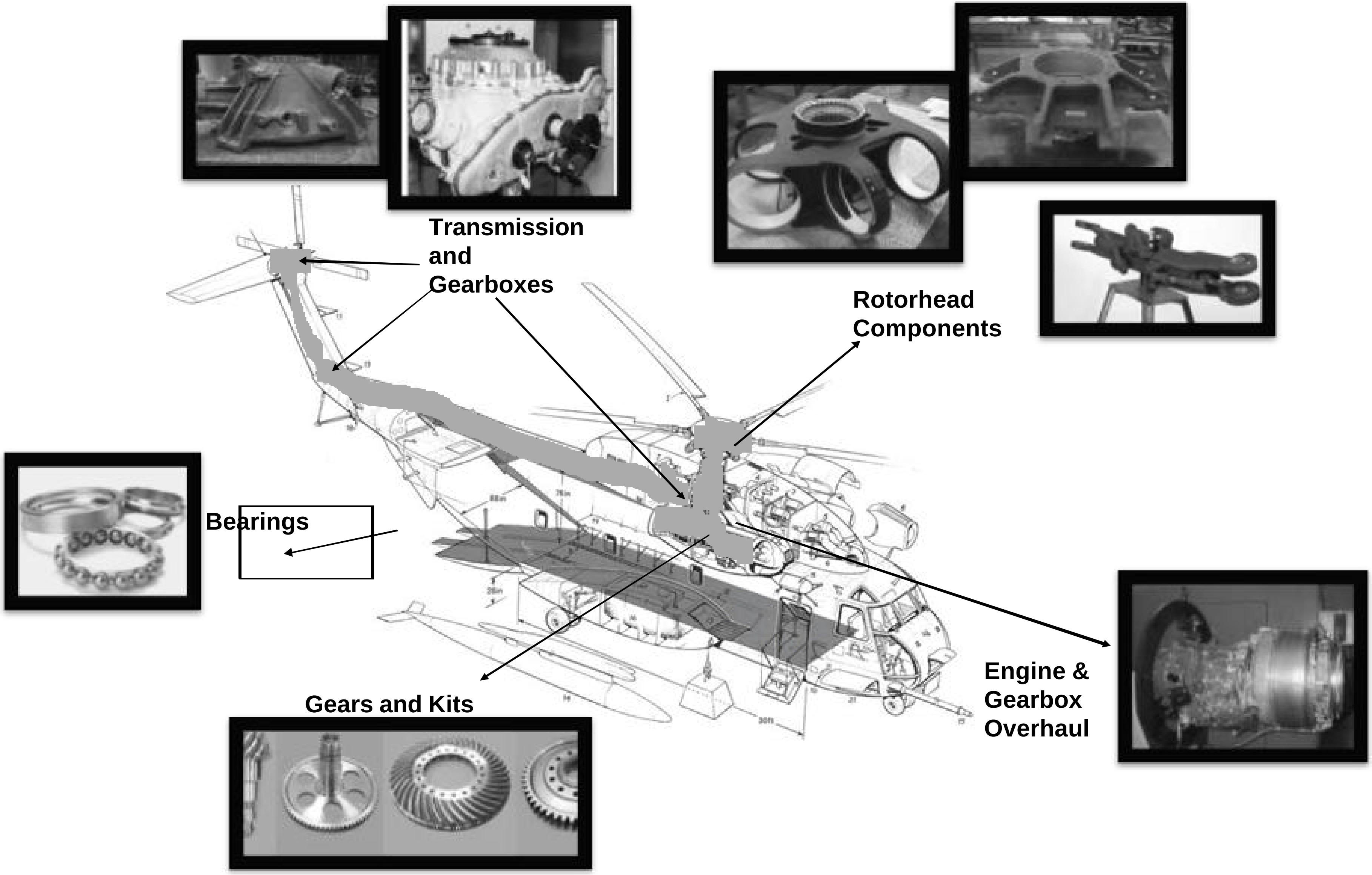
Helicopter Powertrain Components



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Customers

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KOREAN AIR

Sikorsky
A United Technologies Company

American Airlines

JAL
JAPAN AIRLINES

FINNAIR

KELLY
AVIATION CENTER

AIR CANADA

BRITISH AIRWAYS

SAS

Bell Helicopter
A Textron Company

CHINA AIRLINES

Lufthansa

Thai

BOEING

MTU
Aero Engines

Delta

SOUTHWEST

Avio
propulsione aerospaziale

Singapore Technologies
Aerospace
A company of Singapore Technologies Engineering

GOODRICH

U.S. AIR FORCE

Pratt & Whitney
A United Technologies Company

Raytheon

Rolls-Royce

IAI ISRAEL AIRCRAFT INDUSTRIES

Hamilton Sundstrand
A United Technologies Company

W&H DENTALWERK

STANDARD AERO

CHROMALLOY
Gas Turbine Corporation

EADS
REVIMA

VARIAN
medical systems
A partner for life

Abu Dhabi
Aviation

AIR NEW ZEALAND

Honeywell

TRW

ACTARIS
an Itron Company

UNITED

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Looking back at “Strategic Sourcing” in the Aerospace industry

The Stage:

- Corporate pay increasingly tied to stock performance (EP, ROI)
- Focus on lean operations, optimized cost structures and return-on-asset measures spans supply chains
