

# TIMKEN

We are transforming  
the company to create  
more value for customers and  
shareholders.

2001

## Corporate Overview

### financial summary

	2001	2000	1999
<small>(Thousands of dollars, except per share data)</small>			
Net sales	<b>\$2,447,178</b>	\$2,643,008	\$2,495,034
Impairment and restructuring charges	<b>54,689</b>	27,754	-
(Loss) income before income taxes	<b>(26,883)</b>	70,597	98,991
Provision for income taxes	<b>14,783</b>	24,709	36,367
Net (loss) income	<b>\$ (41,666)</b>	\$ 45,888	\$ 62,624
Earnings per share - assuming dilution	<b>\$(.69)</b>	\$ .76	\$1.01
Dividends per share	<b>\$ .67</b>	\$ .72	\$ .72

*Timken is a leading international manufacturer of highly engineered bearings, alloy and specialty steels and a provider of related products and services. Headquartered in Canton, Ohio, the company employs 18,700 associates in 24 countries and serves every major manufacturing industry.*

*In 2001, Timken made substantial progress in transforming to a global enterprise. It restructured manufacturing operations, reduced costs, created new products and services and developed alliances that will provide opportunities for growth internationally.*

## *Our mission*

We will be the best-performing manufacturing company in the world as seen through the eyes of our customers and shareholders. To grow profitably, maximize shareholder value and sustain industry leadership, our diverse team of associates will capitalize on the relationships between our businesses, emphasize applying advanced technology to products and processes and provide unmatched customer service. We will remain an independent organization with a leadership position in high-quality anti-friction bearing and alloy steel products as well as related services.

*In 1898, Henry Timken received two patents for the tapered roller bearing. A year later, Henry and his two sons W. R. and H. H. founded The Timken Roller Bearing Axle Company in St. Louis, Mo. In 1901, the Timkens relocated their business to Canton, Ohio, to be close to the fast-growing automobile and steel industries.*

*In 1909, Timken bearings became an international product manufactured in Great Britain under license. In 1916, the company became the only American bearing manufacturer to produce its own steel. During the first half of the 20th century, the company expanded greatly, establishing plants in Ohio, as well as in Canada, France and Great Britain.*

*Demand for high-volume production of automotive bearings led to the construction of the company's first automated plant in Bucyrus, Ohio, in 1948, followed by a precision bearing plant in New Philadelphia, Ohio, and bearing plants in Australia and Brazil.*

*During the 1960s the company built Timken Research in Canton. Technological steelmaking improvements during the period included strand casting, electric arc melting and vacuum-degassing facilities.*

*The 1970s and 80s brought new bearing plants in Gaffney, S.C., and Lincolnton, N.C., and the acquisition of Latrobe Steel Company as a subsidiary. In 1985, start-up of the Faircrest Steel Plant increased the company's melting capacity to more than one million tons per year.*

*The pace of life – and change – at Timken has picked up considerably in the last 10 years, as the company:*

- *opened new steel and bearing processing and distribution facilities in England, France, Mexico, Singapore and the U.S.*
- *acquired steel distribution and bearing manufacturing facilities in the U.S., the Netherlands, Poland, England, Italy, Romania and China*
- *formed joint ventures in Brazil, Europe, India and the U.S.*
- *launched e-business initiatives to serve distributors.*

*From Henry Timken's relatively simple idea has grown a \$2.4 billion corporation that is the world's largest manufacturer of tapered roller bearings and seamless mechanical steel tubing.*

*Timken continues to move from beyond its traditional bearing and steel products to provide more integrated modules, services and advanced solutions for its customers. These actions are providing the framework for more decades of growth and prosperity.*

## *Our objectives*

- Build a company culture that emphasizes both team and individual performance and stresses continuous improvement.
- Attract and retain superior associates and provide the opportunity for full development of their skills and abilities in an environment of open communications, mutual trust and respect.
- Achieve customer satisfaction by offering higher value products and services than our competitors.
- Provide our shareholders with a superior total annual return on their investment.
- Maintain excellence through investment in technology and timely application of results.



