TimkenSteel

ANNUAL REPORT

20/15

From every angle – that's how we approach a challenge. Our solutions aren't just cast in some of the world's most advanced steelmaking equipment. They're inspired at the customer worksite. Cultivated around a whiteboard. Modeled in sophisticated systems.

Our ability to create and execute customized products and services delivers unique value to our customers. We see the impossibly harsh conditions of the ocean floor as an opportunity to create our most durable steel yet. We view the need to reduce the weight of vehicles as a chance to develop lighter, more power-dense steels. We see the ever-changing landscape of the industries we serve as an opportunity to become even more efficient in everything we do.

We are problem solvers, working from every angle, every one of us. And every day, our work redefines what's possible.

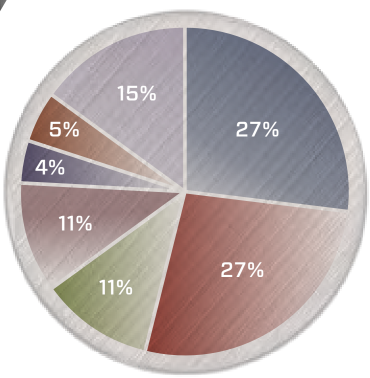
Depth and breadth in specialty steel

TimkenSteel is the leading manufacturer of SBQ steel large bars and seamless mechanical tubing in North America. We melt approximately 2 million tons of steel a year into new steel bars and tubes, almost all of which comes from recycled material such as scrap automobiles and appliances. We make:

- More than 500 grades of steel
- 400,000 bar configurations, more for tubes
- More than 10,000 customer specifications
- 30-ton average order size

That means we are 100 percent made-to-order, delivered with industry-leading customer service.

ON THE COVER:
Steel testing in an ultrasonic test bath in our special bar quality technology center.



2015 original equipment sales split by end market

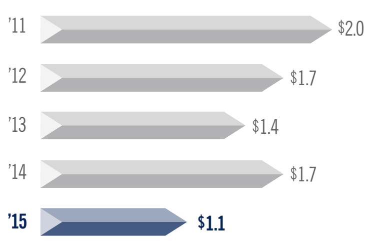
- Passenger Car
- Light Truck
- Oil and Gas
- Machinery
- Industrial
- Rail
- Other

Financial Summary

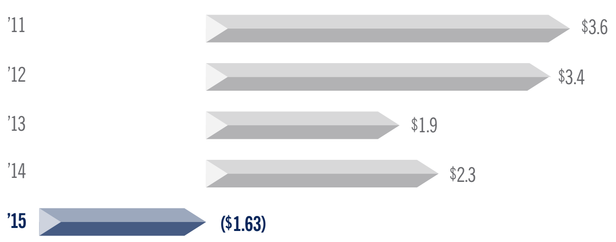
2014		2015	
Net Sales	$1,674.2	Net Sales	**$1,106.2**
Net Income	$104.4	Net Income	**($72.4)**
Earnings Per Share	$2.27	Earnings Per Share	**($1.63)**
Dividends Per Share	$0.28	Dividends Per Share	**$0.42**

DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA

Net Sales ($ BILLIONS)



Earnings Per Share (DILUTED)



See "Note 9 - Earnings Per Share" in the Notes to Consolidated Financial Statements.

DEAR FELLOW SHAREHOLDERS:

Our first calendar year of operation as an independent company was full of accomplishments – and many challenges. I am proud to say the business model we've honed over decades and the corporate infrastructure we have built as a stand-alone company made all the difference as we navigated the twists and turns of 2015.

Since the founding of this steel business in 1917, we've operated with long-term shareholder value as the focus. A century of experience also means we've weathered 100 years of economic cycles. Throughout 2015 and even now, we continue to take action to respond to market dynamics. At the same time, we continue to invest in the business to position it for future success.

Improving our customers' performance

Innovation is the lifeblood of TimkenSteel. Thirty percent of our sales come through new products that deliver real value to customers through tailored solutions to their toughest challenges. From lighter transmission components and longer-life gears to steels that lower machining costs and endure harsh environments, our business model is built to deliver customized solutions that improve customers' performance. Innovation drives every step of our operation as every employee – including sales engineers, research scientists and operators – applies a vast body of knowledge to the challenge at hand. We further fueled that spirit when, in June 2015, we opened the only focused SBQ steel technology center in the United States.

We also completed a multi-year $500 million capital investment strategy that has strengthened our large bar capabilities, a product line in which we lead the industry. The centerpiece of the investment plan is the largest jumbo bloom vertical caster in North America, which started up in late 2014. Throughout 2015, we ramped up caster production, exceeding our own high expectations for quality and quickly gaining customers' technical certifications. We continue to work with more and more customers to certify the operation for their products. Other new investments – including our in-line forge press and a new bar peeler – complement the caster by further improving our finished product and reducing costs in customers' operations. As we now return to more modest levels of capital spending, the results of this investment strategy enable us to operate even more efficiently and pursue new opportunities for the company.

Our efforts to capitalize on a strong automotive market also paid off this year with additional contracts from top-tier automotive manufacturers for ring and pinion gears machined at our Eaton, Ohio, components plant. Our ability to create more power-dense components delivers high-performing, lighter parts that reduce the weight of a transmission and improve its environmental efficiency.

Driving our performance

The year's biggest challenge was the prolonged weakness in energy and some industrial markets due to low oil prices and the influence of deteriorating global commodity markets. With rig count dropping to historic lows, demand dropped dramatically. We also faced customer inventory corrections in our industrial base after strong purchases during the first quarter left them overstocked. We have one of the lowest breakeven points in the industry at around 50 percent melt utilization, but the drop in our markets took melt down as low as 40 percent. We also faced headwinds from volatility in the scrap markets, the negative impact of currency and continuing pressure from imports. The economic cycle turned quickly and steeply and will likely recover slowly.

Our team of steel industry veterans recognized the issues and took a series of actions that will see us through this cycle and make us stronger as markets recover.

- First, we stayed close to our customers, collaborating to improve their product performance as imports pressured both our own sales and those of our customers.
- Second, we exercised the flexibility we have in assets and labor to quickly scale to demand. Throughout the year, our operations team adjusted crewing and moved production across assets to operate as efficiently as possible.

- Third, we refined our business structure, conserved cash and reduced costs by more than $75 million. The entire organization began to think more critically about how we spend our shareholders' money and took actions that realigned the business, reducing both staffing and spending. We've also taken out inventory much faster than in previous economic cycles without impacting our high level of customer service.

WE TOOK ACTIONS THAT WILL SEE US THROUGH THIS CYCLE AND MAKE US STRONGER AS MARKETS RECOVER.

Prudent capital allocation has been a priority. The board of directors suspended the company's cash dividend in the fourth quarter, with a commitment to restore this practice when business conditions improve.

We've also ensured continued access to credit both now and for the future. We completed an amendment and restatement of our revolving credit facility, giving us the ability to borrow up to $265 million through June 30, 2019, under an asset-based financing structure and borrowing covenants that are better-aligned with current business conditions. We have the flexibility to run the business in a way that will continue to improve our liquidity position and financial performance.

Our people have worked hard and made tough decisions to improve our financial performance, while further strengthening the core business model that delivers value to customers. With a lower cost structure and new, higher-performing assets, we'll be in an even stronger position to perform well when demand turns.

A team that's second to none

I want to extend my sincere appreciation to the employees of TimkenSteel for their unwavering dedication, innovative problem-solving and quick thinking throughout the year. Our success relies on their ability to identify customer problems, develop solutions and then execute flawlessly.

Our success also depends upon operating safely, which is our top priority. We have a safety record that is top-quartile in our industry, and we will continue to work together on sound safety practices to further improve in this critical area.

Congratulations to those who retired from TimkenSteel in 2015, including two members of my leadership team. Bob Keeler is an industry stalwart who led our automotive and industrial business, and Jim Gresh is a global strategy expert who helped stand up the new company.

Thanks also to the TimkenSteel board of directors who contributed wise counsel and strong support for all these efforts. Our three new members – Terry Dunlap, retired executive vice president of Allegheny Technologies Inc.; Randall Edwards, chief executive officer of Premier Pipe; and Ronald Rice, president and chief operating officer of RPM International – have further strengthened our board, and we value the industry expertise they bring.

Finally, thank you to all our shareholders for your confidence in TimkenSteel.

Tim Timken

CHAIRMAN,
CHIEF EXECUTIVE OFFICER
& PRESIDENT
FEBRUARY 18, 2016

Innovative thinking makes us tick

We're a different kind of steel company. We don't just make steel; we focus on special bar quality (SBQ) steel. We tailor every solution to customer needs. We create a new product or supply chain service a third of the time. We say, "Yes. It's possible." when others won't … that's why we're known for solving industry's toughest challenges.

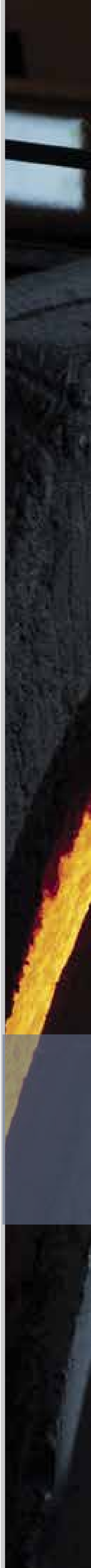
This innovative approach drives our business model. And this model is different because our customers' needs are unique in every way, from steel chemistries to order sizes.

We were born from a precision component manufacturer, so we understand that the smallest factor can make the largest impact for our customers. With a knowledge base of 100 years, we approach all opportunities with expertise and a never-ending spirit of innovation. TimkenSteel's people have a passion for the materials science that goes into our ultraclean steel. And we know how to apply that science to make our steel stand up to any environment.

Operational flexibility brings our innovations to reality. Our world-leading assets from melt to finish create unique opportunities to expand our scope across a diverse range of industries. And while demand was depressed in 2015, we've worked to hone the performance of those assets and reduce costs across the organization to maintain one of the lowest breakeven points in the industry and be well-prepared to capitalize on new opportunities.

WE CREATE A NEW PRODUCT OR SUPPLY CHAIN SERVICE A THIRD OF THE TIME. WE SAY, "YES. IT'S POSSIBLE." WHEN OTHERS WON'T ... THAT'S WHY WE'RE KNOWN FOR SOLVING INDUSTRY'S TOUGHEST CHALLENGES.

We love the hard stuff because we thrive on innovative thinking. And that's why our customers turn to us with their most difficult challenges.



OUR UNIQUE **BUSINESS MODEL**

PROBLEM-SOLVING CULTURE DELIVERS TAILORED SOLUTIONS

END-MARKET AND CUSTOMER FOCUS PRODUCES PROFITABLE GROWTH

DEMANDING APPLICATIONS REQUIRE OUR UNIQUE PRODUCT AND PROCESS CAPABILITIES

CONTINUOUS INNOVATION CREATES ONGOING OPPORTUNITY

Adaptability drives us beyond

Market conditions in 2015 required a concentration on using TimkenSteel's assets even more efficiently. That meant creating "sprint and rest" production schedules. The flexibility and productivity of our workforce ensured we could more efficiently match production periods with market demand.

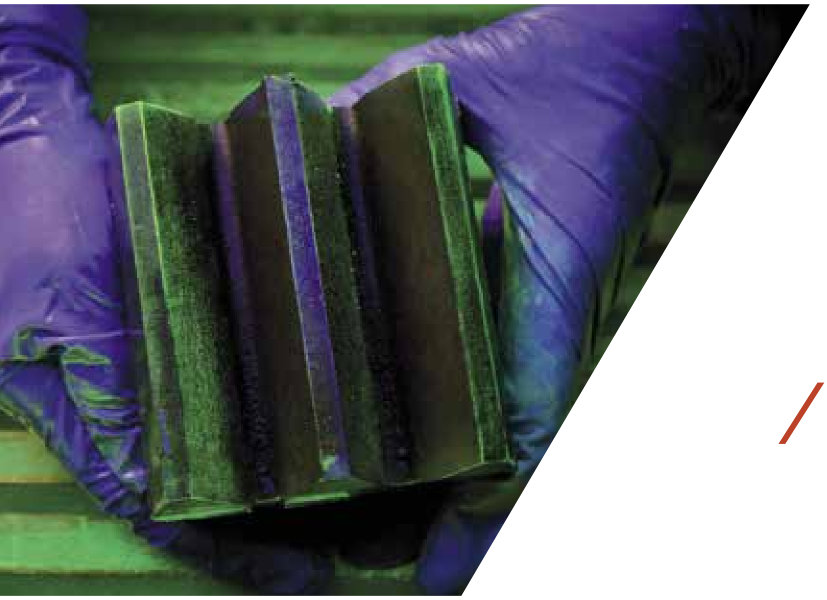
We further integrated our new jumbo bloom vertical caster into our product portfolio. To certify the caster to produce a wider range of products for demanding applications, we embarked on a complex analysis and modeling of each product we make to demonstrate the caster performance.

We're beginning to make steels on the caster for every market and every application in which we participate. With the caster's performance, we're going beyond our original intentions, both in maximum production size and in cleanness specifications.

THE FLEXIBILITY OF OUR ASSETS AND OUR PEOPLE DRIVES PRODUCTIVITY.

We've also added capabilities this year. A new large bar peeler creates surface finishes to customers' specifications, saving them time and money in their operations. New lines in our U.S. components operations are serving automotive expansion in Mexico and China.

Technology offers the ultimate edge



Our advanced modeling capabilities allow us to evaluate process changes in the lab before going to production. With our vacuum induction melting furnace, we can develop and test new alloys by processing 100 pounds of steel rather than 100 tons. This sample production is faster and more cost effective than a full-scale production run.

OUR ABILITY TO UNDERSTAND, MEASURE, REDUCE AND CONTROL INCLUSIONS CAN MEAN THE BIGGEST WINS IN TIME AND MONEY FOR OUR CUSTOMERS.

Superior product performance begins with clean steel. Impurities or inclusions as small as a fraction of the width of a hair can impact the performance and life of steel components. Our ability to understand, measure, reduce and control inclusions can mean the biggest wins in time and money for our customers.

The TimkenSteel Technology Center, located on our Canton, Ohio, campus, is the only one of its kind in North America. Opened during the second quarter of 2015, the 20,000-square-foot space features a highly advanced scanning electron microscope, an ultrasonic inspection laboratory, a physical process modeling lab and additional testing areas where metallurgists and materials scientists analyze steel. With the technology in this facility, we can achieve what our competitors cannot: a holistic view of steel cleanness.

In addition, the Technology Center provides forensic capabilities for damage analysis on customers' applications. Our understanding of steel, of the manufacturing environment and of the operation of precision components positions us to work with customers to improve their processes.

TimkenSteel's Technology Center is unique. We have the ability to collect the data and the expertise to know how to act on it. That gives our customers a competitive advantage.

Results benefit our customers

Providing strength *and* toughness: Achieving both high strength and high toughness in alloy steel can be challenging. Typically, increases in strength are offset by losses in toughness. Until now. Working with the United States military, we're helping to develop new grades of alloy steel that take strength and toughness to entirely new levels.

In a standard rocket sled test performed by the military, a projectile manufactured from TimkenSteel-produced special alloy steel was propelled – at very high velocity – toward a reinforced target. The results of that test were extremely successful, as the projectile traveled completely through the reinforced target.

Not only is this new special alloy steel stronger and tougher than the current projectile steel, it actually costs less to produce, saving the government money. We're adapting the same innovative approach to help other customers.

Gearing up for the challenge: As much as 25 percent of the steel we produced in 2015 was used in gear-related applications, and we have room to grow.

Clean steel is critical to gear life, and the TimkenSteel Certified Premium Air-melted steel (CPA steel) that goes into gears has dramatically lower inclusion concentrations than competitors.

TimkenSteel is winning new automotive platforms based on our value-added model.

We don't just look at the steel; we look at overall gear design, manufacturing processes and application environment, which means additional advancements in extending gear life. Our superior capabilities in supporting gear application advancements include failure analysis, advanced modeling, advanced product and process engineering and development labs.

The technology developed in our labs and executed on our plant floors comes to life in customer applications around the world. One customer who makes sophisticated power generation and transmission systems is experiencing this firsthand. They've tested gear sets made from our CPA steel on their simulation system, which exposes the gears to the harshest of service environment conditions. Those tests run 100 hours with intermittent disassembly and inspection. Based on historical results with competitor materials, those tests should result in multiple failures. All 10 of TimkenSteel's gear sets tested passed with no failures or signs of fatigue.

Re-entering business with renewed focus: Low-density polyethylene tubing is used to form plastic pellets that later go into industrial and food processing applications. The tubing must withstand extremely high pressures, and this type of demanding application is a perfect fit for TimkenSteel. We targeted this market for re-entry after developing a better, more profitable way to manufacture the highly engineered tubing it requires, which also results in superior performance from previous methods. In 2015, TimkenSteel signed a master supply agreement with A&A Machine & Fabrication to use our steel tubing and our materials science expertise to expand into this market. A&A is using forged-rolled ingots made in our operations in Ohio and bored, honed and rough-turned at our plant in Houston. This also represents supply chain integration, with TimkenSteel handling forge press, quench-and-temper and long-length machining of the material.

Our ability to "put it all together" and create profitable niches for our products offers us continued growth potential.

TIMKENSTEEL CONTINUES TO WORK CLOSELY WITH CUSTOMERS TO DEFINE WHERE WE CAN SUPPLY MORE VALUE TO MINIMIZE THEIR COSTS.

Making the basics better: Speaking of creating profitable niches, we've also created a unique opportunity from a basic industry standard steel known as 1026 carbon tubing. TimkenSteel experts found a way to adjust the chemistry of this very generic carbon tube with microalloy elements to make it perform like a higher-strength steel. Our version provides high strength, and it's catching on. This new grade has a variety of applications, from structural components to rolls to molds. It's used in hydraulic cylinders, mud pump liners and more. Its strengthening ability allows for using less material or increasing the load through the same material, which means lower cost. It's one way we're innovating around the basics.

Adding value to value-add: TimkenSteel is focused on growing our value-added components business. One industrial customer that makes equipment for the construction and mining industries sees the value in that proposition.

Without the manufacturing structure or process to support the production of machine tooling such as impact hammers for drilling, the customer typically sourced these tools from other suppliers. But that approach meant lost profits for that customer. To enhance its capabilities and its bottom line, that customer turned to TimkenSteel.

TimkenSteel now supplies materials including long-length and cut-to-length bar and tube components and green machining, allowing the customer to produce its own tooling. That, in turn, helps to minimize the customer's capital investment while realizing additional profit. This approach is resulting in increasing sales for us and savings for the customer.

TimkenSteel continues to work closely with customers to define where we can supply more value to minimize their costs.

EH&S: Always a No. 1 priority

First and foremost, we foster a safe and responsible working environment. In the last five years, we've had a 70 percent drop in lost-time accidents and a safety record that is top-quartile in the industry. But we know even one injury is one too many. Further improvement remains our No. 1 priority, with emphasis on risk assessment and accident prevention through risk remediation and training. Working within our safety standards is everyone's job and our people share continuous improvements across the company. In fact, we're working together on programs like the new Golden Glove Award, aimed at eliminating preventable finger, hand and wrist injuries. After implementing a 10-step program with plant managers and operators that ranged from new policies and glove styles to training and self-audits, employees developed and implemented 20 new safety ideas. The most innovative, the Golden Glove winner, is new maintenance tooling that enables rolling mill changes without an employee touching the heavy components.