- Producers defining core competencies within and outside their organizations

The Promise:

- Strategic outsourcing can provide mutually prosperous, long-term sole source relationships, enhancing value creation for players involved

The Reality:

- Companies rushed to outsource without establishing long-term expectations, roles and requirements

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Strategic Sourcing: What Really Happened

Misapplications of Strategic Sourcing
- Overly simplistic views
- Short-term perspective
- Misperceptions; mistrust

BOTTOM LINE Result:
As OEM's initiated strategic sourcing, margins and revenues for suppliers declined…

What did happen
- Disloyalty
- Increased competition
- Value eroded

What didn't happen
- Productive relationships
- Mutually viable results
- Improved capabilities

Supplier's Attraction to Independent Channel

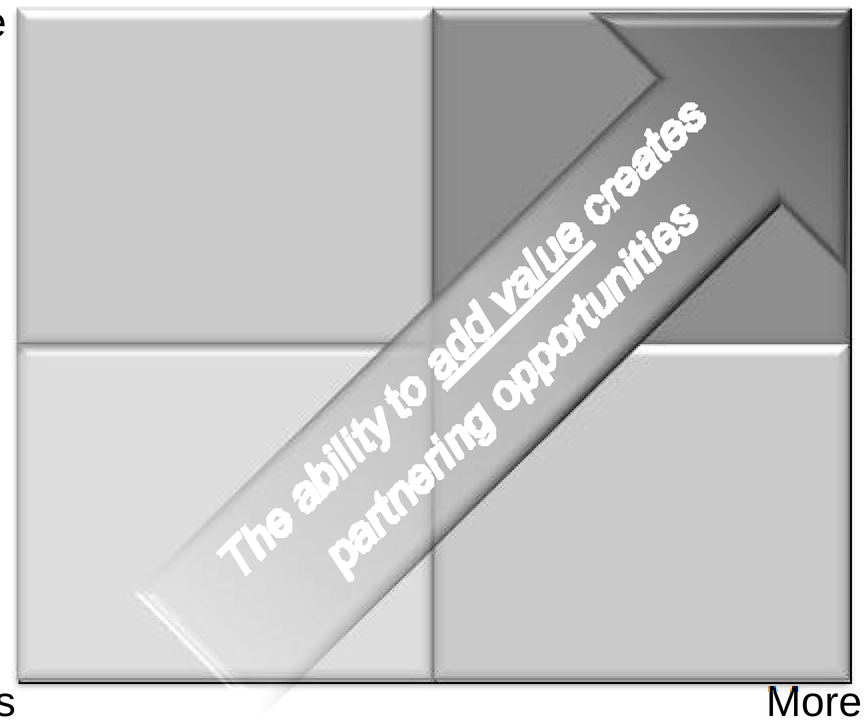
- Only way to stay in business
- Ongoing pressure at OEMs to lower price
- Competitors are participating
- Chance to recoup manufacturing volumes
- A two-tiered growth opportunity
    1. To recover OEM business
    2. To gain new business, if not the original supplier