## Timken perspective

A leader across the globe in providing customers with engineering solutions, The Timken Company provides more than 30,000 different inch- and metric-based anti-friction bearings, high-quality alloy steels and seamless mechanical steel tubing to major industries. We also are providing an expanding range of related services.

Timken produces the industry's broadest selection of tapered roller bearings. Timken® bearings and components are completely interchangeable and consistent in quality – a standard we maintain throughout our worldwide operations. We also provide and service ball, cylindrical and spherical bearings for select markets. Timken products range from those weighing half an ounce to bearings weighing nine tons and large enough for a person to stand inside.

Increasingly, we are sharpening our focus on customer needs, which can be seen several ways. We've expanded the breadth of our bearing services to include both repair and refurbishment. We've also expanded our industrial services. Our expertise with steel rolling mills and bearing performance enables us to provide total on-site management of a mill's roll shop and associated chock and bearing maintenance.

We are working earlier and more closely with our customers from the design phase as they look for value partners rather than multiple suppliers. We continue to



*Timken recently used one of its differentiated products in DaimlerChrysler's 2002 Chrysler PT Cruiser. In just three weeks, a team of Timken associates developed a custom wheel bearing prototype to fit into the existing front wheel casings. A specially designed Timken® UNIPAC™ bearing (left) was created for the vehicle.*

advance our state-of-the-art sensorized bearings into more complex modules. For example, we have developed bearing assemblies that add value for auto manufacturers by reducing assembly costs and enhancing vehicle performance through improved braking and reduced weight.

Timken steel businesses have more than 1.6 million tons in annual melt capacity. We are the world's largest producer of seamless mechanical steel tubing. Our tubing is manufactured from carbon, microalloy and alloy steel billets that are air melted or vacuum arc remelted. Timken also produces medium and large carbon, microalloy and alloy steel bars. For specialty steel applications, we supply air melted, vacuum melted or vacuum arc remelted billets and bars. These are produced in a wide variety of high-speed, tool, die and specialty alloy materials.

Closer alignment of our research and customer engineering functions is strengthening our ability to support creative customer solutions in all of our businesses. Over the last five years, our global network of specialists has produced more than 4,400 prototypes.

With the unfolding of a new century, Timken accelerated its transformation to a global enterprise. Organizationally, it created eight global businesses to broaden its market reach, resulting in greater ability to work even more closely with customers.

Timken is becoming a leaner organization and more adaptive. You can see this as we accelerate rationalizing operations. One example: we teamed with another bearing producer to machine components for tapered roller bearings. This joint venture reduces our asset intensity and makes greater use of available capacity.

### Globally focused business segments

Timken serves a broad range of industries through three major business segments: Automotive Bearings serves the passenger car, light and heavy truck and trailer markets; Industrial Bearings serves the industrial, rail, aerospace and super precision markets as well as emerging markets; Steel serves all major industries with alloy and specialty steel products and provides precision steel components.

#### AUTOMOTIVE

##### *Automotive Applications*

Our global Automotive business unit provides original equipment and replacement bearings and related products to automotive markets worldwide. These serve the light, medium and heavy-duty truck, passenger car, motorcycle,



*Timken Romania produced its first Timken® spherical bearing in 2001. Plant manager Rory Lubic (left) talks with operator Stoica Viorel about the bearing's application in coal-crushing equipment for use in Asia.*

racing and recreational vehicle segments. Timken specializes in designing innovative solutions, focused around but not limited to tapered roller bearings, for our customers' products. Increasingly, the business is providing integrated modules. These are aimed at improving system performance, reducing weight and noise levels and reducing assembly costs. Applications include axles, front and rear wheels, transmissions, transaxles and continuously variable transmissions.

## INDUSTRIAL

### *Industrial Applications*

Our global Industrial business unit provides original equipment and replacement bearings and bearing refurbishment for a broad range of industries. These include construction, agriculture, mining, oil and gas, power generation, rolling mills, pulp and paper and printing. Bearing applications include transmissions, wheels, axles, crankshafts and hydraulic cylinders for excavators, crawler dozers, backhoes, combines and tractors; large mine trucks; mining equipment; turbines and generator wheels; high-speed printing presses; windmills; machine tools; rolling mills; pulp and paper mills and gear drives. In addition, this business unit provides roll shop management services for rolling mills.