That same innovation extends to our environmental efforts. We are an industry leader in our efforts to reduce carbon dioxide emissions, and our waste-to-landfill output is down 50 percent in the last five years. In fact, the Ohio Environmental Protection Agency recognized TimkenSteel with two awards in 2015 for our water treatment program, which cleans and recycles 7.8 billion gallons of water a year. Our environmental experts pioneered the use of aluminum chloride to treat the water, which annually reduces chemical usage by 90 percent and waste products by 2 million pounds. The new process also reduced costs for the company by $30,000 annually.

Outreach strengthens us all

The same spirit that has us engaged with customers to improve their performance carries over to our industry and our local communities.

We are active in trade and technical associations to keep manufacturing as clean, safe and efficient as possible and set the bar ever higher for the steel industry's ability to contribute to society. Our people are leaders across industry, and our commitment to a strong U.S manufacturing base is unwavering.

We also are active in every community where we operate. This past year, our employees set records with their generosity to United Way, the arts, Habitat for Humanity and other causes. We have thousands of talented employees who share their knowledge, experience and leadership with local schools and charities. Community engagement is so embedded in our culture that it's part of our orientation for every new employee.

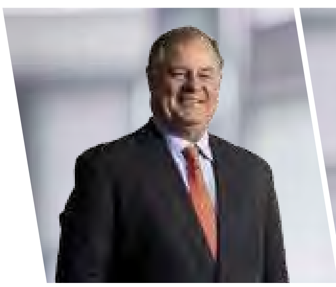
We believe community engagement is not only the right way to do business, it's good business. Strong communities and a strong industry make TimkenSteel a stronger company. That's good for all of our constituents, including our shareholders.

FROM EVERY ANGLE.
THAT'S THE TIMKENSTEEL WAY.

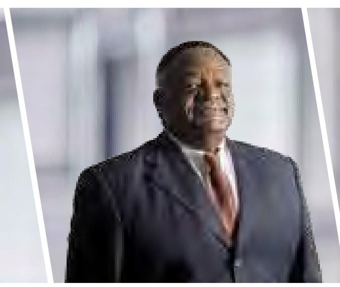
Board of directors

Ward J. "Tim" Timken, Jr.
Chairman,
Chief Executive Officer & President

John Reilly
Lead Independent Director
Retired Chairman, President & Chief Executive Officer, Figgie International



Joseph Carrabba
Retired Chairman, Chief Executive Officer & President, Cliffs Natural Resources



Phillip Cox
President & Chief Executive Officer, Cox Financial Corporation

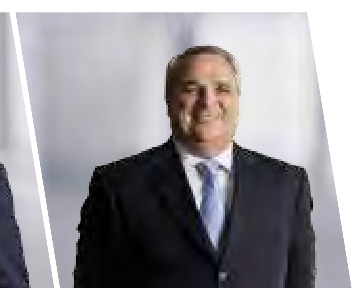
Diane Creel
Retired Chairman,
Chief Executive Officer & President, Ecovation

Terry Dunlap
Retired Executive Vice President, Allegheny Technologies Inc.

Randall Edwards
Chief Executive Officer, Premier Pipe

Donald Misheff
Retired Managing Partner, Northeast Ohio, Ernst & Young

Ronald Rice
President & Chief Operating Officer, RPM International



Randall Wotring
President, Management Services, AECOM Technology Corporation

Leadership

Ward J. "Tim" Timken, Jr.
Chairman,
Chief Executive Officer & President

Tina Beskid
Vice President, Corporate Controller
& Investor Relations

William Bryan
Executive Vice President of
Supply Chain & Information Technology

Frank DiPiero
Executive Vice President,
General Counsel & Secretary

Raymond Fryan
Vice President of Technology & Quality

Christopher Holding
Executive Vice President
& Chief Financial Officer

Thomas Moline
Executive Vice President of
Steel Manufacturing

Elaine Russell Reolfi
Vice President of Communications
& Community Relations

Shawn Seanor
Executive Vice President of Sales
& Business Development

Donald Walker
Executive Vice President of Human Resources
& Organizational Advancement

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from ________ to ________
Commission file number: 1-36313

TIMKENSTEEL CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	**46-4024951**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1835 Dueber Avenue SW, Canton, Ohio	**44706**
(Address of principal executive offices)	(Zip Code)

(330) 471-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates was $1,209,049,600 based on the closing sale price as reported on the New York Stock Exchange for that date.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at February 15, 2016
Common Shares, without par value	44,207,999 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the 2016 Annual Meeting of Shareholders	Part III

TIMKENSTEEL CORPORATION

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PART I.
ITEM 1. BUSINESS

OVERVIEW

TimkenSteel Corporation (we, us, our, the Company or TimkenSteel) was incorporated in Ohio on October 24, 2013, and became an independent, publicly traded company as the result of a spinoff (spinoff) from The Timken Company (Timken) on June 30, 2014. In the spinoff, Timken transferred to us all of the assets and generally all of the liabilities related to Timken's steel business.

TimkenSteel traces its roots back to The Timken Roller Bearing Company, which was founded in 1899 by carriage-maker/inventor Henry Timken and his two sons. By 1913, the company launched its first formal research facility, centered on improving the quality of the raw materials used to make its bearings. Early research demonstrated the superiority of bearing steel made in electric-arc furnaces (rather than existing Bessemer and open hearth processes), and that finding, coupled with a desire to ensure a dependable supply of premium steel in the years leading into World War I, led to the decision to competitively produce steel in-house. When The Timken Roller Bearing Company's Canton, Ohio steel plant became operational in 1917, it included one of the largest electric arc-furnace facilities in the country.

We manufacture alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately two million tons. Our portfolio includes special bar quality, or SBQ, bars, seamless mechanical tubing and precision steel components. In addition, we supply machining and thermal treatment services, as well as manage raw material recycling programs, which are used as a feeder system for our operations. We focus on research and development to devise solutions to our customers' toughest engineering challenges and then leverage those answers into new product offerings.

Based on our knowledge of the steel industry, we believe we are the only focused SBQ steel producer in North America and have the largest SBQ steel large bar (6-inch diameter and greater) production capacity among the North American steel producers. In addition, we are the only steel manufacturer with capabilities of developing SBQ steel large bars up to 16-inches in diameter. SBQ steel is made to restrictive chemical compositions and high internal purity levels and is used in critical mechanical applications. We make these products from nearly 100% recycled steel, using our expertise in raw materials to create custom steel products with a competitive cost structure similar to that of a high-volume producer. We focus on creating tailored products and services for our customers' most demanding applications. Our engineers are experts in both materials and applications, so we can work closely with each customer to deliver flexible solutions related to our products as well as to their applications and supply chains. We believe our unique operating model and production assets give us a competitive advantage in our industry.

Our recent capital investments are expected to significantly strengthen our position as a leader in providing differentiated solutions for the energy, industrial and automotive market sectors, while enhancing our operational performance and customer service capabilities. In October 2014, we cast our first heat on the world's largest jumbo bloom vertical caster. The new caster will improve yield by approximately 15%, increase annual finished ton capacity by up to 125,000 tons and expand our product range servicing the energy and industrial market sectors by providing large bar capabilities unique in the United States.

OPERATING SEGMENTS

We operate in and report financial results for two segments: 1) Industrial & Mobile and 2) Energy & Distribution. A significant portion of our production facilities services all of our end markets across both reportable segments. As a result, we allocate certain costs based on the segments' use of these shared resources. These segments represent the level at which we review our financial performance and make operating decisions. Segment earnings before interest and taxes (EBIT) is the measure of profit and loss that our Chief Operating Decision Maker (CODM) uses to evaluate the financial performance of our business and is the basis for resource allocation and performance reviews. For these reasons, we believe that segment EBIT represents the most relevant measure of segment profit and loss. We may exclude certain charges or gains, such as corporate charges and other special charges, from EBIT to arrive at a segment EBIT that is a more meaningful measure of profit and loss upon which to base our operating decisions. We define segment EBIT margin as segment EBIT as a percentage of segment net revenues.

Effective January 1, 2016, we realigned our reportable segments as a result of recent organizational changes made to better align resources to support our business strategy. As a result, we will conduct our business activities and report financial results in one business segment. We believe the presentation of financial results as one reportable segment is consistent with the way we operate our business under the realigned organization and is consistent with the manner in which our CODM evaluates performance and makes resource and operating decisions for the business.

Industrial & Mobile

Our Industrial & Mobile segment is a leading provider of high-quality air-melted alloy steel bars, tubes, precision components and value-added services. For the industrial market sector, we sell to original equipment (OE) manufacturers including agriculture, construction, machinery, military, mining, power generation and rail. For the mobile market sector, we sell to automotive customers, including light-vehicle, medium-truck and heavy-truck applications. Our products in this segment are in applications including engine, transmission and driveline components, large hydraulic system components, military ordnance, mining and construction drilling applications and other types of equipment.

Energy & Distribution

Our Energy & Distribution segment is a leading provider of high quality air-melted alloy steel bars, seamless tubes and value-added services such as thermal treatment and machining. The Energy & Distribution segment offers unique steel chemistries in various product configurations to improve our customers' performance in demanding drilling, completion and production activities. Application of our engineered material solutions can be found in both offshore and land-based drilling rig activities. Vertical and horizontal drilling and completion applications include high strength drill string components and specialized completion tools that enable hydraulic fracturing for shale gas and oil. Distribution channel activity also is conducted through this segment. Our distribution channel activity constitutes direct sales of steel bars and seamless mechanical tubes to our distributors. TimkenSteel authorized service centers enable us to collaborate with various independent service centers to deliver differentiated solutions for our end users.

INDUSTRY SEGMENTS AND GEOGRAPHICAL FINANCIAL INFORMATION

Information required by this Item is incorporated herein by reference to Note 11 – "Segment Information" in the Notes to the Consolidated Financial Statements.

STRENGTHS AND STRATEGY

We believe our business model is unique in our industry and focuses on creating tailored products and services for our customers' most demanding applications and supply chains. Our team, including degreed engineers and experienced manufacturing professionals in both materials and applications, work closely with each customer to deliver flexible solutions related to our products as well as their applications and supply chains. We believe few others can consistently deliver that kind of customization and responsiveness.

The TimkenSteel business model delivers these tailored solutions based on the following foundation:

- Deep and experienced management and technical team.

- Close and trusted working relationship with customers across diverse end markets.

- Leadership position in niche markets with differentiated products.

- Track record of innovation that grows from a deep technical knowledge of steel materials, manufacturing processes and end-user applications. Our research and development efforts focus on creating the answers to our customer's toughest engineering challenges and then leveraging those answers into new product offerings. On average, 30% of our sales are based on new business from the last five years.

Recent capital investments are expected to significantly strengthen our leadership position while enhancing our operational performance and customer service.

MAJOR CUSTOMERS

We sell products and services that are used in a diverse range of demanding applications around the world. Our customers include companies in the following market sectors: oil & gas; automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation. Our customer base is diverse. In 2015, we did not have direct sales to any single customer that accounted for 10% or more of total sales.

PRODUCTS

We believe we produce some of the cleanest, highest performing alloy air-melted steels in the world for our customers' most demanding applications. Most of our steel is custom-engineered. We leverage our technical knowledge, development expertise and production and engineering capabilities across all of our products and end-markets to deliver high-performance products to our customers.

SBQ Steel and Seamless Mechanical Steel Tubing. Our focus is on alloy steel, although in total we manufacture more than 450 grades of high-performance carbon, micro-alloy and alloy steel, sold as ingots, bars and tubes. These products are custom-made in a variety of chemistries, lengths and finishes. Our metallurgical expertise and what we believe to be unique operational capabilities drive high-value solutions for industrial, energy and mobile customers. Our specialty steels are featured in a wide variety of end products including: oil country drill pipe; bits and collars; gears; hubs; axles; crankshafts and connecting rods; bearing races and rolling elements; bushings; fuel injectors; wind energy shafts; anti-friction bearings; and other demanding applications where mechanical power transmission is critical to the end-customer.

Value-added Precision Products and Services. In addition to our customized steels, we also custom-make precision components that provide us with the opportunity to further expand our market for bar and tubing products and capture additional sales by streamlining customer supply chains. These products provide customers, especially those in the automotive, energy and bearing industries, with ready-to-finish components that simplify vendor management, streamline supply chains and often cost less than other alternatives. We also customize products and services for the energy market sector. We offer well-boring and finishing products that, when combined with our wide range of high-quality alloy steel bars and tubes, can create a one-stop steel source for customers in the energy market sector. Our experts operate precision honing, pull-boring, skiving, outside diameter turning and milling equipment to deliver precision hole-finishing to meet exacting dimensional tolerances.

SALES AND DISTRIBUTION

Our products are sold by a sales force largely made up of engineers that are backed by a team of metallurgists and other technical experts. While most of our products are sold directly to OE manufacturers, a portion of our sales are made through authorized distributors and steel service centers. This portion of our business represented approximately 15% of net sales during 2015.

The majority of our customers are served through individually negotiated contracts that have one-year terms. A smaller percentage of our contracts extend for more than one year and contain prices fixed for a period extending beyond current shipments. Typically, these types of contracts include a commitment by the customer to purchase a designated percentage of its requirements from us. We do not believe that there is any significant loss of earnings risk associated with any given contract.

COMPETITION

The steel industry, both domestically and globally, is highly competitive and is expected to remain so. Maintaining high standards of product quality and reliability, while keeping production costs competitive, is essential to our ability to compete with domestic and foreign manufacturers of mechanical components and alloy steel. For bar products less than 6-inch in diameter, principal competitors include foreign-owned domestic producers Gerdau Special Steel North America (a unit of Brazilian steelmaker Gerdau, S.A) and Republic Steel (a unit of Mexican steel producer ICH). For bar products up to 9-inch in diameter, domestic producers Steel Dynamics, Inc. and Nucor Corporation are our principal competitors. For very large bars from 9 to 16 inches in diameter, offshore producers are the primary competitors as well as specialty forging companies in North America such as Scot Forge and Sorel Steel. For seamless tubing, offshore producers such as Tenaris, S.A. and Vallourec, S.A. are our primary competitors as well as the foreign-owned domestic producer ArcelorMittal Tubular Products (a unit of Luxembourg based ArcelorMittal, S.A.). We also provide unique value-added steel products and supply chain solutions to our customers in the industrial, energy and automotive sectors.

BACKLOG

The backlog of orders for our operations is estimated to have been $242.7 million at December 31, 2015 and $571.1 million at December 31, 2014.

Virtually our entire backlog at December 31, 2015 is scheduled for delivery in the succeeding 12 months. Actual shipments depend upon customers' ever-changing production schedules. During periods of shorter lead times, backlog may not be a meaningful indicator of future sales. Accordingly, we do not believe our backlog data and comparisons thereof, as of different dates, reliably indicate future sales or shipments.

RAW MATERIALS

The principal raw materials that we use to manufacture steel are recycled scrap metal, chrome, nickel, molybdenum oxide, vanadium and other alloy materials. Raw materials comprise a significant portion of the steelmaking cost structure and are subject to price and availability changes due to global demand fluctuations and local supply limitations. Proper selection and management of raw materials can have a significant impact on procurement cost, flexibility to supply changes, steelmaking energy costs and mill productivity. Because of our diverse order book and demanding steel requirements, we have developed differentiated expertise in this area and created a raw material management system that contributes to our competitive cost position and advantage.

In addition to accessing scrap and alloys through the open market, we have established a scrap return supply chain with many of our customers. We operate a scrap processing company for improved access, reliability and cost. Our raw material feeder system is designed to achieve high consistency, reliable chemistry and low variability from a number of our sources. We have extensive segregation points, chemistry monitoring, computerized modeling of variability and total systems optimization (inventory, operating practices, capacity impact, order book, procurement flexibility and strategy). Roughly 40% of our raw material sources are considered “highly controlled,” which gives us greater flexibility to substitute lower-cost scrap based on availability. Our raw material management process achieves competitive procurement at competitive costs. This part of our business solidly rests on a deep knowledge of the raw material supply industry and an extensive network of relationships that result in steady, reliable supply from our raw material sources.

RESEARCH

Our engineers analyze customer application challenges and develop new solutions to address them. With nearly a century of experience in materials science and steelmaking, we leverage our technical know-how to improve the performance of our customers’ products and supply chains.

We invest in technology that results in cleaner, stronger, and more easily processed materials. Our engineers drive technology advances in many market sectors, producing new and improved products that have demonstrated increased performance in high-stress conditions. Whether we need to develop new material specifications or help solve a customer processing challenge, our advanced material engineers are among the most knowledgeable in our industry.

This expertise extends to advanced process technology in which advanced material conversion, finishing, gaging and assembly enables high quality production of our products. With resources dedicated to studying, developing and implementing new manufacturing processes and technologies, we are able to support new product growth and create value for our customers.

Our research and development expenditures for the years ended December 31, 2015, 2014 and 2013 were $8.6 million, $8.5 million and $9.4 million, respectively.

ENVIRONMENTAL MATTERS

We continue our efforts to protect the environment and comply with environmental protection laws. Additionally, we have invested in pollution control equipment and updated plant operational practices. We are committed to implementing a documented environmental management system worldwide and to becoming certified under the ISO 14001 standard. As of December 31, 2015, all of our steel making and value-add plants have obtained ISO 14001 certification.

We believe we have established appropriate reserves to cover our environmental expenses. We have a well-established environmental compliance audit program for our domestic units. This program measures performance against applicable laws as well as against internal standards that have been established for all units. It is difficult to assess the possible effect of compliance with future requirements that differ from existing ones. As previously reported, we are unsure of the future financial impact to us that could result from the United States Environmental Protection Agency’s (EPA) final rules to tighten the National Ambient Air Quality Standards for fine particulate and ozone. In addition, we are unsure of the future financial impact to us that could result from the EPA instituting hourly ambient air quality standards for sulfur dioxide and nitrogen oxide. We are also unsure of the potential future financial impact to us that could result from possible future legislation regulating emissions of carbon dioxide or greenhouse gases.

We and certain of our subsidiaries located in the U.S. have been identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), or state laws similar to CERCLA, for investigation and remediation at certain off-site disposal or recycling facilities. In general, such claims for investigation and remediation also have been asserted against numerous other entities, which are believed to be financially solvent and are expected to substantially fulfill their proportionate share of any obligations.

From time to time, we may be a party to lawsuits, claims or other proceedings related to environmental matters and/or receive notices of potential violations of environmental laws and regulations from the EPA and similar state or local authorities. As of December 31, 2015 and 2014, we recorded reserves for such environmental matters of $1.3 million and $1.3 million, respectively, classified as other current liabilities on the Consolidated Balance Sheets. Accruals related to such environmental matters represent management's best estimate of the fees and costs associated with these matters. Although it is not possible to predict with certainty the outcome of such matters, management believes that their ultimate dispositions should not have a material adverse effect on our financial position, cash flows, or results of operations.

LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

PATENTS, TRADEMARKS AND LICENSES

We own a number of U.S. and foreign patents, trademarks, licenses, copyrights and trade secrets, as well as substantial know-how and technology relating to certain products and the processes for their production. While we regard these as important, we do not deem our business as a whole, or any segment, to be materially dependent upon any one item or group of items.