Supplier Partnering Essentials

More

Breadth/Depth of offering
<u>(products, services, channel)</u>

- Allows for fewer suppliers
- Lower transaction costs
- Lower cost from high volume supplier
- Ability to invest in capacity and capability
- More control of channels
- Access to the independent channel



Less

More

<u>Technical offering/differentiation</u>

- Full design, product development
- Technology roadmaps & investment
- Testing / validation
- Shared risk
- Quality and service engineering

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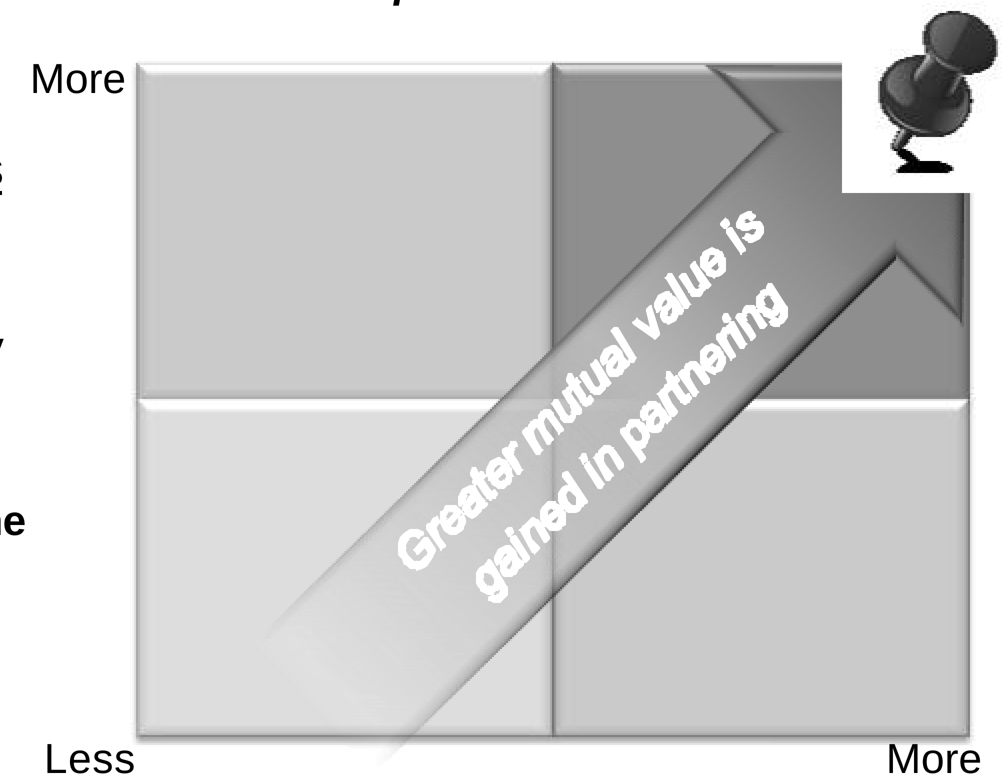
Partnering Dynamics

Suppliers that can add value are moving here, partners can be OEMs or end-users:

OEM/End-user Essentials

- **Acceptance of the new reality**
- **Cradle to Grave mentality**
- **Overall business perspective**
- **Metrics in line with lifetime of earnings opportunity**
- **Culture of Trust**



Supplier Ability to Add Strategic Value

Back to the Question…

Serving OE's and End-users:

Question: When is partnering an option?

Answer: It depends…

Can the "stage" be reset?

- OE/End-user partner needs cradle-to-grave mentality, structure and metrics
- Supply partner must have the ability to add-value
- Trust is essential

"Price is what you pay. Value is what you want."

Warren Buffett – American Investment Entrepreneur