### *Rail Applications*

Our global Rail business unit provides original equipment and replacement bearings for wheels, drive trains, and motor suspension units in rail transit and passenger cars, freight cars and locomotives. It also

remanufactures bearings and housings and provides friction management systems.

### *Aerospace & Super Precision Applications*

Our Aerospace & Super Precision business unit offers original equipment and replacement bearings and bearing refurbishment for commercial and military aircraft, helicopters, missiles, satellites, space shuttles and ground-based and marine turbines. Bearing applications include engines, gear boxes, transmissions, auxiliary power units, landing wheels, instrumentation, fuel control and satellite mechanisms.

It also provides original equipment and replacement bearings and repair services for specialty markets, including semiconductor manufacturing. Bearing applications include semi-conductor robotic equipment and medical equipment. Our dental business unit provides bearings and other parts for dental handpieces as well as handpiece repair products and services.

### *Emerging Markets Applications*

Our Emerging Markets business unit provides original equipment and replacement bearings and bearing repair and maintenance services for a broad range of industries in emerging markets. These include automotive, industrial and rail markets in China, India, central Europe and Russia.

## STEEL

### *Alloy Steel Applications*

Our Alloy Steel business unit provides high-quality alloy steels and seamless mechanical steel tubing for a broad range of industries. We supply steel directly to many customers served by our other global business units, and we are the world's largest producer of seamless mechanical steel tubing.

### *Precision Steel Components Applications*

Our Precision Steel Components business unit directly supplies automotive and industrial customers with semifinished and finished parts for power-transfer drivetrain applications. These include internal ring gears, sun gears, races and CV joint cages. This business unit also provides semifinished parts for use by Timken and other finished component suppliers.

### *Specialty Steel Applications*

Our Timken Latrobe subsidiary is the North American leader in vacuum remelted steel and high-speed and tool steels, producing and distributing more than 300 specialty grades. It also offers specialized products and services for tool steels, including precision grinding, heat treating and custom cutting.

## corporate statistics

**Markets Served:** virtually every major industry including aerospace, agricultural, automotive, construction, drilling, industrial, machine tool, mining and rail.

### R&D Organization

- Technology centers located in Canton, Ohio; Colmar, France; and Bangalore, India
- Developing a customer engineering center for industrial applications in Ploiesti, Romania
- \$54 million invested in research in 2001

### Quality

- Awards: In 2001, customers granted the company more than 270 quality awards.
- As of 2001, 25 plants were covered by ISO 9000 registrations and 13 had achieved QS 9000 registration.

### Environmental

- As of 2001, four plants were ISO 14001 certified.

### Financial Information

- Sales in 2001: \$2.4 billion
- Results in 2001:
  - Net loss of \$5.6 million, excluding restructuring, reorganization and implementation charges
  - Net loss of \$41.7 million, including restructuring, reorganization and implementation charges
- Paid 318th consecutive quarterly dividend
- Total return to shareholders in 2001: 11.5% (vs. S&P 500 index total return of -11.9%)
- Listed on the New York Stock Exchange since 1922



*Timken continued to improve steel tube manufacturing in 2001 with the application of laser ultrasonic technology that measures the wall thickness of tubing as it is produced. Timken led the development of this unique measurement system – which saves material, time and energy usage – in a program with the U.S. Department of Energy.*

### Our Associates

- Total employed worldwide: 18,700
- Percentage owning stock in our company: 89%
- Outstanding shares of Timken stock owned by associates: 20%

### Facilities

50 plants and more than 100 sales, design and distribution centers in 24 countries on 6 continents

### Hiring Data

- Approximately 50% of the company's recruits hold engineering degrees in mechanical, electrical, materials science, industrial, metallurgical, manufacturing and other specialties.
- In 2001, the company also recruited from the fields of accounting, business, communications, computer science, computer technology, engineering technology, finance, management information systems, marketing, math, organizational development, physics and psychology.

### Continuous Improvement in 2001

We integrated the best of Lean Manufacturing and Six Sigma programs into one unified program called Lean Six Sigma. These programs complement each other to provide a strong total process improvement program and the metrics to compare different parts of the company consistently. This is a natural evolution of our ongoing Continuous Improvement initiative.