EMPLOYMENT

At December 31, 2015, we had approximately 2,600 employees. Approximately 58% of our employees are covered under one of two collective bargaining agreements that run through December 2016 and September 2017, respectively. The collective bargaining agreement that runs through December 2016 covers approximately 1% of our employees.

AVAILABLE INFORMATION

We use our Investor Relations website at http://investors.timkensteel.com, as a channel for routine distribution of important information, including news releases, analyst presentations and financial information. We post filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC), including our annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively; our proxy statements; and any amendments to those reports or statements. All such postings and filings are available on our website free of charge. In addition, our website allows investors and other interested persons to sign up to automatically receive e-mail alerts when we post news releases and financial information on our website. The SEC also maintains a web site, www.sec.gov, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report unless expressly noted.

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, financial condition and results of operations. The risks that are highlighted below are not the only ones we face. You should carefully consider each of the following risks and all of the other information contained in this Annual Report on Form 10-K. Some of these risks relate principally to our business and the industry in which we operate, while others relate principally to our debt, the securities markets in general, ownership of our common shares and our spinoff from Timken. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected.

RISKS RELATING TO OUR INDUSTRY AND OUR BUSINESS

Competition in the steel industry, together with potential global overcapacity, could result in significant pricing pressure for our products.
Competition within the steel industry, both domestically and worldwide, is intense and is expected to remain so. The steel industry has historically been characterized by periods of excess global capacity and supply. Excess global capacity and supply has, and could continue to, negatively affected domestic steel prices, which could adversely impact our results of operations and financial condition. High levels of steel imports into the United States could exacerbate the decrease in domestic steel prices.

Additionally, in some applications, steel competes with other materials. Increased use of materials in substitution for steel products could have a material adverse effect on prices and demand for our steel products.

Any change in the operation of our raw material surcharge mechanisms, a raw material market index or the availability or cost of raw materials and energy resources could materially affect our revenues and earnings.
We require substantial amounts of raw materials, including scrap metal and alloys and natural gas, to operate our business. Many of our customer contracts contain surcharge pricing provisions that are designed to enable us to recover raw material cost increases. The surcharges are generally tied to a market index for that specific raw material. Recently, many raw material market indices have reflected significant fluctuations. Any change in a raw material market index could materially affect our revenues. Any change in the relationship between the market indices and our underlying costs could materially affect our earnings. Any change in our projected year-end input costs could materially affect our last-in, first-out (LIFO) inventory valuation method and earnings.

Moreover, future disruptions in the supply of our raw materials could impair our ability to manufacture our products for our customers or require us to pay higher prices in order to obtain these raw materials from other sources, and could thereby affect our sales and profitability. Any increase in the prices for such raw materials could materially affect our costs and therefore our earnings.

We rely to a substantial extent on third parties to supply certain raw materials that are critical to the manufacture of our products. Purchase prices and availability of these critical raw materials are subject to volatility. At any given time we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, on acceptable price and other terms, or at all. If suppliers increase the price of critical raw materials, we may not have alternative sources of supply. In addition, to the extent we have quoted prices to customers and accepted customer orders for products prior to purchasing necessary raw materials, or have existing contracts, we may be unable to raise the price of products to cover all or part of the increased cost of the raw materials.

Our operating results depend in part on continued successful research, development and marketing of new and/ or improved products and services, and there can be no assurance that we will continue to successfully introduce new products and services.

The success of new and improved products and services depends on their initial and continued acceptance by our customers. Our business is affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. We may experience difficulties or delays in the research, development, production, or marketing of new products and services that may prevent us from recouping or realizing a return on the investments required to bring new products and services to market.

New technologies in the steel industry may: (a) improve cost competitiveness; (b) increase production capabilities; or (c) improve operational efficiency compared to our current production methods. However, we may not have sufficient capital to invest in such technologies or to make certain capital improvements, and may, from time to time, incur cost over-runs and difficulties adapting and fully integrating these technologies or capital improvements into our existing operations. We may also encounter control or production restrictions, or not realize the cost benefit from such capital intensive technology adaptations or capital improvements to our current production processes. Customers continue to demand stronger and lighter products, among other adaptations to traditional products. We may not be successful in meeting these technological challenges and there may be increased liability exposure connected with the supply of additional products and services or an adverse impact to our results of operations and profitability.

Our business is capital intensive, and if there are downturns in the industries we serve, we may be forced to significantly curtail or suspend operations with respect to those industries, which could result in our recording asset impairment charges or taking other measures that may adversely affect our results of operations and profitability.

Our business operations are capital intensive, and we devote a significant amount of capital to certain industries. If there are downturns in the industries we serve, we may be forced to significantly curtail or suspend our operations with respect to those industries, including laying-off employees, recording asset impairment charges and other measures. In addition, we may not realize the benefits or expected returns from announced plans, programs, initiatives and capital investments. Any of these events could adversely affect our results of operations and profitability.

We are dependent on our key customers.

As a result of our dependence on our key customers, we could experience a material adverse effect on our business, financial condition and results of operations if any of the following, among other things, were to occur: (a) a loss of any key customer, or a material amount of business from such key customer; (b) the insolvency or bankruptcy of any key customer; (c) a declining market in which customers reduce orders; or (d) a strike or work stoppage at a key customer facility, which could affect both its suppliers and customers. For the year ended December 31, 2015, sales to our 10 and 20 largest customers accounted for approximately 44% and 63% of our net sales, respectively.

Weakness in global economic conditions or in any of the industries or geographic regions in which we or our customers operate, as well as the cyclical nature of our customers' businesses generally or sustained uncertainty in financial markets, could adversely impact our revenues and profitability by reducing demand and margins.

Our results of operations may be materially affected by the conditions in the global economy generally and in global capital markets. There has been volatility in the capital markets and in the end markets and geographic regions in which we or our customers operate, which has negatively affected our revenues. Many of the markets in which our customers participate are also cyclical in nature and experience significant fluctuations in demand for our steel products based on economic conditions, consumer demand, raw material and energy costs, and government actions, and many of these factors are beyond our control. For example, as the price of crude oil and natural gas has decreased, we have experienced volatility in our Energy & Distribution segment because our customers in this segment are conducting less drilling and production activity. Declines in crude oil and natural gas prices could continue to have a negative impact on drilling, completion and production activities, and thus the need for our steel products. If sustained, such declines could lead to a material decrease in such activities, which could further harm our profitability, cash flow and financial condition.

A decline in consumer and business confidence and spending, together with severe reductions in the availability and increased cost of credit, as well as volatility in the capital and credit markets, could adversely affect the business and economic environment in which we operate and the profitability of our business. We also are exposed to risks associated with the creditworthiness of our suppliers and customers. If the availability of credit to fund or support the continuation and expansion of our customers' business operations is curtailed or if the cost of that credit is increased, the resulting inability of our customers or of their customers to either access credit or absorb the increased cost of that credit could adversely affect our business by reducing our sales or by increasing our exposure to losses from uncollectible customer accounts. These conditions and a disruption of the credit markets could also result in financial instability of some of our suppliers and customers. The consequences of such adverse effects could include the interruption of production at the facilities of our customers, the reduction, delay or cancellation of customer orders, delays or interruptions of the supply of raw materials we purchase, and bankruptcy of customers, suppliers or other creditors. Any of these events could adversely affect our profitability, cash flow and financial condition.

Our capital resources may not be adequate to provide for all of our cash requirements, and we are exposed to risks associated with financial, credit, capital and banking markets.
In the ordinary course of business, we will seek to access competitive financial, credit, capital and/or banking markets. Currently, we believe we have adequate capital available to meet our reasonably anticipated business needs based on our historic financial performance, as well as our expected financial position. However, if we need to obtain additional financing in the future, to the extent our access to competitive financial, credit, capital and/or banking markets was to be impaired, our operations, financial results and cash flows could be adversely impacted.

Product liability, warranty and product quality claims could adversely affect our operating results.
We produce high-performance carbon and alloy steel, sold as ingots, bars and tubes in a variety of chemistries, lengths and finishes designed for our customers' demanding applications. Failure of the materials that are included in our customers' applications could give rise to product liability or warranty claims. There can be no assurance that our insurance coverage will be adequate or continue to be available on terms acceptable to us. If we fail to meet a customer's specifications for its products, we may be subject to product quality costs and claims. A successful warranty or product liability claim against us could have a material adverse effect on our earnings.

The cost and availability of electricity and natural gas are also subject to volatile market conditions.
Steel producers like us consume large amounts of energy. We rely on third parties for the supply of energy resources we consume in our steelmaking activities. The prices for and availability of electricity, natural gas, oil and other energy resources are also subject to volatile market conditions, often affected by weather conditions as well as political and economic factors beyond our control. As large consumers of electricity and gas, we must have dependable delivery in order to operate. Accordingly, we are at risk in the event of an energy disruption. Prolonged black-outs or brown-outs or disruptions caused by natural disasters or by political considerations would substantially disrupt our production. Moreover, many of our finished steel products are delivered by truck. Unforeseen fluctuations in the price of fuel would also have a negative impact on our costs or on the costs of many

of our customers. In addition, changes in certain environmental laws and regulations, including those that may impose output limitations or higher costs associated with climate change or greenhouse gas emissions, could substantially increase the cost of manufacturing and raw materials, such as energy, to us and other U.S. steel producers.

We may incur restructuring and impairment charges that could materially affect our profitability.
Changes in business or economic conditions, or our business strategy, may result in actions that require us to incur restructuring or impairment charges in the future, which could have a material adverse effect on our earnings.

We are subject to extensive environmental, health and safety laws and regulations, which impose substantial costs and limitations on our operations, and environmental, health and safety compliance and liabilities may be more costly than we expect.
We are subject to extensive federal, state, local and foreign environmental, health and safety laws and regulations concerning matters such as worker health and safety, air emissions, wastewater discharges, hazardous material and solid and hazardous waste use, generation, handling, treatment and disposal and the investigation and remediation of contamination. We are subject to the risk of substantial liability and limitations on our operations due to such laws and regulations. The risks of substantial costs and liabilities related to compliance with these laws and regulations, which tend to become more stringent over time, are an inherent part of our business, and future conditions may develop, arise or be discovered that create substantial environmental compliance or remediation or other liabilities and costs.

Compliance with environmental, health and safety legislation and regulatory requirements may prove to be more limiting and costly than we anticipate. To date, we have committed significant expenditures in our efforts to achieve and maintain compliance with these requirements, and we expect that we will continue to make significant expenditures related to such compliance in the future. From time to time, we may be subject to legal proceedings brought by private parties or governmental authorities with respect to environmental matters, including matters involving alleged contamination, property damage or personal injury. New laws and regulations, including those which may relate to emissions of greenhouse gases, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business, financial condition or results of operations.

From both a medium- and long-term perspective, we are likely to see an increase in costs relating to our assets that emit relatively significant amounts of greenhouse gases as a result of new and existing legal and regulatory initiatives, such as any initiatives resulting from the Paris Agreement on climate change adopted in December 2015. These initiatives will be either voluntary or mandatory and may impact our operations directly or through our suppliers or customers. Until the timing, scope and extent of any future legal and regulatory initiatives become known, we cannot predict the effect on our business, financial condition or results of operations.

Unexpected equipment failures or other disruptions of our operations may increase our costs and reduce our sales and earnings due to production curtailments or shutdowns.
Interruptions in production capabilities would likely increase our production costs and reduce sales and earnings for the affected period. In addition to equipment failures, our facilities and information technology systems are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. Our manufacturing processes are dependent upon critical pieces of equipment for which there may be only limited or no production alternatives, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of

unanticipated failures. In the future, we may experience material plant shutdowns or periods of reduced production as a result of these types of equipment failures, which could cause us to lose or prevent us from taking advantage of various business opportunities or prevent us from responding to competitive pressures.

A significant portion of our manufacturing facilities are located in Stark County, Ohio, which increases the risk of a significant disruption to our business as a result of unforeseeable developments in this geographic area.
It is possible that we could experience prolonged periods of reduced production due to unforeseen catastrophic events occurring in or around our manufacturing facilities in Stark County, Ohio. As a result, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers, meet customer shipment deadlines or address other significant issues, any of which could have a material adverse effect on our business, financial condition or results of operations.

We may be subject to risks relating to our information technology systems.
We rely on information technology systems to process, transmit and store electronic information and manage and operate our business. A breach in security could expose us and our customers and suppliers to risks of misuse of confidential information, manipulation and destruction of data, production downtimes and operations disruptions, which in turn could adversely affect our reputation, competitive position, business or results of operations. While we have policies and procedures to prevent or limit the impact of systems failures, interruptions, and security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. Although we rely on commonly used security and processing systems to provide the security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from all potential compromises or breaches of security.

Work stoppages or similar difficulties could significantly disrupt our operations, reduce our revenues and materially affect our earnings.
A work stoppage at one or more of our facilities could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2015, approximately 58% of our employees were covered under one of two collective bargaining agreements that run through December 2016 and September 2017, respectively. Any failure to negotiate and conclude new collective bargaining agreements with the unions when the existing agreements expire could cause work interruptions or stoppages. Also, if one or more of our customers were to experience a work stoppage, that customer may halt or limit purchases of our products, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to a wide variety of domestic and foreign laws and regulations that could adversely affect our results of operations, cash flow or financial condition.
We are subject to a wide variety of domestic and foreign laws and regulations, and legal compliance risks, including securities laws, tax laws, employment and pension-related laws, competition laws, U.S. and foreign export and trading laws, and laws governing improper business practices. We are affected by new laws and regulations, and changes to existing laws and regulations, including interpretations by courts and regulators. With respect to tax laws, with the finalization of specific actions contained within the Organization for Economic Development and Cooperation's, or OECD, Base Erosion and Profit study, or the Actions, many OECD countries have acknowledged their intent to implement the Actions and update their local tax regulations. The extent (if any) to which countries in which we operate adopt and implement the Actions could affect our effective tax rate and our future results from non-U.S. operations.

Compliance with the laws and regulations described above or with other applicable foreign, federal, state, and local laws and regulations currently in effect or that may be adopted in the future could materially adversely affect our competitive position, operating results, financial condition and liquidity.

If we are unable to attract and retain key personnel, our business could be materially adversely affected.
Our business substantially depends on the continued service of key members of our management. The loss of the services of a significant number of members of our management could have a material adverse effect on our business. Modern steel-making uses specialized techniques and advanced equipment and requires experienced engineers and skilled laborers. Our future success will depend on our ability to attract and retain highly skilled personnel, such as engineers and experienced laborers, as well as finance, marketing and senior management professionals. Competition for these employees is intense, and we could experience difficulty from time to time in hiring and retaining the personnel necessary to support our business. If we do not succeed in retaining our current employees and attracting new high-quality employees, our business could be materially adversely affected.

We may not realize the improved operating results that we anticipate from past and future acquisitions and we may experience difficulties in integrating acquired businesses.
We may seek to grow, in part, through strategic acquisitions and joint ventures, which are intended to complement or expand our businesses. These acquisitions could involve challenges and risks. In the event that we do not successfully integrate these acquisitions into our existing operations so as to realize the expected return on our investment, our results of operations, cash flows or financial condition could be adversely affected.

Our ability to use our net operating loss and credit carryforwards to offset future taxable income may be subject to certain limitations.
As of December 31, 2015, we have loss carryforwards in the U.S. and various non-U.S. jurisdictions totaling $196.2 million having various expiration dates, as well as certain credit carryforwards. The majority of the non-U.S. loss carryforwards represent local country net operating losses for entities treated as branches of TimkenSteel under U.S. tax law. Tax benefits have been recorded for these losses in the U.S. In addition, we may accrue additional U.S. net operating loss carryforwards and credit carryforwards during 2016 and thereafter. Our ability to utilize our net operating loss and credit carryforwards is dependent upon our ability to generate taxable income in future periods and may be limited due to restrictions imposed on utilization of net operating loss and credit carryforwards under federal and state laws upon a change in stock ownership.

Section 382 and Section 383 of the Internal Revenue Code of 1986, as amended, provide an annual limitation on our ability to utilize our U.S. net operating loss and credit carryforwards against future U.S. taxable income in the event of a change in stock ownership that is beyond our control, as defined in the Code. Accordingly, any such occurrences could adversely impact our ability to offset future tax liabilities and, therefore, adversely affect our financial condition, net income and cash flow.

RISKS RELATED TO OUR DEBT

We may not be able to generate sufficient cash to service our debt and may be forced to take other actions to satisfy our obligations under our debt, which may not be successful.
Our ability to make scheduled payments on or to refinance our debt obligations and to fund planned capital expenditures and expansion efforts and any strategic alliances or acquisitions we may make in the future depends on our ability to generate cash in the future and our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our debt.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due. Further, we may need to refinance all or a portion of our debt on or before maturity, and we cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all.

Restrictive covenants in the agreements governing our other indebtedness will restrict our ability to operate our business, which may affect the market price of our common shares.
Our amended credit facility contains, and agreements governing indebtedness we may incur in the future may contain, covenants that restrict our ability to, among other things, incur additional debt, pay dividends, make investments, enter into transactions with affiliates, merge or consolidate with other entities or sell all or substantially all of our assets. A breach of any covenant could result in a default, which could allow the lenders to declare all amounts outstanding under the applicable debt immediately due and payable and which may affect the market price of our common shares. We may also be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under our indebtedness. Please refer to Note 6 – "Financing Arrangements" in the Notes to the Consolidated Financial Statements for more detail on the agreements governing the amended credit facility.

RISKS RELATED TO OUR COMMON SHARES

The price of our common shares may fluctuate significantly.
The market price of our common shares may fluctuate significantly in response to many factors, including:

- actual or anticipated changes in operating results or business prospects;
- changes in financial estimates by securities analysts;
- an inability to meet or exceed securities analysts' estimates or expectations;
- conditions or trends in our industry or sector;
- the performance of other companies in our industry or sector and related market valuations;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- general financial, economic or political instability;
- hedging or arbitrage trading activity in our common shares;
- changes in interest rates;
- capital commitments;
- additions or departures of key personnel; and
- future sales of our common shares or securities convertible into, or exchangeable or exercisable for, our common shares.

Many of the factors listed above are beyond our control. These factors may cause the market price of our common shares to decline, regardless of our financial condition, results of operations, business or prospects.

Provisions in our corporate documents and Ohio law could have the effect of delaying, deferring or preventing a change in control of us, even if that change may be considered beneficial by some of our shareholders, which could reduce the market price of our common shares.

The existence of some provisions of our articles of incorporation and regulations and Ohio law could have the effect of delaying, deferring or preventing a change in control of us that a shareholder may consider favorable. These provisions include:

- providing that our board of directors fixes the number of members of the board;
- providing for the division of our board of directors into three classes with staggered terms;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings; and
- authorizing the issuance of "blank check" preferred shares, which could be issued by our board of directors to increase the number of outstanding securities of ours with voting rights and thwart a takeover attempt.

As an Ohio corporation, we are subject to Chapter 1704 of the Ohio Revised Code, or Chapter 1704. Chapter 1704 prohibits certain corporations from engaging in a "chapter 1704 transaction" (described below) with an "interested shareholder" for a period of three years after the date of the transaction in which the person became an interested shareholder, unless, among other things, prior to the interested shareholder's share acquisition date, the directors of the corporation have approved the transaction or the purchase of shares on the share acquisition date.

After the three-year moratorium period, the corporation may not consummate a Chapter 1704 transaction unless, among other things, it is approved by the affirmative vote of the holders of at least two-thirds of the voting power in the election of directors and the holders of a majority of the voting shares, excluding all shares beneficially owned by an interested shareholder or an affiliate or associate of an interested shareholder, or the shareholders receive certain minimum consideration for their shares. A Chapter 1704 transaction includes certain mergers, sales of assets, consolidations, combinations and majority share acquisitions involving an interested shareholder. An interested shareholder is defined to include, with limited exceptions, any person who, together with affiliates and associates, is the beneficial owner of a sufficient number of shares of the corporation to entitle the person, directly or indirectly, alone or with others, to exercise or direct the exercise of 10% or more of the voting power in the election of directors after taking into account all of the person's beneficially owned shares that are not then outstanding.

We are also subject to Section 1701.831 of the Ohio Revised Code, or Section 1701.831, which requires the prior authorization of the shareholders of certain corporations in order for any person to acquire, either directly or indirectly, shares of that corporation that would entitle the acquiring person to exercise or direct the exercise of 20% or more of the voting power of that corporation in the election of directors or to exceed specified other percentages of voting power. The acquiring person may complete the proposed acquisition only if the acquisition is approved by the affirmative vote of the holders of at least a majority of the voting power of all shares entitled to vote in the election of directors represented at the meeting, excluding the voting power of all "interested shares." Interested shares include any shares held by the acquiring person and those held by officers and directors of the corporation.

We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay, defer or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders, which under certain circumstances could reduce the market price of our common shares.

We may issue preferred shares with terms that could dilute the voting power or reduce the value of our common shares.
Our articles of incorporation authorize us to issue, without the approval of our shareholders, one or more classes or series of preferred shares having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common shares respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred shares could dilute the voting power or reduce the value of our common shares. For example, we could grant holders of preferred shares the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred shares could affect the residual value of the common shares.

RISKS RELATING TO THE SPINOFF

Our historical consolidated financial information are not necessarily indicative of our future financial condition, results of operations or cash flows nor do they reflect what our financial condition, results of operations or cash flows would have been as an independent public company during the periods presented.
Some of the historical consolidated financial information included in this Annual Report on Form 10-K does not reflect what our financial condition, results of operations or cash flows would have been as an independent public company during the periods presented and is not necessarily indicative of our future financial condition, future results of operations or future cash flows. This is primarily a result of the following factors:

- these historical consolidated financial results reflect allocations of expenses for services historically provided by Timken, and those allocations may be significantly lower than the comparable expenses we would have incurred as an independent company;

- our working capital requirements and capital expenditures historically were satisfied as part of Timken's corporate-wide capital allocation and cash management programs; as a result, our debt structure and cost of debt and other capital may be significantly different from that reflected in our historical consolidated financial statements;

- the historical consolidated financial information may not fully reflect the increased costs associated with being an independent public company, including significant changes that have occurred in our cost structure, management, financing arrangements and business operations as a result of our spinoff from Timken; and

- the historical consolidated financial information may not fully reflect the effects of certain liabilities that will be incurred or have been assumed by us and may not fully reflect the effects of certain assets and liabilities that have been retained by Timken.

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and corresponding notes included elsewhere in this Annual Report on Form 10-K.

We remain subject to continuing contingent liabilities of Timken following the spinoff.
There are several significant areas where the liabilities of Timken may yet become our obligations. The separation and distribution agreement and employee matters agreement generally provide that we are responsible for substantially all liabilities that relate to our steel business activities, whether incurred prior to or after the spinoff, as well as those liabilities of Timken specifically assumed by us. In addition, under the Internal Revenue Code (Code) and the related rules and regulations, each corporation that was a member of the Timken consolidated tax reporting group during any taxable period or portion of any taxable period ending on or before the completion of the spinoff is jointly and severally liable for the federal income tax liability of the entire Timken consolidated tax reporting group for that taxable period. In connection with the spinoff, we entered into a tax sharing agreement with Timken that allocated the responsibility for prior period taxes of the Timken consolidated tax reporting group between us and Timken. However, if Timken is unable to pay any prior period taxes for which it is responsible, we could be required to pay the entire amount of such taxes. Other provisions of federal law establish similar liability for other matters, including laws governing tax-qualified pension plans as well as other contingent liabilities.

If the spinoff does not qualify as a tax-free transaction, Timken could be subject to material amounts of taxes and, in certain circumstances, we could be required to indemnify Timken for material taxes pursuant to indemnification obligations under the tax sharing agreement.
The spinoff was conditioned on Timken's receipt of an opinion from Covington & Burling LLP, special tax counsel to Timken (or other nationally recognized tax counsel), in form and substance satisfactory to Timken, that the distribution of our common shares in the spinoff qualified as tax-free (except for cash received in lieu of fractional shares) to us, Timken and Timken shareholders for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) and related provisions of the Code. Such opinion was delivered to us by special tax counsel prior to the effectiveness of our registration statement on Form 10 relating to the spinoff. The opinion relied on, among other things, various assumptions and representations as to factual matters made by Timken and us which, if inaccurate or incomplete in any material respect, could jeopardize the conclusions reached by such counsel in its opinion. We are not aware of any facts or circumstances that would cause the assumptions or representations relied on in the opinion of counsel to be inaccurate or incomplete in any material respect. The opinion is not binding on the Internal Revenue Service (IRS), or the courts, and there can be no assurance that the qualification of the spinoff as a transaction under Sections 355 and 368(a) of the Code will not be challenged by the IRS or by others in court, or that any such challenge would not prevail.

If, notwithstanding receipt of the opinion of counsel, the spinoff were determined not to qualify under Section 355 of the Code, Timken would be subject to tax as if it had sold common shares in a taxable sale for their fair market value and would recognize taxable gain in an amount equal to the excess of the fair market value of such shares over its tax basis in such shares.

With respect to taxes and other liabilities that could be imposed on Timken in connection with the spinoff (and certain related transactions) under the terms of the tax sharing agreement we entered into with Timken prior to the spinoff, we may be liable to Timken for any such taxes or liabilities attributable to actions taken by or with respect to us, any of our affiliates, or any person that, after the spinoff, is an affiliate thereof. We may be similarly liable if we breach specified representations or covenants set forth in the tax sharing agreement. If we are required to indemnify Timken for taxes incurred as a result of the spinoff (or certain related transactions) being taxable to Timken, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Potential liabilities associated with certain assumed obligations under the tax sharing agreement cannot be precisely quantified at this time.

Under the tax sharing agreement with Timken, we are responsible generally for all taxes paid after the spinoff attributable to us or any of our subsidiaries, whether accruing before, on or after the spinoff. We have also agreed to be responsible for, and to indemnify Timken with respect to, all taxes arising as a result of the spinoff (or certain internal restructuring transactions) failing to qualify as transactions under Sections 368(a) and 355 of the Code for U.S. federal income tax purposes (which could result, for example, from a merger or other transaction involving an acquisition of our shares) to the extent such tax liability arises as a result of any breach of any representation, warranty, covenant or other obligation by us or certain affiliates made in connection with the issuance of the tax opinion relating to the spinoff or in the tax sharing agreement. As described above, such tax liability would be calculated as though Timken (or its affiliate) had sold its common shares of our company in a taxable sale for their fair market value, and Timken (or its affiliate) would recognize taxable gain in an amount equal to the excess of the fair market value of such shares over its tax basis in such shares. That tax liability could have a material adverse effect on our company.

We may not be able to engage in desirable strategic or equity raising transactions following the spinoff. In addition, under some circumstances, we could be liable for any adverse tax consequences resulting from engaging in significant strategic or capital raising transactions.

Even if the spinoff otherwise qualifies as a tax-free distribution under Section 355 of the Code, the spinoff may result in significant U.S. federal income tax liabilities to Timken under applicable provisions of the Code if 50% or more of Timken's shares or our shares (in each case, by vote or value) are treated as having been acquired, directly or indirectly, by one or more persons (other than the acquisition of our common shares by Timken shareholders in the spinoff) as part of a plan (or series of related transactions) that includes the spinoff. Under those provisions, any acquisitions of Timken shares or our shares (or similar acquisitions), or any understanding, arrangement or substantial negotiations regarding an acquisition of Timken shares or our shares (or similar acquisitions), within two years before or after the spinoff are subject to special scrutiny. The process for determining whether an acquisition triggering those provisions has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. If a direct or indirect acquisition of Timken shares or our shares resulted in a change in control as contemplated by those provisions, Timken would recognize taxable gain. Under the tax sharing agreement, there are restrictions on our ability to take actions that could cause the separation to fail to qualify as a tax-free distribution, and we will be required to indemnify Timken against any such tax liabilities attributable to actions taken by or with respect to us or any of our affiliates, or any person that, after the spinoff, is an affiliate thereof. We may be similarly liable if we breach certain other representations or covenants set forth in the tax sharing agreement. As a result of the foregoing, we may be unable to engage in certain strategic or capital raising transactions that our shareholders might consider favorable, including use of our common shares to make acquisitions and equity capital market transactions, or to structure potential transactions in the manner most favorable to us, without adverse tax consequences, if at all.

Potential indemnification liabilities to Timken pursuant to the separation and distribution agreement could materially and adversely affect our business, financial condition, results of operations and cash flows.

We entered into a separation and distribution agreement with Timken that provides for, among other things, the principal corporate transactions required to affect the spinoff, certain conditions to the spinoff and provisions governing the relationship between our company and Timken with respect to and resulting from the spinoff. Among other things, the separation and distribution agreement provides for indemnification obligations designed to make us financially responsible for substantially all liabilities that may exist relating to our steel business activities, whether incurred prior to or after the spinoff, as well as those obligations of Timken assumed by us pursuant to the separation and distribution agreement. If we are required to indemnify Timken under the circumstances set forth in the separation and distribution agreement, we may be subject to substantial liabilities.

In connection with our separation from Timken, Timken will indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that Timken's ability to satisfy its indemnification obligations will not be impaired in the future.

Pursuant to the separation and distribution agreement, Timken agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Timken has agreed to retain, and there can be no assurance that the indemnity from Timken will be sufficient to protect us against the full amount of such liabilities, or that Timken will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Timken any amounts for which we are held liable, we may be temporarily required to bear these costs ourselves. If Timken is unable to satisfy its indemnification obligations, the underlying liabilities could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Further, Timken's insurers may deny coverage to us for liabilities associated with occurrences prior to the spinoff. Even if we ultimately succeed in recovering from such insurance providers, we may be required to temporarily bear such loss of coverage.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are headquartered in Canton, Ohio, at a facility we own in fee. We have facilities in five countries: United States, China, England, Mexico and Poland. We lease sales office in all of these countries.

We have manufacturing facilities at multiple locations in the United States. These manufacturing facilities are located in Akron, Canton (3) and Eaton, Ohio; Houston, Texas; and Columbus, North Carolina. In addition to these manufacturing facilities, we own or lease warehouses and distribution facilities in the United States, Mexico and China. The aggregate floor area of these facilities is 3.8 million square feet, of which approximately 154,000 square feet is leased and the rest is owned in fee. The buildings occupied by us are principally made of brick, steel, reinforced concrete and concrete block construction.

Our facilities vary in age and condition, and each of them has an active maintenance program to ensure a safe operating environment and to keep the facilities in good condition. We believe that our facilities are in satisfactory operating condition and are suitable and adequate to conduct our business and support future growth.

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of our capacity utilization.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers are elected by the Board of Directors normally for a term of one year and until the election of their successors. All executive officers have been employed by us in their current roles since the spinoff. The executive officers of our Company as of February 29, 2016 are as follows:

Name	Age	Current Position
Ward J. Timken, Jr.	48	Chairman, Chief Executive Officer and President
Christopher J. Holding	57	Executive Vice President and Chief Financial Officer
Donald L. Walker	59	Executive Vice President of Human Resources and Organizational Advancement
Frank A. DiPiero	59	Executive Vice President, General Counsel and Secretary

Ward J. Timken, Jr. is Chairman of our Board of Directors and our Chief Executive Officer and President. Prior to the spinoff, Mr. Timken served as a director of Timken since 2002 and as Chairman of the Board of Directors of Timken from 2005 until mid-2014. Mr. Timken was President of Timken's steel business from 2004 to 2005, Corporate Vice President of Timken from 2000 to 2003 and held key leadership positions in Timken's European and Latin American businesses from 1992 to 2000. Prior to joining Timken, Mr. Timken opened and managed the Washington, D.C. office of McGough & Associates, a Columbus, Ohio-based government affairs consulting firm. Mr. Timken is also a member of the board of Timken, since 2002, and Pella Corporation, where he has served since 2008.

Christopher J. Holding is our Executive Vice President and Chief Financial Officer. Prior to the spinoff, Mr. Holding served as Senior Vice President of Tax and Treasury since 2010, as Controller of the Process Industries segment from 2008 to 2010, as Industrial Controller from 2006 to 2008, and as Operations Controller from 2004 to 2006, in each case for Timken. Mr. Holding earned his bachelor's and master's degrees from the University of Cincinnati and is a certified public accountant.

Donald L. Walker is our Executive Vice President of Human Resources and Organizational Advancement. Prior to the spinoff, Mr. Walker served as Senior Vice President – Human Resources and Organizational Advancement at Timken since 2004. Mr. Walker earned his bachelor's and master's degree from Western Michigan University and a J.D. from Capital University. Mr. Walker also attended the Massachusetts Institute of Technology Sloan Fellow Program, where he earned a master's degree in business administration.

Frank A. DiPiero is our Executive Vice President, General Counsel and Secretary. Mr. DiPiero joined Timken in 2014 in anticipation of the spinoff. Previously, Mr. DiPiero was Associate General Counsel, UTC Aerospace Systems of United Technologies Corporation, a provider of technology products and services to the global aerospace and building systems industries, from 2012 to 2013, Vice President, Corporate Secretary and Segment Counsel, Electronic Systems of Goodrich Corporation (Goodrich Corporation became a subsidiary of United Technologies Corporation through a merger in 2012) from 2010 to 2012, and Segment Counsel, Actuation and Landing Systems of Goodrich Corporation from 2004 to 2010. Mr. DiPiero earned his bachelor's degree from Youngstown State University and a J.D. from The University of Toledo College of Law.

PART II.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Stock Prices and Cash Dividends Per Share:

Our common shares are traded on the New York Stock Exchange (NYSE) under the symbol "TMST." The estimated number of record holders of our common shares at December 31, 2015 was 4,195.

The following table provides information about the high and low closing sales prices for our common shares and dividends declared for each quarter starting July 1, 2014, the date on which our common shares began regular-way trading on the NYSE:

	2015			2014		
	Stock prices		Dividend	Stock prices		Dividend
	High	Low	per share	High	Low	per share
First quarter	$37.21	$25.64	$0.14	–	–	–
Second quarter	$32.87	$25.91	$0.14	–	–	–
Third quarter	$26.89	$10.00	$0.14	$49.94	$40.41	$0.14
Fourth quarter	$14.59	$ 7.17	–	$44.55	$31.17	$0.14

Our amended credit agreement places certain limitations on the payment of cash dividends. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional detail on this topic.

Issuer Purchases of Common Shares:

The following table presents information with respect to repurchases of our common shares by us during the three months ended December 31, 2015:

Period	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs(2)
October 1 – 31, 2015	–	–	–	1,459,907
November 1 – 30, 2015	–	–	–	1,459,907
December 1 – 31, 2015	–	–	–	1,459,907
Total	–	–	–	1,459,907

(1) All shares not included in the number of shares purchased as part of publicly announced plans or programs were surrendered or deemed surrendered to us in connection with our share-based compensation plans.

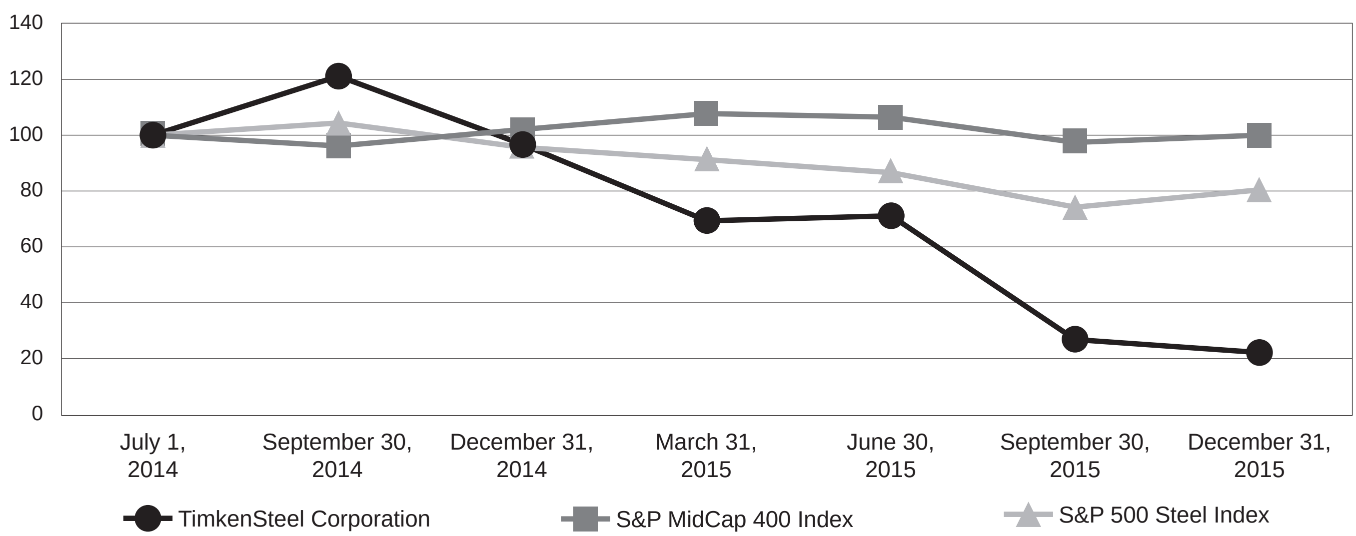
(2) On August 6, 2014, our Board of Directors approved a share repurchase plan pursuant to which we may repurchase up to three million of our common shares in the aggregate. This share repurchase plan expires on December 31, 2016. We may repurchase such shares from time to time in open market purchases or privately negotiated transactions. We may make all or part of these repurchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

Our amended credit agreement places certain limitations on our ability to purchase our common shares. Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional detail on this topic.

Performance Graph:

The following graph compares the cumulative total return of our common shares with the cumulative total return of the Standard & Poor’s (S&P) MidCap 400 Index and S&P Steel Group Index assuming $100 was invested and that cash dividends were reinvested for the period from July 1, 2014 through December 31, 2015.

COMPARISON OF CUMULATIVE TOTAL RETURN



Date	TimkenSteel Corporation	S&P MidCap 400 Index	S&P 500 Steel Index
July 1, 2014	$100.00	$100.00	$100.00
September 30, 2014	$120.95	$ 96.02	$104.20
December 31, 2014	$ 96.71	$102.11	$ 95.49
March 31, 2015	$ 69.46	$107.54	$ 91.25
June 30, 2015	$ 71.13	$106.40	$ 86.54
September 30, 2015	$ 26.92	$ 97.36	$ 74.31
December 31, 2015	$ 22.29	$ 99.89	$ 80.49

This performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

ITEM 6. SELECTED FINANCIAL DATA

The Consolidated Financial Statements for periods prior to the separation include the historical results of operations, assets and liabilities of the legal entities that are considered to comprise TimkenSteel. Our historical results of operations, financial position, and cash flows presented in the Consolidated Financial Statements for periods prior to the separation may not be indicative of what they would have been had we actually been a separate stand-alone entity during such periods, nor are they necessarily indicative of our future results of operations, financial position and cash flows.