- Six Sigma is very analytical, applying statistical tools to minimize process variation.
- Lean Manufacturing uses tools such as setup reduction to eliminate waste and inefficiency.

### Years of experience in manufacturing

- Bearings: 102
- Steel: 85

### Internet Addresses

- Corporate  
[www.timken.com](http://www.timken.com)
- E-commerce
  - Bearings and steel –  
[www.timkendirect.com](http://www.timkendirect.com)  
[www.ptplace.com](http://www.ptplace.com)  
[www.endorsia.com](http://www.endorsia.com)
  - Dental parts and services –  
[www.handpieceheadquarters.com](http://www.handpieceheadquarters.com)
- Joint Ventures  
[www.colinx.com](http://www.colinx.com)  
[www.frictionmanagement.com](http://www.frictionmanagement.com)

## Directors, Officers & International Advisors

### Directors

**Stanley C. Gault**, 76, 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**, 48, Director since 1999  
President and Chief Operating Officer  
The Timken Company

**J. Clayburn La Force, Jr.**, 73, 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.**, 53, Director since 1999 (C)  
President and Chief Executive Officer  
MeadWestvaco (New York, New York)

**Robert W. Mahoney**, 65, Director since 1992 (C)  
Retired Chairman  
Diebold, Incorporated (Canton, Ohio)

**Jay A. Precourt**, 64, Director since 1996 (A)  
Chairman and Chief Executive Officer  
ScissorTail Energy (Vail, Colorado)

**John M. Timken, Jr.**, 50, Director since 1986 (A)  
Private Investor (Old Saybrook, Connecticut)

**W. R. Timken, Jr.**, 63, Director since 1965  
Chairman and Chief Executive Officer  
The Timken Company

**Ward J. Timken**, 59, Director since 1971  
Vice President  
The Timken Company

**Joseph F. Toot, Jr.**, 66, Director since 1968  
Retired President and Chief Executive Officer  
The Timken Company

**Martin D. Walker**, 69, Director since 1995 (C)  
Principal  
MORWAL Investments (Westlake, Ohio)

**Jacqueline F. Woods**, 54, Director since 2000 (A)  
Retired President  
Ameritech Ohio (Cleveland, Ohio)

(A) Member of Audit Committee

(C) Member of Compensation Committee

### International Advisors

**Dr. Carl H. Hahn**  
Wolfsburg, Germany

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

**Madame Marie-France Garaud**  
Paris, France

### Officers

**Curt J. Andersson**, 40, 1 year of service  
Senior Vice President – e-Business and Lean Six Sigma  
Officer since 2000

**Michael C. Arnold**, 45, 22 years of service  
President – Industrial  
Officer since 2000

**Sallie B. Bailey**, 42, 6 years of service  
Corporate Controller  
Officer since 1999

**Bill J. Bowling**, 60, 36 years of service  
Executive Vice President, Chief Operating Officer  
and President – Steel  
Officer since 1996

**William R. Burkhart**, 36, 7 years of service  
Senior Vice President and General Counsel  
Officer since 2000

**Vinod K. Dasari**, 35, 9 years of service  
Corporate Vice President – Manufacturing Transformation  
Officer since 2000

**Donna J. Demerling**, 51, 29 years of service  
President – Aerospace and Super Precision  
Officer since 2000

**Glenn A. Eisenberg**, 40  
Executive Vice President – Finance and Administration  
Officer since 2002

**Jon T. Elsasser**, 49, 23 years of service  
Senior Vice President – Corporate Development  
Officer since 1996

**James W. Griffith**, 48, 17 years of service  
President and Chief Operating Officer  
Officer since 1996

**Karl P. Kimmerling**, 44, 22 years of service  
President – Automotive  
Officer since 1998

**Gene E. Little**, 58, 34 years of service (retiring mid-2002)  
Senior Vice President – Finance  
Officer since 1990

**Salvatore J. Miraglia, Jr.**, 51, 29 years of service  
Senior Vice President – Technology  
Officer since 1996

**Hans J. Sack**, 47, 12 years of service  
President – Specialty Steel  
Officer since 1998

**Mark J. Samolczyk**, 46, 20 years of service  
President – Precision Steel Components  
Officer since 2000

**Scott A. Scherff**, 47, 22 years of service  
Corporate Secretary and Assistant General Counsel  
Officer since 1999

**W. R. Timken, Jr.**, 63, 39 years of service  
Chairman and Chief Executive Officer  
Officer since 1968

**Ward J. Timken**, 59, 33 years of service  
Vice President  
Officer since 1992

**Ward J. Timken, Jr.**, 34, 9 years of service  
Corporate Vice President – Office of the Chairman  
Officer since 2000

## 2001 year in review

For The Timken Company, 2001 proved to be one of its most challenging years ever with the continuing U.S. economic recession and slowing global economy. As a result, there was a 7.4% drop in sales for the year, which impacted operating profits and contributed to a net loss in 2001. In 2001, net sales were \$2.447 billion, compared to \$2.643 billion in 2000.

That there was much good news is a tribute to the progress achieved by Timken associates under the transformation that we began two years ago. The transformation is creating a stronger company – one that has as priorities generating profitable growth, expanding our global reach, increasing customer centricity, speeding innovation and reducing our cost structure. This is the largest and most sweeping initiative in the company's history and involves profound changes in our manufacturing operations.

A major building block is the new manufacturing strategy that we launched early in 2001. Cornerstones include creating focused factories – each plant making a limited number of product lines that best match its capabilities – and increasing our production at our lowest-cost facilities. Not surprisingly, low cost capabilities exist in virtually every country where we manufacture, including the U.S.

One of the biggest changes created by the manufacturing strategy is in the conversion of raw material used by the company's high-volume bearing operations. These operations are starting to produce bearing cups and cones from forged components, instead of tubing. Because forged components are closer to the shape and size of the final product, this change offers materials savings and reduced machining requirements that will increase the speed and efficiency of bearing manufacturing. Also, procuring forgings and machined parts reduces the need for significant capital investments to upgrade basic machining processes. These tactics set the foundation for continuing operational improvements.

Integral to our transformation strategies are the Lean Manufacturing and Six Sigma programs. We've integrated the best of both into one cohesive effort called Lean Six Sigma, which is a natural evolution of our continuous improvement efforts. Leveraging the best of both programs gives our associates a richer set of tools for solving business problems, both in manufacturing and administration. Together, they provide a common approach to problem-solving and the metrics to compare different areas of the company consistently.

Teaming up with other companies enables us to create additional value for our customers by providing products, services and advanced solutions that otherwise would be too capital intensive for us on our own. In the below table are some examples.

Our transformation continues to be demanding on all our associates. However, it is clear that their actions – moving aggressively to reduce costs and generate or conserve cash – have kept our transformation on track. Our number one priority remains growing The Timken Company profitably. All the actions we have been taking – and will continue to take – are aimed at achieving that priority.

### 2001 Transformation Milestones

Following are new initiatives, acquisitions, joint ventures and affiliations that are helping to strengthen core businesses and promote growth in new areas:

- **Yantai Timken Company** – became wholly owned by Timken, which is accelerating technology transfer and growth of operations in China.
- **International Components Supply, Ltd.** – joint venture in Brazil with another bearing manufacturer that lowers supply costs of forged and turned steel rings for bearing production.
- **CoLinx and Endorsia** – e-business joint ventures with other industrial companies in the U.S. and Europe that are expanding on-line sales and services to industrial distributors.
- **Score International and Renova** – acquisitions that expand the dental handpiece repair business.
- **Bardella Timken Industrial Services** – joint venture that extends industrial repair and engineering services to rolling mills in Brazil.
- **Manufacturing Restructuring** – global initiative to reduce Timken's manufacturing asset base and attain an annual savings rate of \$100 million by 2004.
- **Axicon Technologies Venture** – strategic alliance with a gear-design specialist to develop advanced gearing products.
- **Permatex Affiliation** – distribution agreement for Southeast Asia, Australia and New Zealand that adds automotive care and maintenance products to Timken product range.
- **Toyota Satisfaction Team** – agreement with a Japanese bearing manufacturer to provide global supplies of tapered roller bearings to Toyota.
- **Timken Precision Components – Europe** – acquisition of Bamarec, S.A., in France has provided a European base for precision steel components.