	Years Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
(dollars and shares in millions, except per share data)					
Statement of Operations Data:					
Net sales	$ 1,106.2	$1,674.2	$1,380.9	$1,728.7	$1,956.5
Net (loss) income	(72.4)	104.4	89.5	155.2	167.2
(Loss) earnings per share[(1)]:					
Basic	($ 1.63)	$ 2.29	$ 1.96	$ 3.39	$ 3.66
Diluted	($ 1.63)	$ 2.27	$ 1.94	$ 3.36	$ 3.62
Cash dividends declared per share	$ 0.42	$ 0.28	$ –	$ –	$ –
Weighted average shares outstanding, diluted	44.5	46.0	46.2	46.2	46.2
Balance Sheet Data:					
Total assets	$ 1,141.8	$1,364.1	$1,078.8	$ 960.7	$ 982.1
Long-term debt	200.2	185.2	30.2	30.2	30.2
Total shareholders' equity	686.4	748.1	800.8	699.8	662.2
Other Data:					
Book value per share[(2)]	$ 15.42	$ 16.26	$ 17.33	$ 15.15	$ 14.33

(1) See Note 9 – "Earnings Per Share" in the Notes to the Consolidated Financial Statements.

(2) Book value per share is calculated by dividing Total shareholders' equity (as of the period end) by the Weighted average shares outstanding, diluted.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in millions, except per share data)

BUSINESS OVERVIEW

We manufacture alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately two million tons. Our portfolio includes special bar quality, or SBQ, bars, seamless mechanical tubing and precision steel components. In addition, we supply machining and thermal treatment services, as well as manage raw material recycling programs, which are used as a feeder system for our operations. We focus on research and development to devise solutions to our customers' toughest engineering challenges and then leverage those answers into new product offerings.

Based on our knowledge of the steel industry, we believe we are the only focused SBQ steel producer in North America and have the largest SBQ steel large bar (6-inch diameter and greater) production capacity among the North American steel producers. In addition, we are the only steel manufacturer with capabilities of developing SBQ steel large bars up to 16-inches in diameter. SBQ steel is made to restrictive chemical compositions and high internal purity levels and is used in critical mechanical applications. We make these products from nearly 100% recycled steel, using our expertise in raw materials to create custom steel products with a competitive cost structure similar to that of a high-volume producer. We focus on creating tailored products and services for our customers' most demanding applications. Our engineers are experts in both materials and applications, so we can work closely with each customer to deliver flexible solutions related to our products as well as to their applications and supply chains. We believe our unique operating model and production assets give us a competitive advantage in our industry.

Capital Investments

Our recent capital investments are expected to significantly strengthen our position as a leader in providing differentiated solutions for the energy, industrial and automotive market sectors, while enhancing our operational performance and customer service capabilities.

On July 17, 2014, we announced plans to invest in additional advanced quench-and-temper heat-treat capacity. The $40 million facility will perform quench-and-temper heat-treat operations and, we believe, will have capacity for up to 50,000 process-tons annually of 4-inch to 13-inch bars and tubes. This facility will be located in Perry Township, Ohio on the site of our Gambrinus Steel Plant near three existing thermal treatment facilities. This facility will be larger than each of our three existing thermal treatment facilities in Canton, Ohio. In response to the continued weakness in energy and some industrial end markets, we have decided to defer the installation until market conditions provide us the opportunity to achieve the best return on this investment.

In October 2014, we cast our first heat on the world's largest jumbo bloom vertical caster, which cost approximately $200 million, excluding capitalized interest. The new caster will improve yield by approximately 15%, increase annual finished ton capacity by up to 125,000 tons and expand our product range servicing the energy and industrial market sectors by providing large bar capabilities unique in the United States.

These investments reinforce our position of offering what we believe to be the broadest range of SBQ bars and seamless mechanical tubing steel capabilities in North America and enhance our position as a leader in large bar capabilities in North America.

MARKETS WE SERVE

We sell products and services that are used in a diverse range of demanding applications around the world. Our customers include companies in the following market sectors: oil and gas; automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation. Our customer base is diverse. We do not have direct sales to any single customer that account for 10% or more of our total sales. The table below summarizes our sales by market sector for fiscal years 2015, 2014 and 2013.

	Years Ended December 31,		
	2015	**2014**	**2013**
Passenger Car	**22%**	16%	21%
Light Truck	**22%**	16%	18%
Distribution	**19%**	24%	20%
Oil & Gas	**9%**	18%	16%
Machinery[1]	**9%**	7%	10%
Rail	**4%**	3%	2%
Industrial	**3%**	8%	4%
Mining	**3%**	2%	2%
Military/defense	**3%**	1%	2%
Construction	**1%**	1%	2%
Other[2]	**5%**	4%	3%
Total	**100%**	100%	100%

(1) "Machinery" includes historic intercompany sales to Timken.

(2) "Other" represents end-market sectors that comprise less than 2% of total net sales and include the following market sectors: heavy and medium truck, agriculture, metals recycling, power generation, marine and aerospace.

Key indicators for our market include U.S. light vehicle production Seasonally Adjusted Annual Rate, oil and gas rig count activity, U.S. footage drilled, and industrial production for agriculture and construction markets, distribution and mining and oil field machinery products. In addition, we closely monitor the Purchasing Managers' Index, which is a leading indicator for our overall business.

Impact of Raw Material Prices and LIFO

In the ordinary course of business, we are exposed to the volatility of the costs of our raw materials. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing process. We utilize a raw material surcharge mechanism that is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material spread whereby costs can be over- or under-recovered in certain periods. While the surcharge generally protects gross profit, it has the effect of diluting gross margin as a percent of sales.

We value certain of our inventory utilizing the LIFO inventory valuation method. Changes in the cost of raw materials and production activities are recognized in cost of products sold in the current period even though these materials and other costs may have been incurred in different periods at significantly different values due to the length of time of our production cycle. In a period of rising raw material prices, cost of products sold expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of products sold recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold. In periods of rising inventories and deflating raw material prices, the likely result will be a positive impact to net income. Conversely, in periods of rising inventories and increasing raw materials prices, the likely result will be a negative impact to net income.

Results of Operations

YEAR ENDED DECEMBER 31, 2015 COMPARED TO YEAR ENDED DECEMBER 31, 2014

	Years Ended December 31,			
	2015	**2014**	**$ Change**	**% Change**
Net sales	**$ 1,106.2**	$ 1,674.2	($ 568.0)	(33.9)%
Net sales, excluding surcharges	**942.5**	1,284.2	(341.7)	(26.6)%
Gross profit	**8.8**	273.8	(265.0)	(96.8)%
Gross margin	**0.8%**	16.4%	NM	(1560) bps
Selling, general and administrative expenses	**111.0**	112.1	(1.1)	(1.0)%
Net (loss) income	**(72.4)**	104.4	(176.8)	(169.3)%
Scrap index per ton	**261**	418	(157)	(37.6)%
Shipments (in tons)	**837,135**	1,093,692	(256,557)	(23.5)%
Average selling price per ton, including surcharges	**$ 1,321**	$ 1,531	($ 210)	(13.7)%
Capacity utilization	**49.0%**	72.0%	NM	(2300) bps

NET SALES

Net sales for the year ended December 31, 2015 were $1,106.2 million, a decrease of $568.0 million, or 34%, compared to the year ended December 31, 2014. Excluding surcharges, net sales decreased $341.7 million, or 27%. The decrease was primarily due to lower ship tons of approximately 50% in the Energy & Distribution segment and approximately 5% in the Industrial & Mobile segment as a result of lower demand for energy and related industrial products.

GROSS PROFIT

Gross profit for the year ended December 31, 2015 was $8.8 million, a decrease of $265.0 million, or 97%, compared to the year ended December 31, 2014. The decrease was driven primarily by higher manufacturing costs of approximately $138 million, lower volume of approximately $93 million, raw material spread of approximately $54 million, price/mix of approximately $21 million and an inventory revaluation charge of approximately $8 million, partially offset by higher LIFO income of $42 million. As discussed previously, ship tons decreased for the year ended December 31, 2015 compared to the same period in 2014 as a result of lower customer demand. Manufacturing costs were unfavorable due primarily to melt utilization declining from approximately 72% for the year ended December 31, 2014 to approximately 49% for the year ended December 31, 2015. The unfavorable raw material spread was driven by timing associated with our customer surcharge mechanism as discussed above.

Our surcharge mechanism is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material costs being over- or under-recovered in certain periods. While the surcharge generally protects gross profit, it had the effect of diluting gross margin as a percent of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, General and Administrative (SG&A) expenses for the year ended December 31, 2015 decreased $1.1 million, or 1%, compared to the year ended December 31, 2014 due primarily to lower variable pay, offset by the fact that the first half of 2014 did not include costs required to operate on a stand-alone basis.

IMPAIRMENT AND RESTRUCTURING CHARGES

During 2015 we approved and implemented two cost reduction plans, which resulted in the recognition of $5.6 million of restructuring charges for the year ended December 31, 2015. Of the $5.6 million charge, $4.3 million related to the Industrial & Mobile segment and $1.3 million related to the Energy & Distribution segment. Refer to Note 14 – "Restructuring Charges" in the Notes to the Consolidated Financial Statements for details. During the year ended December 31, 2015, we recorded impairment charges of $0.9 million.

PROVISION FOR INCOME TAXES

	Years Ended December 31,			
	2015	**2014**	**$ Change**	**% Change**
(Benefit) provision for income taxes	**($42.6)**	$53.8	($96.4)	(179.2)%
Effective tax rate	**37.0%**	34.0%	NM	300 bps

The increase in the effective tax rate in the year ended December 31, 2015 compared to the year ended December 31, 2014 is due primarily to the loss of a tax benefit associated with the U.S. manufacturing deduction.

BUSINESS SEGMENTS

Industrial & Mobile	Years Ended December 31,			
	2015	**2014**	**$ Change**	**% Change**
Net sales	**$ 804.0**	$ 962.0	($ 158.0)	(16.4)%
Net sales, excluding surcharges	**690.5**	744.4	(53.9)	(7.2)%
EBIT	**(60.1)**	79.8	(139.9)	(175.3)%
EBIT margin	**(7.5)%**	8.3%	NM	(1580) bps
Shipments (in tons)	**610,746**	639,744	(28,998)	(4.5)%
Average selling price per ton, including surcharges	**$ 1,316**	$ 1,504	($ 188)	(12.5)%

Industrial & Mobile segment net sales decreased $158.0 million or 16% in 2015 compared to 2014. Excluding surcharges, net sales decreased 7%. The decrease was driven by lower ship tons of approximately 22% for the year ended December 31, 2015 compared to the same period of 2014 in the industrial market sector, which was negatively impacted by global commodity market weakness. This decrease was partially offset by increased ship tons in the mobile market sector of approximately 7% for the year ended December 31, 2015 compared to the same period of 2014 as a result of continued strong North American automotive demand.

EBIT decreased $139.9 million or 175% in 2015 compared to 2014 due to higher allocated manufacturing costs of approximately $85 million, raw material spread of approximately $36 million and lower volume of approximately $12 million.

Energy & Distribution	**Years Ended December 31,**			
	2015	**2014**	**$ Change**	**% Change**
Net sales	**$ 302.2**	$ 712.2	($ 410.0)	(57.6)%
Net sales, excluding surcharges	**252.0**	539.8	(287.8)	(53.3)%
EBIT	**(72.1)**	98.8	(170.9)	(173.0)%
EBIT margin	**(23.9)%**	13.9%	NM	(3780) bps
Shipments (in tons)	**226,389**	453,948	(227,559)	(50.1)%
Average selling price per ton, including surcharges	**$ 1,335**	$ 1,569	($ 234)	(14.9)%

Energy & Distribution segment net sales decreased $410.0 million or 58% in 2015 compared to 2014. Excluding surcharges, net sales decreased 53%. The decrease was driven by an approximately 65% decline in ship tons to the energy end market due to reduced demand for energy-related products as a result of the drop in rig count and higher customer inventory levels. Ship tons to industrial distributors decreased approximately 40% for the year ended December 31, 2015 compared to the same period in 2014 due to reduced demand from weakness in the global commodity markets.

EBIT decreased $170.9 million or 173% during the year ended December 31, 2015 compared to 2014. The decrease was driven by lower volume of approximately $94 million, higher allocated manufacturing costs of approximately $46 million, raw material spread of approximately $18 million, price/mix of approximately $7 million and an energy inventory revaluation of approximately $8 million.

Unallocated	**Years Ended December 31,**			
	2015	**2014**	**$ Change**	**% Change**
LIFO (income) expense	**($35.3)**	$ 6.9	($42.2)	(611.6)%
Corporate expenses	**14.7**	12.6	2.1	16.7%
Unallocated (earnings) loss before interest and taxes	**($20.6)**	$19.5	($40.1)	(205.6)%
Unallocated % to net sales	**(1.9)%**	1.2%	NM	(310) bps

Corporate expenses are costs associated with strategy, corporate development, tax, treasury, legal, internal audit and general administration expenses. Unallocated was a favorable $40.1 million for the year ended December 31, 2015 compared to the same period in 2014 due primarily to an increase in LIFO income of approximately $42 million.

YEAR ENDED DECEMBER 31, 2014 COMPARED TO YEAR ENDED DECEMBER 31, 2013

	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Net sales	**$ 1,674.2**	$ 1,380.9	$ 293.3	21.2%
Net sales, excluding surcharges	**1,284.2**	1,080.7	203.5	18.8%
Gross profit	**273.8**	223.2	50.6	22.7%
Gross margin	**16.4%**	16.2%	NM	20 bps
Selling, general and administrative expenses	**112.1**	91.8	20.3	22.1%
Net income	**104.4**	89.5	14.9	16.6%
Scrap index per ton	**418**	405	13	3.2%
Shipments (in tons)	**1,093,692**	918,243	175,449	19.1%
Average selling price per ton, including surcharges	**$ 1,531**	$ 1,504	$ 27	1.8%
Capacity utilization	**72.0%**	**58.0%**	NM	1400 bps

NET SALES

Net sales for the year ended December 31, 2014 were $1,674.2 million, an increase of $293.3 million, or 21%, compared to the year ended December 31, 2013. Excluding surcharges, net sales increased $203.5 million, or 19%. The increase was driven by higher shipments in the industrial, energy and distribution market sectors.

GROSS PROFIT

Gross profit for the year ended December 31, 2014 was $273.8 million, an increase of $50.6 million, or 23%, compared to the year ended December 31, 2013. The increase was driven primarily by favorable sales volume of approximately $55 million, favorable price/mix of approximately $4 million and lower manufacturing expense of approximately $10 million resulting from better manufacturing performance. These items were partially offset by unfavorable raw material spread of approximately $13 million, increased LIFO expense of approximately $5 million, negative weather-related costs and certain one-time expenses, including separation-related costs. As discussed previously, ship tons increased for the year ended December 31, 2014 compared to the same period in 2013 as a result of higher customer demand. Manufacturing costs were favorable due primarily to melt utilization improving to approximately 72% for the year ended December 31, 2014 from approximately 58% for the year ended December 31, 2013. The favorable raw material spread was driven by timing associated with our customer surcharge mechanism as discussed above.

Our surcharge mechanism is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material costs being over- or under-recovered in certain periods. While the surcharge generally protects gross profit, it had the effect of diluting gross margin as a percent of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, General and Administrative (SG&A) expenses for the year ended December 31, 2014 increased $20.3 million, or 22%, compared to the year ended December 31, 2013. The increase was due primarily to costs to operate as a stand-alone independent organization.

PROVISION FOR INCOME TAXES

	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Provision for income taxes	**$53.8**	$38.1	$15.7	41.2%
Effective tax rate	**34.0%**	29.9%	NM	410 bps

The increase in the effective tax rate in the year ended December 31, 2014 compared to the year ended December 31, 2013 was due primarily to the tax benefit of the reversal of a reserve related to uncertain tax positions in 2013, with no corresponding 2014 tax benefit.

BUSINESS SEGMENTS

Industrial & Mobile	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Net sales	**$ 962.0**	$ 865.0	$ 97.0	11.2%
Net sales, excluding surcharges	**744.4**	683.5	60.9	8.9%
EBIT	**79.8**	83.9	(4.1)	(4.9)%
EBIT margin	**8.3%**	9.7%	NM	(140) bps
Shipments (in tons)	**639,744**	587,230	52,514	8.9%
Average selling price per ton, including surcharges	**$ 1,504**	$ 1,473	$ 31	2.1%

Industrial & Mobile segment net sales increased 11% in 2014 compared to 2013. Excluding surcharges, net sales increased 9%. The increase was driven by strong demand in the industrial market sector. The increase was driven by higher ship tons of approximately 9% for the year ended December 31, 2014 compared to the same period of 2013.

EBIT decreased 5% in 2014 compared to 2013 due to higher selling, general and administrative costs needed to operate as a stand-alone independent organization, unfavorable raw material spread of approximately $9 million, unfavorable price/mix of approximately $2 million, partially offset by favorable volume of approximately $12 million as a result of the higher ship tons discussed above and favorable manufacturing utilization of approximately $7 million.

Energy & Distribution	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Net sales	**$ 712.2**	$ 515.9	$ 196.3	38.1%
Net sales, excluding surcharges	**539.8**	397.2	142.6	35.9%
EBIT	**98.8**	58.6	40.2	68.6%
EBIT margin	**13.9%**	11.4%	NM	250 bps
Shipments (in tons)	**453,948**	331,013	122,935	37.1%
Average selling price per ton, including surcharges	**$ 1,569**	$ 1,559	$ 10	0.6%

Energy & Distribution segment net sales increased 38% during the year ended December 31, 2014 compared to 2013. Excluding surcharges, net sales increased 36%. The increase was driven by higher ship tons of approximately 37% for the year ended December 31, 2014 compared to the same period of 2013, in both the energy and distribution market sectors.

EBIT increased 69% during the year ended December 31, 2014 compared to 2013. The increase was driven by higher volume of approximately $43 million, favorable price/mix of approximately $7 million and better manufacturing utilization of approximately $3 million, partially offset by higher raw material spread of approximately $4 million and selling, general and administrative expenses due to costs to operate as an independent organization.

Unallocated	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
LIFO expense	**$ 6.9**	$ 1.5	$ 5.4	360.0%
Corporate expenses	**12.6**	13.2	(0.6)	(4.5)%
Unallocated loss (earnings) before income taxes	**$19.5**	$14.7	$ 4.8	32.7%
Unallocated % to net sales	**1.2%**	1.1%	NM	10 bps

Corporate expenses are costs associated with strategy, corporate development, tax, treasury, legal, internal audit and general administration expenses. Unallocated increased $4.8 million for the year ended December 31, 2014 compared to the same period in 2013 primarily due to increased LIFO expense.

NON-GAAP FINANCIAL MEASURES

Net Sales, Excluding Surcharges

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes discussions of net sales adjusted to exclude raw material surcharges, which represents a financial measure that has not been determined in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Generally, as we experience fluctuations in our costs, we reflect them as price increases or surcharges to our customers with the goal of being essentially cost neutral. However, even if we are able to pass these raw material surcharges or price increases on to our customers, there may be a time lag between the time a cost increase goes into effect and our ability to implement surcharges or price increases. We believe presenting net sales to exclude surcharges provides a more consistent basis for comparing our core operating results.

TimkenSteel	Years Ended December 31,		
	2015	**2014**	**2013**
Net sales	**$1,106.2**	$1,674.2	$1,380.9
Less: surcharge revenue	**163.7**	390.0	300.2
Net sales, excluding surcharges	**$ 942.5**	$1,284.2	$1,080.7

Industrial & Mobile	Years Ended December 31,		
	2015	**2014**	**2013**
Net sales	**$804.0**	$962.0	$865.0
Less: surcharge revenue	**113.5**	217.6	181.5
Net sales, excluding surcharges	**$690.5**	$744.4	$683.5

Energy & Distribution	Years Ended December 31,		
	2015	**2014**	**2013**
Net sales	**$302.2**	$712.2	$515.9
Less: surcharge revenue	**50.2**	172.4	118.7
Net sales, excluding surcharges	**$252.0**	$539.8	$397.2

THE BALANCE SHEET

The following discussion is a comparison of the Consolidated Balance Sheets as of December 31, 2015 and 2014:

	December 31,	
Current Assets	**2015**	**2014**
Cash and cash equivalents	**$ 42.4**	$ 34.5
Accounts receivable, net	**80.9**	167.1
Inventories, net	**173.9**	293.8
Deferred income taxes	**–**	20.3
Prepaid expenses	**11.4**	28.0
Other current assets	**9.2**	7.6
Total Current Assets	**$317.8**	$551.3

Refer to the "Liquidity and Capital Resources" section in this Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the increase in cash and cash equivalents. Accounts receivable, net as of December 31, 2015, decreased $86.2 million from December 31, 2014 due primarily to decreased sales in the fourth quarter of 2015 as compared to the fourth quarter of 2014. Inventories decreased by $119.9 million in response to lower sales demand. Deferred income taxes decreased $20.3 million from December 31, 2014 due to the adoption of Accounting Standard Updated (ASU) 2015-17, "Balance Sheet Classification of Deferred Taxes," which requires deferred taxes be classified as non-current. At December 31, 2014, prepaid expenses included a $24 million tax receivable that resulted from a reduction in taxes payable related to a change in tax law subsequent to payment of estimated taxes.

	December 31,	
Property, Plant and Equipment, net	**2015**	**2014**
Property, plant and equipment, net	**$769.3**	$771.9

Property, plant and equipment, net decreased $2.6 million from December 31, 2014.

	December 31,	
Other Assets	**2015**	**2014**
Pension assets	**$20.0**	$ 8.0
Intangible assets, net	**30.6**	30.3
Other non-current assets	**4.1**	2.6
Total Other Assets	**$54.7**	$40.9

Pension assets increased $12.0 million from December 31, 2014 primarily due to changes in the discount rate.

	December 31,	
Liabilities and Shareholders' Equity	**2015**	**2014**
Current liabilities	**$ 104.2**	$ 225.5
Long-term debt	**200.2**	185.2
Accrued pension and postretirement cost	**114.1**	119.1
Deferred income taxes	**26.9**	75.1
Other non-current liabilities	**10.0**	11.1
Total Shareholders' Equity	**686.4**	748.1
Total Liabilities and Shareholders' Equity	**$1,141.8**	$1,364.1

Current liabilities decreased to $104.2 million as of December 31, 2015 as compared to $225.5 million as of December 31, 2014. The decrease was due to lower accounts payable resulting from lower purchases to meet our production requirements, lower capital spending, lower accrued salaries, wages and benefits as a result of lower variable pay and lower accrued pension and postretirement costs. Long-term debt increased due to our net borrowings of $15.0 million under our credit facility to fund capital expenditures, to repurchase shares at a cost of $15.2 million, to fund cash dividends of $18.7 million paid to shareholders and to fund our operations. The decrease in our deferred income taxes was due primarily to the 2015 net operating loss. Refer to the Consolidated Statements of Shareholders' Equity for details of the decrease in total shareholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2015, we had $42.4 million of cash and cash equivalents on hand and $41.9 million in available borrowing capacity per the Amended and Restated Credit Agreement dated December 21, 2015.

On February 26, 2016, we entered into Amendment No. 1 to the Amended and Restated Credit Agreement (as amended the "Amended Credit Agreement") in order to obtain relief from certain covenants and increase our flexibility as we pursue additional long-term financing opportunities. We believe that the borrowings available under our Amended Credit Agreement will be sufficient to satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations, including servicing our debt obligations, for at least the next twelve months. We will continue to evaluate additional financing opportunities.

For more details on the Amended and Restated Credit Agreement, please refer to Note 6 – "Financing Arrangements" in the Notes to the Consolidated Financial Statements. For more details on Amendment No. 1 and any other material subsequent events, please refer to Note 16 – "Subsequent Events" in the Notes to the Consolidated Financial Statements.

CASH FLOWS

The following table reflects the major categories of cash flows for years ended December 31, 2015, 2014 and 2013. For additional details, please see the Consolidated Statements of Cash Flows contained elsewhere in this Annual Report.

Cash Flows	Years Ended December 31,		
	2015	**2014**	**2013**
Net cash provided by operating activities	**$107.1**	$ 93.9	$ 175.1
Net cash (used) by investing activities	**(77.8)**	(129.6)	(183.6)
Net cash (used) provided by financing activities	**(21.4)**	70.2	8.5
Increase in Cash and Cash Equivalents	**$ 7.9**	$ 34.5	$ –

Operating activities

Net cash provided by operating activities for the years ended December 31, 2015 and 2014 was $107.1 million and $93.9 million, respectively. The $13.2 million increase was primarily the result of cash provided by the changes in our accounts receivable, inventories and prepaid expense balances, partially offset by a $176.8 million decrease in net income as well as an increased use of cash related to changes in our accounts payable and other accrued expense balances.

Net cash provided by operating activities for the years ended December 31, 2014 and 2013 was $93.9 million and $175.1 million, respectively. The $81.2 million decrease was primarily the result of increased use of cash related to changes in our inventory and accounts receivable balances partially offset by higher net income and cash provided by the changes in our accrued expense balances.

Investing activities

Net cash used by investing activities for the years ended December 31, 2015, 2014 and 2013 was $77.8 million, $129.6 million, and $183.6 million, respectively. Cash used for investing activities primarily relates to capital investments in our production processes. Capital spending decreased $51.4 million due to lower spending related to the jumbo bloom vertical caster being commissioned during the fourth quarter of 2014.

Our business sometimes requires capital investments to remain competitive and to ensure we can implement strategic initiatives. As of December 31, 2015, our $74.9 million construction in progress balance includes approximately: (a) $47 million relating to growth initiatives (i.e., new product offerings, additional capacity and new capabilities) and continuous improvement projects; and (b) $28 million relating primarily to routine capital costs to maintain the reliability, integrity and safety of our manufacturing equipment and facilities. We expect to incur approximately $47 million of additional costs including approximately $25 million relating to growth initiatives and continuous improvement projects and approximately $22 million to complete other remaining projects. These additional costs are expected to be incurred during the next one to three years.

As of December 31, 2014, our $288.3 million construction in progress balance includes: (a) an investment of approximately $196 million in the jumbo bloom vertical caster to improve productivity, increase capacity and expand our product range; (b) $30 million relating to growth initiatives (i.e., new product offerings, additional capacity and new capabilities) and continuous improvement projects; and (c) $62 million relating primarily to routine capital costs to maintain the reliability, integrity and safety of our manufacturing equipment and facilities.

Financing activities

Net cash used by financing activities for the year ended December 31, 2015 was $21.4 million compared to net cash provided by financing activities of $70.2 million for the same period in 2014. The change was due primarily to a reduction of $140.0 million of net borrowings under the credit facility for the year ended December 31, 2015 compared to the same period 2014 and a reduction in the repurchase of outstanding shares at a cost of approximately $17 million, partially offset by a $50.0 million dividend paid to Timken in 2014 in connection with the spinoff and an increase of $6.0 million in cash dividends paid to shareholders.

Net cash provided by financing activities for the year ended December 31, 2014 was $70.2 million due primarily to $155.0 million of borrowings under the credit facility offset by a $50.0 million dividend to Timken in connection with the spinoff, repurchase of shares at a cost of $30.6 million, purchase of shares withheld for taxes of $4.1 million and cash dividends of $12.7 million paid to shareholders.

Net cash provided by financing activities for the year ended December 31, 2013 was $8.5 million due to net transfers from Timken to fund capital expenditures in excess of cash provided by operations.

COVENANT COMPLIANCE

Under the Amended Credit Agreement, we are required to maintain certain customary covenants, including covenants that limit our ability and that of our subsidiaries to, among other things, (i) incur or suffer to exist certain liens, (ii) make investments, (iii) incur or guaranty additional indebtedness (iv) enter into consolidations, mergers, acquisitions, sale-leaseback transactions and sales of assets, (v) make distributions and other restricted payments, (vi) change the nature of our business, (vii) engage in transactions with affiliates, and (viii) enter into restrictive agreements, including agreements that restrict the ability to incur liens or make distributions. Further, the Amended Credit Agreement contains financial covenants that limit the amount of capital expenditures we may make to $45 million in fiscal year 2016 and $50 million in fiscal years thereafter.

In addition, the Amended Credit Agreement requires us to maintain a minimum specified fixed charge coverage ratio for the year-to-date periods ending June 30, 2017, July 31, 2017, and August 31, 2017. Finally, the Amended Credit Agreement also includes a block on availability under certain circumstances equal to the greater of $28.9 million and 12.5% of the aggregate commitments (except that in the event of a mandatory reduction in the commitments the block on availability will be equal to the greater of $20.0 million and 12.5% of the aggregate commitments), effectively preventing us from borrowing if availability is below the minimum threshold.

We expect to remain in compliance with our debt covenants for at least the next twelve months. Please refer to Note 16 – "Subsequent Events" in the Notes to the Consolidated Financial Statements for additional details on the Amended Credit Agreement.

DIVIDENDS AND SHARE REPURCHASES

On November 13, 2015, our Board of Directors decided to suspend the cash dividend as we continue to manage through a challenging market environment. Our Board of Directors will review the dividend as business conditions improve.

On August 6, 2014, our Board of Directors approved a share repurchase plan pursuant to which we may repurchase up to three million of our outstanding common shares in the aggregate. This share repurchase plan expires on December 31, 2016. We may repurchase such shares from time to time in open market purchases or privately negotiated transactions. We are not obligated to acquire any particular amount of common shares and may commence, suspend or discontinue purchases at any time or from time to time without prior notice. For the years ended December 31, 2015 and 2014, $45.8 million and $30.6 million was used to repurchase 1,540,093 and 832,922 shares, respectively. Common shares repurchased are held as treasury shares. Our amended credit agreement places certain limitations on our ability to repurchase our outstanding common shares.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of December 31, 2015.

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	$200.2	$ –	$ –	$170.0	$30.2
Interest payments	17.8	5.0	10.1	2.6	0.1
Operating leases	15.4	7.6	6.8	1.0	–
Purchase commitments	71.7	48.0	23.7	–	–
Retirement benefits	19.8	5.0	9.7	1.4	3.7
Total	$324.9	$65.6	$50.3	$175.0	$34.0

Long-term debt includes the amended credit facility and certain revenue refunding bonds. Interest payments in the table above represents estimated interest payments on variable rate debt computed using the assumption that the interest rate at December 31, 2015 was in effect for the remaining term of the variable rate debt. Actual interest could vary. See Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” for further discussion.

Purchase commitments are defined as agreements to purchase goods or services that are enforceable and legally binding on us. Included in purchase commitments above are certain obligations related to capital commitments, service agreements and energy consumed in our production process. These purchase commitments do not represent our entire anticipated purchases in the future, but represent only those items for which we are presently contractually obligated. The majority of our products and services are purchased as needed, with no commitment. We do not have any off-balance sheet arrangements with unconsolidated entities or other persons.

Retirement benefits are paid from plan assets and our operating cash flow. The table above depicts the expected pension and postretirement benefit payments to be paid by us in 2016 and our expected benefit payments over the next years related to our non-qualified pension plan. Please refer to Note 8 – “Retirement and Postretirement Benefit Plans,” in the Notes to the Consolidated Financial Statements for further information related to the total pension and postretirement benefit plans and expected benefit payments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We review our critical accounting policies throughout the year.

NEW ACCOUNTING GUIDANCE

See Note 2 – “Significant Accounting Policies” in the Notes to the Consolidated Financial Statements.

REVENUE RECOGNITION

We recognize revenue when title passes to the customer. This occurs at the shipping point except for goods sold by certain foreign entities and certain exported goods, where title passes when the goods reach their destination. Selling prices are fixed based on purchase orders or contractual arrangements. Shipping and handling costs billed to customers are included in net sales and the related costs are included in cost of products sold in the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013.

INVENTORY

Inventories are valued at the lower of cost or market, with approximately 63% valued by the LIFO method and the remaining inventories, including manufacturing supplies inventory as well as international (outside the United States) inventories are valued by the first-in, first-out, average cost or specific identification methods. An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation. We recognized a decrease of $35.3 million and an increase of $7.7 million in our LIFO reserve in 2015 and 2014, respectively.

We record reserves for product inventory that is identified to be surplus and/or obsolete based on future requirements. As of December 31, 2015 and 2014, our reserve for surplus and obsolete inventory was $8.4 million and $2.9 million, respectively.

LONG-LIVED ASSET IMPAIRMENT

Long-lived assets (including tangible assets and intangible assets subject to amortization) are reviewed for impairment when events or changes in circumstances have occurred indicating that the carrying value of the assets may not be recoverable.

We test recoverability of long-lived assets at the lowest level for which there are identifiable cash flows that are independent from the cash flows of other assets. Assets and asset groups held and used are measured for recoverability by comparing the carrying amount of the asset or asset group to the sum of future undiscounted net cash flows expected to be generated by the asset or asset group.

Assumptions and estimates about future values and remaining useful lives of our long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts.

If an asset or asset group is considered to be impaired, the impairment loss that would be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. To determine fair value, we would use internal cash flow estimates discounted at an appropriate interest rate, third party appraisals as appropriate, and/or market prices of similar assets, when available.

In the years ending December 31, 2015, 2014 and 2013 we recorded impairment charges of $0.9 million, $1.2 million and $0.6 million, respectively, related to the discontinued use of certain long-lived assets.

INCOME TAXES

For purposes of our Consolidated Financial Statements, we recorded income tax expense and deferred tax balances as if we filed separate tax returns on a stand-alone basis apart from Timken, which we refer to as the "separate return method." The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if we were a separate taxpayer and a standalone enterprise for the periods presented. The calculation of the provision for income taxes, deferred tax assets and liabilities, valuation allowances against deferred tax assets, and accruals for uncertain tax positions on a separate return basis requires a considerable amount of judgment and use of both estimates and allocations. As a stand-alone entity, our deferred taxes and effective tax rate may differ from those in the historical periods.

We are subject to income taxes in the United States and numerous non-U.S. jurisdictions and account for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" (ASC 740). Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. We record valuation allowances against deferred tax assets by tax jurisdiction when it is more likely than not that such assets will not be realized. In determining the need for a valuation allowance, the historical and projected financial performance of the entity recording the net deferred tax asset is considered along with any other pertinent information. Net deferred tax assets relate primarily to net operating losses and pension and postretirement benefit obligations in the United States, which we believe are more likely than not to result in future tax benefits.

In the ordinary course of our business, there are many transactions and calculations where the ultimate income tax determination is uncertain. We are regularly under audit by tax authorities. Accruals for uncertain tax positions are provided for in accordance with the requirements of ASC 740. We record interest and penalties related to uncertain tax positions as a component of income tax expense.

BENEFIT PLANS

Prior to the spinoff, our employees participated in various retirement and postretirement benefits sponsored by Timken. During 2014, the assets and liabilities of these plans that related to our employees and retirees were transferred to benefit plans sponsored by us and the benefit obligation under the transferred defined benefit pension plans and postretirement benefit plans were determined on an actuarial basis as of the transfer date. We use actuaries to calculate the benefit obligation of the plans as of the respective measurement dates, using key assumptions such as discount rates, inflation, long-term investment returns, mortality, employee turnover, rate of compensation increases and medical and prescription drug costs, based on company data and appropriate market indicators. We recognize each plan's funded status as an asset for overfunded plans and as a liability for unfunded or underfunded plans. Actuarial gains and losses and prior service costs are recognized and recorded in accumulated other comprehensive loss, a component of equity. The amounts recorded in accumulated other comprehensive loss will continue to be modified as actuarial assumptions and service costs change, and all such amounts will be amortized to expense over a period of years through the net pension and net periodic benefit costs.

As of December 31, 2015, our projected benefit obligations related to our pension and postretirement benefit plans were $1,163.5 million and $215.3 million, respectively, and the underfunded status of our pension and postretirement benefit obligations were $19.9 million and $77.4 million, respectively. These benefit obligations were valued using a weighted average discount rate of 4.67% and 4.51% for pension and postretirement benefit plans, respectively. The determination of the discount rate is generally based on an index created from a hypothetical bond portfolio consisting of high-quality fixed income securities with durations that match the timing of expected benefit payments. Changes in the selected discount rate could have a material impact on our projected benefit obligations and the unfunded status of our pension and other postretirement benefit plans.

For the year ended December 31, 2015, net periodic pension benefit cost was $25.3 million, and net periodic postretirement benefit cost was $5.4 million. In 2015, net periodic pension and postretirement benefit costs were calculated using a variety of assumptions, including a weighted average discount rate of 4.21% and 4.05%, respectively, and an expected return on plan assets of 6.98% and 5.00%, respectively. The expected return on plan assets is determined based on several factors, including adjusted historical returns, historical risk premiums for various asset classes and target asset allocations within the portfolio. Adjustments made to the historical returns are based on recent return experience in the equity and fixed income markets and the belief that deviations from historical returns are likely over the relevant investment horizon.

As of December 31, 2015 and 2014, a 0.25% decrease in the discount rate assumption would increase annual benefit expense by an estimated $2.2 million and $2.3 million, respectively, while a 0.25% increase in the discount rate assumption would decrease annual benefit expense by an estimated $2.2 million and $1.8 million, respectively. A 0.25% decrease in the return on plan assets assumption would increase annual benefit expense by an estimated $2.9 million and $2.8 million, respectively, while a 0.25% increase in the return on plan assets assumption would decrease annual benefit expense by an estimated $2.9 million and $2.8 million, respectively.

Aggregate net periodic pension and postretirement benefit cost for 2016 is forecasted to be approximately $21 million and $5 million, respectively. This estimate is based on a weighted average discount rate of 4.67% for the pension benefit plans and 4.51% for the postretirement benefit plans, as well as an expected return on assets of 6.5% for the pension benefit plans and 5.0% for the postretirement benefit plans, respectively. Actual cost is also dependent on various other factors related to the employees covered by these plans. Adjustments to our actuarial assumptions could have a material adverse impact on our operating results.

Please refer to Note 8 – “Retirement and Postretirement Benefit Plans,” in the Notes to the Consolidated Financial Statements for further information related to our pension and postretirement benefit plans.

OTHER LOSS RESERVES

We have a number of loss exposures that are incurred in the ordinary course of business such as environmental claims, product liability claims, product warranty claims, litigation and accounts receivable reserves. Establishing loss reserves for these matters requires management’s estimate and judgment with regards to risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances.