## Offices and Plants

Corporate Offices  
1835 Dueber Ave., SW  
Canton, Ohio 44706-2798  
U.S.A.

Telephone: 330-438-3000

### Offices

*Argentina*  
Buenos Aires

*Australia*  
Ballarat  
Brisbane  
Melbourne  
Perth  
Sydney

*Brazil*  
São Paulo

*Canada*  
St. Thomas  
Toronto

*China*  
Beijing  
Hong Kong  
Shanghai  
Yantai

*England*  
Duston  
Leicester  
Northampton  
Pontefract  
Sheffield  
Wolverhampton

*France*  
Bourron Marlotte  
Colmar  
Paris  
Strasbourg

*Germany*  
Gemunden  
Haan  
Hannover  
Stuttgart

*Hungary*  
Budapest

*India*  
Bangalore  
Bombay  
Calcutta  
Jamshedpur  
New Delhi  
Pune

*Italy*  
Cogozzo  
Milan

*Japan*  
Yokohama

*Korea*  
Seoul

*Mexico*  
Mexico City

*Netherlands*  
Medemblik

*Poland*  
Sosnowiec

*Romania*  
Ploiesti

*Russia*  
Moscow

*Singapore*  
Singapore

*South Africa*  
Benoni South

*Spain*  
Madrid

*Turkey*  
Istanbul

*United States*  
Atlanta, GA  
Boca Raton, FL  
Charlotte, NC  
Chicago, IL  
Cincinnati, OH  
Cleveland, OH  
Dallas, TX  
Detroit, MI  
Houston, TX  
Kansas City, KS  
Keene, NH  
Knoxville, TN  
Latrobe, PA  
Lebanon, NH  
Marlborough, MA  
Milwaukee, WI  
Moline, IL  
Orange, CA  
Peoria, IL  
Philadelphia, PA  
Pittsburgh, PA  
Sanford, FL  
Seattle, WA  
Wauseon, OH  
Youngstown, OH

*Venezuela*  
Caracas

### Plants

*Brazil*  
São Paulo

*Canada*  
St. Thomas

*China*  
Yantai

*England*  
Leicester  
Northampton  
Wolverhampton

*France*  
Colmar  
Fougères  
Marnaz

*India*  
Jamshedpur

*Italy*  
Cogozzo

*Mexico*  
Mexico City

*Netherlands*  
Medemblik

*Poland*  
Sosnowiec

*Romania*  
Ploiesti

*Singapore*  
Singapore

*South Africa*  
Benoni South

*United States*  
Altavista, VA  
Asheboro, NC  
Ashland, OH  
Bucyrus, OH  
Canton, OH (6)  
Carlyle, IL  
Columbus, NC  
Eaton, OH  
Franklin, PA  
Gaffney, SC  
Keene, NH (2)  
Knoxville, TN  
Latrobe, PA (2)  
Lebanon, NH (2)

Lenexa, KS  
Lincolnton, NC  
New Philadelphia, OH

Ogden, UT (2)  
Orange, CA  
Sanford, FL  
South Bend, IN  
Wauseon, OH  
Winchester, KY  
Wooster, OH  
Youngstown, OH

*Joint Ventures*  
Bardella Timken International  
Services  
São Paulo, Brazil

CoLinX, LLC  
Greenville, SC U.S.A.

Endorsia.com International AB  
Gothenburg, Sweden

Friction Management  
Services, LLC  
West Chicago, IL U.S.A.

International Components  
Supply, Limitada  
São Paulo, Brazil

### Key Contacts

*Media Relations*  
Michael L. Johnson  
Vice President -  
Communications  
330-471-3910  
330-499-3223 (home)

*Media Relations*  
Denise L. Bowler  
Manager - Communications  
Planning & Integration  
330-471-3485  
330-666-6554 (home)

*Investor Relations*  
Richard J. Mertes  
Manager - Investor Relations  
330-471-3924

*Employment Opportunities*  
Debra J. Rankine  
Manager - Corporate Human  
Relations  
330-471-3933

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# TIMKEN

WORLDWIDE LEADER IN BEARINGS AND STEEL

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