Forward-Looking Statements

Certain statements set forth in this Annual Report on Form 10-K (including our forecasts, beliefs and expectations) that are not historical in nature are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management’s Discussion and Analysis of Financial Condition and Results of Operations contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “outlook,” “intend,” “may,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “would,” or other similar words, phrases or expressions that convey the uncertainty of future events or outcomes. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We caution readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of us due to a variety of factors, such as:

- deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which we conduct business, including additional adverse effects from global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which we or our customers conduct business, and changes in currency valuations;

- the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which we operate. This includes: our ability to respond to rapid changes in customer demand; the effects of customer bankruptcies or liquidations; the impact of changes in industrial business cycles; and whether conditions of fair trade continue in the U.S. markets;

- competitive factors, including changes in market penetration; increasing price competition by existing or new foreign and domestic competitors; the introduction of new products by existing and new competitors; and new technology that may impact the way our products are sold or distributed;

- changes in operating costs, including the effect of changes in our manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability of raw materials and energy; our ability to mitigate the impact of fluctuations in raw materials and energy costs and the effectiveness of our surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management, cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;

- the success of our operating plans, announced programs, initiatives and capital investments (including the jumbo bloom vertical caster and advanced quench-and-temper facility); the ability to integrate acquired companies; the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings; and our ability to maintain appropriate relations with unions that represent our associates in certain locations in order to avoid disruptions of business;

- unanticipated litigation, claims or assessments, including claims or problems related to intellectual property, product liability or warranty, environmental issues and taxes, among other matters;

- changes in worldwide financial markets, including availability of financing and interest rates, which affect: our cost of funds and/or ability to raise capital; our pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase our products or equipment that contain our products; and the amount of any dividend declared by our Board of Directors on our common shares; and

- those items identified under “Risk Factors” and other parts of this Annual Report.

You are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our borrowings consist entirely of variable-rate debt, principally our amended credit facility. We are exposed to the risk of rising interest rates to the extent that we fund our operations with these variable-rate borrowings. As of December 31, 2015, we have $200.2 million of aggregate debt outstanding, all of which consists of debt with variable interest rates. Based on the amount of debt with variable-rate interest outstanding, a 1% rise in interest rates would result in an increase in interest expense of approximately $2 million annually, with a corresponding decrease in income from operations before income taxes of the same amount.

FOREIGN CURRENCY EXCHANGE RATE RISK

Fluctuations in the value of the U.S. dollar compared to foreign currencies may impact our earnings. Geographically, our sales are primarily made to customers in the United States. Currency fluctuations could impact us to the extent they impact the currency or the price of raw materials in foreign countries in which our competitors operate or have significant sales.

COMMODITY PRICE RISK

In the ordinary course of business, we are exposed to market risk with respect to commodity price fluctuations, primarily related to our purchases of raw materials and energy, principally scrap steel, other ferrous and non-ferrous metals, alloys, natural gas and electricity. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing business. We utilize a raw material surcharge as a component of pricing steel to pass through the cost increases of scrap, alloys and other raw materials, as well as natural gas. From time to time, we may use derivative financial instruments to hedge a portion of our exposure to price risk related to natural gas and electricity purchases. In periods of stable demand for our products, the surcharge mechanism has worked effectively to reduce the normal time lag in passing through higher raw material costs so that we can maintain our gross margins. When demand and cost of raw materials is lower, however, the surcharge impacts sales prices to a lesser extent.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of TimkenSteel Corporation

We have audited the accompanying consolidated balance sheets of TimkenSteel Corporation as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule included at Item 15a. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TimkenSteel Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TimkenSteel Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 29, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of TimkenSteel Corporation

We have audited TimkenSteel Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). TimkenSteel Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TimkenSteel Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of TimkenSteel Corporation, and our report dated February 29, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 29, 2016

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2015	**2014**	**2013**
(Dollars in millions, except per share data)			
Net sales	**$ 1,106.2**	$1,674.2	$1,380.9
Cost of products sold	**1,097.4**	1,400.4	1,157.7
Gross Profit	**8.8**	273.8	223.2
Selling, general and administrative expenses	**111.0**	112.1	91.8
Impairment and restructuring charges	**6.5**	1.2	0.6
Operating (Loss) Income	**(108.7)**	160.5	130.8
Interest expense	**3.4**	0.9	0.2
Other expense, net	**2.9**	1.4	3.0
(Loss) Income Before Income Taxes	**(115.0)**	158.2	127.6
(Benefit) provision for income taxes	**(42.6)**	53.8	38.1
Net (Loss) Income	**($ 72.4)**	$ 104.4	$ 89.5
Per Share Data:			
Basic (loss) earnings per share	**($ 1.63)**	$ 2.29	$ 1.96
Diluted (loss) earnings per share	**($ 1.63)**	$ 2.27	$ 1.94
Dividends per share	**$ 0.42**	$ 0.28	$ –

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended December 31,		
	2015	**2014**	**2013**
(Dollars in millions)			
Net (loss) income	**($72.4)**	$104.4	$89.5
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	**(1.5)**	(1.2)	0.2
Pension and postretirement liability adjustment	**35.0**	(58.6)	–
Other comprehensive income (loss), net of tax	**33.5**	(59.8)	0.2
Comprehensive (Loss) Income, net of tax	**($38.9)**	$ 44.6	$89.7

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	**2014**
(Dollars in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 42.4**	$ 34.5
Accounts receivable, net of allowances 2015 – $1.5 million; 2014 – $0.2 million	**80.9**	167.1
Inventories, net	**173.9**	293.8
Deferred income taxes	**–**	20.3
Deferred charges and prepaid expenses	**11.4**	28.0
Other current assets	**9.2**	7.6
Total Current Assets	**317.8**	551.3
Property, Plant and Equipment, Net	**769.3**	771.9
Other Assets		
Pension assets	**20.0**	8.0
Intangible assets, net	**30.6**	30.3
Other non-current assets	**4.1**	2.6
Total Other Assets	**54.7**	40.9
Total Assets	**$1,141.8**	$1,364.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable, trade	**$ 49.5**	$ 120.2
Salaries, wages and benefits	**21.4**	49.1
Accrued pension and postretirement	**3.2**	17.8
Other current liabilities	**30.1**	38.4
Total Current Liabilities	**104.2**	225.5
Non-Current Liabilities		
Long-term debt	**200.2**	185.2
Accrued pension and postretirement costs	**114.1**	119.1
Deferred income taxes	**26.9**	75.1
Other non-current liabilities	**10.0**	11.1
Total Non-Current Liabilities	**351.2**	390.5
Commitments and contingencies	**–**	–
Shareholders' Equity		
Preferred shares, no par value; authorized 10.0 million shares, none issued	**–**	–
Common shares, no par value; authorized 200.0 million shares; issued 2015 and 2014 – 45.7 million shares	**–**	–
Additional paid-in capital	**1,058.2**	1,050.7
Net parent investment	**–**	–
Retained (deficit) earnings	**(61.7)**	29.4
Treasury shares, 2015 – 1.5 million and 2014 – 0.9 million shares	**(46.3)**	(34.7)
Accumulated other comprehensive loss	**(263.8)**	(297.3)
Total Shareholders' Equity	**686.4**	748.1
Total Liabilities and Shareholders' Equity	**$1,141.8**	$1,364.1

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Total	Additional Paid-in Capital	Net Parent Investment	Retained Earnings (Deficit)	Treasury Shares	Accumulated Other Comprehensive Loss
(Dollars in millions)						
Balance as of December 31, 2012	$699.8	$ –	$ 700.4	$ –	$ –	($ 0.6)
Net income	89.5	–	89.5	–	–	–
Foreign currency translation adjustments	0.2	–	–	–	–	0.2
Stock-based compensation expense	2.8	–	2.8	–	–	–
Net transfer (to)/from Timken and affiliates	8.5	–	8.5	–	–	–
Balance as of December 31, 2013	$800.8	$ –	$ 801.2	$ –	$ –	($ 0.4)
Net income	104.4	–	62.3	42.1	–	–
Pension and postretirement adjustment, net of tax	(58.6)	–	–	–	–	(58.6)
Foreign currency translation adjustments	(1.2)	–	–	–	–	(1.2)
Stock-based compensation expense	6.0	4.0	2.0	–	–	–
Dividends – $0.28 per share	(12.7)	–	–	(12.7)	–	–
Net transfer (to)/from Timken and affiliates	(62.0)	9.2	165.9	–	–	(237.1)
Reclassification of net parent investment to additional paid-in capital	–	1,031.4	(1,031.4)	–	–	–
Stock option exercise activity	6.1	6.1	–	–	–	–
Purchase of treasury shares	(30.6)	–	–	–	(30.6)	–
Shares surrendered for taxes	(4.1)	–	–	–	(4.1)	–
Balance as of December 31, 2014	$748.1	$1,050.7	$ –	$ 29.4	($ 34.7)	($ 297.3)
Net loss	(72.4)	–	–	(72.4)	–	–
Pension and postretirement adjustment, net of tax	35.0	–	–	–	–	35.0
Foreign currency translation adjustments	(1.5)	–	–	–	–	(1.5)
Stock-based compensation expense	7.0	7.0	–	–	–	–
Dividends – $0.42 per share	(18.7)	–	–	(18.7)	–	–
Adjustments to net parent investment and additional paid-in capital	4.7	4.7	–	–	–	–
Stock option exercise activity	1.5	1.5	–	–	–	–
Purchase of treasury shares	(15.2)	–	–	–	(15.2)	–
Issuance of treasury shares	–	(5.7)	–	–	5.7	–
Shares surrendered for taxes	(2.1)	–	–	–	(2.1)	–
Balance as of December 31, 2015	**$686.4**	**$1,058.2**	**$ –**	**($ 61.7)**	**($ 46.3)**	**($ 263.8)**

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	**2014**	**2013**
(Dollars in millions)			
CASH PROVIDED (USED)			
Operating Activities			
Net (loss) income	**($ 72.4)**	$ 104.4	$ 89.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**73.4**	58.0	50.0
Impairment charges	**0.9**	1.2	0.6
Loss on sale or disposal of assets	**1.0**	1.4	3.2
Deferred income taxes	**(41.5)**	1.4	16.0
Stock-based compensation expense	**7.0**	6.0	2.8
Pension and postretirement expense	**30.7**	14.9	–
Pension and postretirement contributions and payments	**(15.6)**	(20.7)	–
Changes in operating assets and liabilities:			
Accounts receivable, including due from related party	**86.2**	(17.7)	(11.8)
Inventories, net	**119.9**	(66.8)	29.2
Accounts payable, including due to related party	**(70.7)**	16.2	(8.1)
Other accrued liabilities	**(31.5)**	26.2	3.2
Prepaid expenses	**23.0**	(27.6)	0.3
Other, net	**(3.3)**	(3.0)	0.2
Net Cash Provided by Operating Activities	**107.1**	93.9	175.1
Investing Activities			
Capital expenditures	**(78.2)**	(129.6)	(182.8)
Proceeds from disposals of property, plant and equipment	**0.4**	–	0.2
Other	**–**	–	(1.0)
Net Cash Used by Investing Activities	**(77.8)**	(129.6)	(183.6)
Financing Activities			
Cash dividends paid to shareholders	**(18.7)**	(12.7)	–
Purchase of treasury shares	**(17.3)**	(34.7)	–
Proceeds from exercise of stock options	**1.5**	5.8	–
Payment on long-term debt	**(50.0)**	(30.2)	–
Proceeds from issuance of debt	**65.0**	185.2	–
Deferred financing costs	**(1.4)**	–	–
Dividend paid to Timken	**–**	(50.0)	–
Net transfers (to)/from Timken and affiliates	**(0.5)**	6.8	8.5
Net Cash (Used) Provided by Financing Activities	**(21.4)**	70.2	8.5
Effect of exchange rate changes on cash	**–**	–	–
Increase in Cash and Cash Equivalents	**7.9**	34.5	–
Cash and cash equivalents at beginning of period	**34.5**	–	–
Cash and Cash Equivalents at End of Period	**$ 42.4**	$ 34.5	$ –

See accompanying Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(dollars in millions, except per share data)

NOTE 1 – BASIS OF PRESENTATION

TimkenSteel Corporation (TimkenSteel) became an independent company as a result of the distribution on June 30, 2014 by The Timken Company (Timken) of 100 percent of the outstanding common shares of TimkenSteel to Timken shareholders. Each Timken shareholder of record as of the close of business on June 23, 2014 received one TimkenSteel common share for every two Timken common shares held as of the record date for the distribution. TimkenSteel common shares trade on the New York Stock Exchange under the ticker symbol “TMST.”

Prior to the spinoff on June 30, 2014, TimkenSteel operated as a reportable segment of Timken. The accompanying Consolidated Financial Statements for periods prior to the separation have been prepared from Timken’s historical accounting records and are presented on a stand-alone basis as if the operations had been conducted independently from Timken. Accordingly, Timken and its subsidiaries’ net investment in the operations is shown as net parent investment in lieu of stockholders’ equity in the Consolidated Financial Statements. The Consolidated Financial Statements for periods prior to the separation include the historical results of operations, assets and liabilities of the legal entities that are considered to comprise TimkenSteel. The historical results of operations and cash flows of TimkenSteel presented in the Consolidated Financial Statements for periods prior to the separation may not be indicative of what they would have been had TimkenSteel actually been a separate stand-alone entity during such periods, nor are they necessarily indicative of TimkenSteel’s future results of operations and cash flows.

Certain items previously reported in specific financial statement captions have been reclassified to conform to the fiscal 2015 presentation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination:
The Consolidated Financial Statements include the combined assets, liabilities, revenues and expenses related to TimkenSteel as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013. All significant intercompany accounts and transactions within TimkenSteel have been eliminated in the preparation of the Consolidated Financial Statements. All significant intercompany transactions with Timken prior to the spinoff are deemed to have been paid in the period the cost was incurred.

Revenue Recognition:
TimkenSteel recognizes revenue when title passes to the customer, which includes related party sales to Timken and its subsidiaries for the periods prior to spinoff. This occurs at the shipping point except for goods sold by certain foreign entities and certain exported goods, where title passes when the goods reach their destination. Selling prices are fixed based on purchase orders or contractual arrangements. Shipping and handling costs billed to customers are included in net sales and the related costs are included in cost of products sold in the Consolidated Statements of Operations.

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

Allowance for Doubtful Accounts:
TimkenSteel maintains an allowance for doubtful accounts, which represents an estimate of the losses expected from the accounts receivable portfolio, to reduce accounts receivable to their net realizable value. The allowance is

based upon historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk. TimkenSteel extends credit to customers satisfying pre-defined credit criteria. TimkenSteel believes it has limited concentration of credit risk due to the diversity of its customer base.

Inventories, Net:
Inventories are valued at the lower of cost or market. The majority of TimkenSteel's domestic inventories are valued by the last-in, first-out (LIFO) method. The remaining inventories, including manufacturing supplies inventory as well as international (outside the United States) inventories are valued by the first-in, first-out (FIFO), average cost or specific identification methods. Reserves are established for product inventory that is identified to be surplus and/or obsolete based on future requirements.

Property, Plant and Equipment, Net:
Property, plant and equipment, net are valued at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The 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 and three to 20 years for machinery and equipment.

Intangible Assets, Net:
Intangible assets subject to amortization are amortized on a straight-line method over their legal or estimated useful lives, with useful lives ranging from three to 15 years.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350-40, "Internal-Use Software", (ASC 350-40), TimkenSteel capitalizes certain costs incurred for computer software developed or obtained for internal use. TimkenSteel capitalizes substantially all external costs and qualifying internal costs related to the purchase and implementation of software projects used for business operations. Capitalized software costs primarily include purchased software and external consulting fees. Capitalized software projects are amortized over the estimated useful lives of the software.

Long-lived Asset Impairment:
Long-lived assets (including tangible assets and intangible assets subject to amortization) are reviewed for impairment when events or changes in circumstances have occurred indicating that the carrying value of the assets may not be recoverable.

TimkenSteel tests recoverability of long-lived assets at the lowest level for which there are identifiable cash flows that are independent from the cash flows of other assets. Assets and asset groups held and used are measured for recoverability by comparing the carrying amount of the asset or asset group to the sum of future undiscounted net cash flows expected to be generated by the asset or asset group.

Assumptions and estimates about future values and remaining useful lives of TimkenSteel's long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in TimkenSteel's business strategy and internal forecasts.

If an asset or asset group is considered to be impaired, the impairment loss that would be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. To determine fair value, TimkenSteel would use internal cash flow estimates discounted at an appropriate interest rate, third party appraisals, as appropriate, and/or market prices of similar assets, when available.

In the years ending December 31, 2015, 2014 and 2013 TimkenSteel recorded impairment charges of $0.9 million, $1.2 million and $0.6 million respectively, related to the discontinued use of certain long-lived assets.

Product Warranties:
TimkenSteel accrues liabilities for warranties based upon specific claim incidents in accordance with accounting rules relating to contingent liabilities. Should TimkenSteel become aware of a specific potential warranty claim for which liability is probable and reasonably estimable, a specific charge is recorded and accounted for accordingly. TimkenSteel has no significant warranty claims for the years ended December 31, 2015, 2014 and 2013.

Income Taxes:
For the periods ending prior to and on June 30, 2014, income taxes, as presented herein, attribute current and deferred income taxes of Timken to the TimkenSteel stand-alone financial statements in a manner that is systematic, rational and consistent with the asset and liability method prescribed by the FASB ASC Topic 740, "Accounting for Income Taxes" (ASC 740). Accordingly, the TimkenSteel income tax provision was prepared following the "separate return method." The separate return method applies ASC 740 to the stand-alone financial statements of each member of the consolidated group as if the group member were a separate taxpayer and a stand-alone enterprise. As a result, actual tax transactions included in the financial statements of Timken may not be included in the Consolidated Financial Statements of TimkenSteel. Similarly, the tax treatment of certain items reflected in the Consolidated Financial Statements of TimkenSteel may not be reflected in the financial statements and tax returns of Timken; therefore, such items as alternative minimum tax, net operating losses, credit carryforwards, and valuation allowances may exist in the stand-alone financial statements that may or may not exist in Timken's financial statements.

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss and tax credit carryforwards. TimkenSteel recognizes valuation allowances against deferred tax assets by tax jurisdiction when it is more likely than not that such assets will not be realized. Accruals for uncertain tax positions are provided for in accordance with ASC 740. TimkenSteel recognizes interest and penalties related to uncertain tax positions as a component of income tax expense.

In general, the taxable income (loss) of various steel entities was included in Timken's consolidated tax returns, where applicable, in jurisdictions around the world. As such, separate income tax returns were not prepared for any entities of TimkenSteel. Consequently, income taxes currently payable are deemed to have been remitted to Timken, in cash, in the period the liability arose and income taxes currently receivable are deemed to have been received from Timken in the period that a refund could have been recognized by TimkenSteel had TimkenSteel been a separate taxpayer. Accrued U.S. federal, state and certain foreign current income tax balances, including penalties and interest, are treated as being settled without payment as of the end of each year. Therefore, the settlement of the current income tax liability without payment is treated as a Parent contribution and is included in net transfer (to)/from Timken and affiliates in the accompanying Consolidated Statements of Shareholders' Equity.

Following the spinoff on June 30, 2014, TimkenSteel accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. TimkenSteel recognizes deferred tax assets to the extent that TimkenSteel believes these assets are more likely than not to be realized. In making such a determination, TimkenSteel considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If TimkenSteel determines that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, TimkenSteel would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. TimkenSteel records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) TimkenSteel determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, TimkenSteel recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

TimkenSteel recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statements of Operations. Accrued interest and penalties are included within the related tax liability line in the Consolidated Balance Sheets.

Foreign Currency Translation:
Assets and liabilities of subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the year. The related translation adjustments are reflected as a separate component of accumulated other comprehensive loss. Gains and losses resulting from foreign currency transactions are included in the Consolidated Statements of Operations. TimkenSteel realized foreign currency exchange losses of $1.3 million in 2015, $1.1 million in 2014 and $0.1 million in 2013.

Net Parent Investment:
Prior to the spinoff, Timken's net investment in TimkenSteel was presented as net parent investment in lieu of stockholder's equity. The Consolidated Statements of Shareholders' Equity included net cash transfers and other property transfers between Timken and TimkenSteel. Timken performed cash management and other treasury related functions on a centralized basis for nearly all of its legal entities, which included TimkenSteel. The net parent investment account included assets and liabilities incurred by Timken on behalf of TimkenSteel such as accrued liabilities related to corporate allocations including administrative expenses for legal, accounting, treasury, information technology, human resources and other services. Other assets and liabilities recorded by Timken, whose related income and expense had been pushed down to TimkenSteel, were also included in net parent investment.

All intercompany transactions effected through net parent investment in the accompanying Consolidated Balance Sheets were considered cash receipts and payments and are reflected in financing activities in the accompanying Consolidated Statements of Cash Flows.

The following table is a reconciliation of the amounts related to the spinoff, presented in the Consolidated Statements of Shareholders' Equity as net transfer (to)/from Timken and affiliates and the amounts presented as net transfers from/(to) Timken and affiliates on the Consolidated Statements of Cash Flows.

	Year Ended December 31, 2014
Net transfer (to)/from Timken and affiliates – Equity	($62.0)
Dividend paid to Timken	50.0
Net transfer of (assets) and liabilities from Timken	25.0
Settlement of (assets) and liabilities with Timken	(9.2)
Cash received from Timken for settlement of separation	3.0
Net transfers from/(to) Timken and affiliates – Cash Flow	**$ 6.8**

Additionally, during 2015, we adjusted additional paid in capital to reflect final adjustments between the Company and Timken related primarily to the allocation of certain temporary differences calculated for tax purposes.

Pension and Other Postretirement Benefits:
TimkenSteel recognizes an overfunded status or underfunded status (i.e., the difference between the fair value of plan assets and the benefit obligations) as either an asset or a liability for its defined benefit pension and postretirement benefit plans on the Consolidated Balance Sheets, with a corresponding adjustment to accumulated other comprehensive loss, net of tax. The adjustment to accumulated other comprehensive loss represents the current year net unrecognized actuarial gains and losses and unrecognized prior service costs. These amounts will be recognized in future periods as net periodic benefit cost.

Prior to the spinoff, certain of TimkenSteel's employees participated in defined benefit pension and other postretirement benefit plans sponsored by Timken and accounted for by Timken in accordance with accounting guidance for defined benefit pension and other postretirement benefit plans. Expense allocations for these benefits were determined based on a review of personnel by business unit and based on allocations of corporate and other shared functional personnel.

Stock-Based Compensation:
TimkenSteel recognizes stock-based compensation expense based on the grant date fair value of the stock-based awards over their required vesting period on a straight-line basis, whether the award was granted with graded or cliff vesting. Stock options are issued with an exercise price equal to the opening market price of TimkenSteel common shares on the date of grant. The fair value of stock options is determined using a Black-Scholes option pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. The fair value of stock-based awards that will settle in TimkenSteel common shares, other than stock options, is based on the opening market price of TimkenSteel common shares on the grant date. The fair values of stock-based awards that will settle in cash are remeasured at each reporting period until settlement of the awards.

Derivative Instruments:
TimkenSteel recognizes all derivatives on the Consolidated Balance Sheets at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. Forward contracts on various foreign currencies may be entered into in order to manage the foreign currency exchange rate risk on forecasted revenue denominated in foreign currencies. Other forward exchange contracts on various foreign currencies may be entered into in order to manage the foreign currency exchange rate risk associated with certain of TimkenSteel's commitments denominated in foreign currencies.

As of December 31, 2015 and 2014, TimkenSteel had foreign currency forward contracts with a fair value of less than $0.1 million based on level 2 inputs.

Research and Development:
Expenditures for TimkenSteel research and development amounted to $8.6 million, $8.5 million and $9.4 million for the years ended December 31, 2015, 2014 and 2013, respectively, and were recorded as a component of selling, general and administrative expenses in the Consolidated Statements of Operations. These expenditures may fluctuate from year to year depending on special projects and the needs of TimkenSteel and its customers.

Recent Accounting Pronouncements:
In November 2015, the FASB issued Accounting Standard Updated (ASU) 2015-17, "Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes". This guidance requires companies to classify all deferred tax asset

and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances will be classified as noncurrent. It is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. TimkenSteel adopted ASU 2015-17 as of December 31, 2015 and is presenting the changes prospectively.

In August 2015, the FASB issued ASU 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". This ASU provides additional guidance to ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-3), which did not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. This guidance explains that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of ASU 2015-15 did not affect the results of operations and financial position of TimkenSteel.

In July 2015, the FASB issued ASU 2015-11, "Inventory: Simplifying the Measurement of Inventory (Topic 330)," which provides guidance that simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out (LIFO) and therefore applies only to the approximately 37% of inventory that TimkenSteel values by first-in, first-out (FIFO), average cost or specific identification methods. It is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the financial statements. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented. TimkenSteel adopted ASU 2015-07 effective December 31, 2015.

In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. It is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. TimkenSteel is currently evaluating the impact of the adoption of this accounting standard update on its results of operations and financial condition.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” This ASU is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2014-15 did not affect the results of operations and financial condition of TimkenSteel.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”. This ASU defers the effective date of ASU 2014-09 for all entities by one year. Early application is permitted but not before the original effective date of annual periods beginning after December 15, 2016. TimkenSteel is currently evaluating the impact of the adoption of this ASU on its results of operations and financial condition.

Use of Estimates:

The preparation of these Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. These estimates and assumptions are reviewed and updated regularly to reflect recent experience.

NOTE 3 – INVENTORIES

The components of inventories, net as of December 31, 2015 and 2014 were as follows:

	December 31,	
	2015	**2014**
Inventories, net:		
Manufacturing supplies	**$ 43.3**	$ 38.5
Raw materials	**14.6**	56.8
Work in process	**59.5**	110.3
Finished products	**64.9**	91.1
Subtotal	**182.3**	296.7
Allowance for surplus and obsolete inventory	**(8.4)**	(2.9)
Total Inventories, net	**$173.9**	$293.8

Inventories are valued at the lower of cost or market, with approximately 63% valued by the LIFO method and the remaining inventories are valued by the FIFO, average cost or specific identification methods.

The LIFO reserve as of December 31, 2015 and December 31, 2014 was $51.4 million and $86.7 million, respectively. TimkenSteel recognized a decrease in its LIFO reserve of $35.3 million during 2015 in cost of products sold compared to an increase of $7.7 million during 2014. The decrease in the LIFO reserve recognized during 2015 was due to lower costs, particularly scrap steel costs, and lower inventory quantities, slightly offset by higher manufacturing costs.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment, net as of December 31, 2015 and 2014 were as follows:

	December 31,	
	2015	**2014**
Property, Plant and Equipment, net:		
Land	**$ 13.4**	$ 12.8
Buildings and improvements	**418.2**	341.6
Machinery and equipment	**1,298.2**	1,121.0
Construction-in-progress	**74.9**	288.3
Subtotal	**1,804.7**	1,763.7
Less allowances for depreciation	**(1,035.4)**	(991.8)
Property, Plant and Equipment, net	**$ 769.3**	$ 771.9

Total depreciation expense was $67.2 million, $50.8 million and $47.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

TimkenSteel recorded capitalized interest related to construction projects of $1.0 million, $6.9 million and $10.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The amount of capitalized interest for 2014 includes $5.7 million that was allocated to TimkenSteel from Timken prior to the spinoff.

TimkenSteel recorded impairment charges of $0.9 million, $0.3 million and 0.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, related to the discontinued use of certain assets.

NOTE 5 – INTANGIBLE ASSETS

The components of intangible assets, net as of December 31, 2015 and 2014 were as follows:

	December 31, 2015			December 31, 2014		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Intangible Assets Subject to Amortization:						
Customer relationships	**$ 6.8**	**$ 3.7**	**$ 3.1**	$ 6.8	$ 2.4	$ 4.4
Technology use	**9.0**	**4.7**	**4.3**	9.0	4.1	4.9
Capitalized software	**57.9**	**34.7**	**23.2**	50.6	29.6	21.0
Total Intangible Assets	**$73.7**	**$43.1**	**$30.6**	$66.4	$36.1	$30.3

Intangible assets subject to amortization are amortized on a straight-line method over their legal or estimated useful lives. The weighted-average useful lives of the customer relationships, technology use and capitalized software are 14.4 years, 15.0 years and 6.2 years, respectively. The weighted-average useful life of total intangible assets is 8.0 years.

Amortization expense for intangible assets was $6.2 million, $7.2 million and $2.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Based upon the intangible assets subject to amortization as of December 31, 2015, TimkenSteel's estimated annual amortization expense for the five succeeding years is shown below (in millions):

Year	Amortization Expense
2016	$5.4
2017	5.2
2018	4.7
2019	3.5
2020	2.9

In the fourth quarter of 2014, TimkenSteel made a final determination to discontinue the use of a tradename acquired in 2008, resulting in an impairment charge of $0.9 million, attributable to the Energy & Distribution segment, to reduce the asset to its estimated fair value of zero.

NOTE 6 – FINANCING ARRANGEMENTS

The components of long-term debt as of December 31, 2015 and 2014 were as follows:

	December 31,	
	2015	**2014**
Variable-rate State of Ohio Water Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.1% as of December 31, 2015)	**$ 12.2**	$ 12.2
Variable-rate State of Ohio Air Quality Development Revenue Refunding Bonds, maturing on November 1, 2025 (0.1% as of December 31, 2015)	**9.5**	9.5
Variable-rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033 (0.1% as of December 31, 2015)	**8.5**	8.5
Amended Credit Facility, due 2019 (LIBOR plus applicable spread)	**170.0**	155.0
Total Long-Term Debt	**$200.2**	$185.2

Amended Credit Facility

On December 21, 2015, TimkenSteel entered into an Amendment and Restatement Agreement with the lenders party to the existing credit facility that amended and restated the existing credit facility (the Amended and Restated Credit Agreement).

The Amended and Restated Credit Agreement provides for a $300 million asset-based revolving credit facility, including a $15 million sublimit for the issuance of commercial and standby letters of credit and a $30 million sublimit for swingline loans. Pursuant to the terms of the Amended and Restated Credit Agreement, TimkenSteel is entitled, subject to the satisfaction of certain conditions, to request increases in the commitments under the Amended and Restated Credit Agreement in the aggregate principal amount of up to $50 million, to the extent that existing or new lenders agree to provide such additional commitments. The Amended and Restated Credit Agreement matures on June 30, 2019.

The availability of borrowings under the Amended and Restated Credit Agreement is subject to a borrowing base calculation based upon a valuation of the eligible accounts receivable, inventory and machinery and equipment of TimkenSteel and the subsidiaries of TimkenSteel guaranteeing TimkenSteel's obligations thereunder, each multiplied by an applicable advance rate.

The Amended and Restated Credit Agreement contains certain customary covenants, including covenants that limit the ability of TimkenSteel and its subsidiaries to, among other things, (i) incur or suffer to exist certain liens, (ii) make investments, (iii) incur or guaranty additional indebtedness (iv) enter into consolidations, mergers, acquisitions, sale-leaseback transactions and sales of assets, (v) make distributions and other restricted payments, (vi) change the nature of its business, (vii) engage in transactions with affiliates and (viii) enter into restrictive agreements, including agreements that restrict the ability to incur liens or make distributions. Further, the Amended and Restated Credit Agreement contains financial covenants that limit the amount of capital expenditures TimkenSteel may make to $45 million in fiscal year 2016 and $50 million in fiscal years thereafter.

In addition, the Amended and Restated Credit Agreement requires TimkenSteel to (i) maintain certain minimum availability under the Amended and Restated Credit Agreement as specified therein, including a requirement to have availability of not less than $100 million for at least one day prior to July 1, 2016 and (ii) maintain a minimum specified fixed charge coverage ratio for three consecutive months beginning July 30, 2017 and thereafter on a springing basis if minimum availability requirements as specified in the Amended and Restated Credit Agreement are not maintained.

Borrowings under the Amended and Restated Credit Agreement bear interest based on the daily balance outstanding at LIBOR (with no rate floor), plus an applicable margin (varying from 2.25% to 2.75%) or, in certain cases, an alternate base rate (based on certain lending institutions' Prime Rate or as otherwise specified in the Amended and Restated Credit Agreement, with no rate floor), plus an applicable margin (varying from 1.25% to 1.75%). The Amended and Restated Credit Agreement also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin (0.40%). The applicable margins are calculated quarterly and vary based on TimkenSteel's average quarterly availability as set forth in the Amended and Restated Credit Agreement. The interest rate under the Amended and Restated Credit Agreement was 2.94% as of December 31, 2015. The amount available under the credit facility as of December 31, 2015 was $41.9 million.

Please refer to Note 16 – "Subsequent Events" for details regarding a further amendment to the Amended and Restated Credit Agreement that occurred subsequent to December 31, 2015.

Advanced Quench-and-Temper Facility

In the second quarter of 2015, TimkenSteel entered into a capital lease arrangement with the Stark County Port Authority in connection with the construction of a new advanced quench-and-temper facility in Perry Township, Ohio and the issuance of an Industrial Revenue Bond. The bond is held 100% by TimkenSteel Material Services, LLC (a wholly-owned subsidiary of TimkenSteel) and, accordingly, the obligation under the lease agreement and investment in the Industrial Revenue Bond, as well as the related interest income and expense, are eliminated in the Consolidated Financial Statements. As of December 31, 2015, $27.4 million has been spent on the new advanced quench-and-temper facility and is reported in property, plant and equipment, net in the Consolidated Balance Sheets. Of this amount, $7.2 million has been financed through the capital lease arrangement described above.

Revenue Refunding Bonds

On June 1, 2014, Timken purchased, in lieu of redemption, the State of Ohio Water Development Revenue Refunding Bonds (Water Bonds), State of Ohio Air Quality Development Revenue Refunding Bonds (Air Quality Bonds) and State of Ohio Pollution Control Revenue Refunding Bonds (Pollution Control Bonds) (collectively, Bonds). Pursuant to an Assignment and Assumption Agreement dated June 24, 2014 (Assignment) between Timken and TimkenSteel, Timken assigned all of its right, title and interest in and to the loan agreements and the notes associated with the Bonds to, and these obligations were assumed by, TimkenSteel. Additionally, replacement letters of credit were issued for the Water Bonds and the Pollution Control Bonds. The Bonds were remarketed on June 24, 2014 (Remarketing Date) in connection with the conversion of the interest rate mode for the Bonds to the weekly rate and the delivery of the replacement letters of credit, as applicable. TimkenSteel is responsible for payment of the interest and principal associated with the Bonds subsequent to the Remarketing Date. As a result of the purchase and remarketing of the Bonds, TimkenSteel recorded a loss on debt extinguishment of $0.7 million during the second quarter of 2014 related to the write-off of original deferred financing costs, which are reflected as interest expense in the Consolidated Statements of Operations.

All of TimkenSteel's long-term debt is variable-rate debt and, as a result, the carrying value of this debt is a reasonable estimate of fair value as interest rates on these borrowings approximate current market rates, which is considered a Level 2 input. For the year ended December 31, 2015, interest paid, net of amounts capitalized, was $0.5 million. Prior to the spinoff, interest payments related to TimkenSteel were made by Timken.

In addition, as part of a settlement with the IRS, in 2012 TimkenSteel redeemed half of the balance outstanding on the variable rate State of Ohio Pollution Control Revenue Refunding Bonds, maturing on June 1, 2033, totaling $8.5 million, and agreed to redeem the remaining balance of $8.5 million on December 31, 2022. As part of the settlement, the IRS agreed to allow these bonds to remain tax-exempt during the period they are outstanding.

Leases

TimkenSteel leases a variety of real property and equipment. Rent expense under operating leases amounted to $11.0 million, $9.2 million and $8.4 million in 2015, 2014 and 2013, respectively. As of December 31, 2015, future minimum lease payments for noncancelable operating leases totaled $15.4 million and are payable as follows: 2016-$7.6 million; 2017-$4.2 million; 2018-$2.6 million; 2019-$0.8 million and 2020-$0.2 million. TimkenSteel has no significant lease commitments after 2020.

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in accumulated other comprehensive loss for the years ended December 31, 2015 and 2014 by component are as follows:

	Foreign Currency Translation Adjustments	Pension and Postretirement Liability Adjustments	Total
Balance at December 31, 2013	($ 0.4)	$ –	($ 0.4)
Net transfer from Timken	(3.2)	(233.9)	(237.1)
Other comprehensive (loss) before reclassifications, before income tax	(1.2)	(109.3)	(110.5)
Amounts reclassified from accumulated other comprehensive loss, before income tax	–	19.2	19.2
Income tax benefit	–	31.5	31.5
Net current period other comprehensive (loss), net of income taxes	(1.2)	(58.6)	(59.8)
Balance at December 31, 2014	($ 4.8)	($ 292.5)	($ 297.3)
Other comprehensive (loss) income before reclassifications, before income tax	(1.5)	11.1	9.6
Amounts reclassified from accumulated other comprehensive loss, before income tax	–	35.8	35.8
Income tax (expense)	–	(11.9)	(11.9)
Net current period other comprehensive (loss) income, net of tax	(1.5)	35.0	33.5
Balance at December 31, 2015	**($ 6.3)**	**($ 257.5)**	**($ 263.8)**

The reclassification of the pension and postretirement liability adjustment was included in costs of products sold and selling, general and administrative expenses in the Consolidated Statements of Operations. These components are included in the computation of pension and postretirement net periodic benefit cost. Refer to Note 8 – "Retirement and Postretirement Benefit Plans" for further details.

NOTE 8 – RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pensions

Prior to the spinoff, eligible TimkenSteel employees, including certain employees in foreign countries, participated in the following Timken-sponsored plans: The Timken Company Pension Plan; The Timken-Latrobe-MPB-Torrington Retirement Plan; and the Timken UK Pension Scheme. During 2014, the assets and liabilities of these pension plans related to TimkenSteel employees and retirees were transferred to pension plans sponsored by TimkenSteel as follows: TimkenSteel Corporation Retirement Plan; TimkenSteel Corporation Bargaining Unit Pension Plan and the TimkenSteel UK Pension Scheme. Plan assets of $1,193.6 million, benefit plan obligations of $1,134.8 million and accumulated other comprehensive losses of $361.8 million ($228.9 million, net of tax) were recorded by TimkenSteel related to these plans. The amounts recorded related to the transfer to TimkenSteel plans were remeasured as of the date of transfer, which included updated valuation assumptions, as appropriate.

Pension benefits earned are generally based on years of service and compensation during active employment. TimkenSteel's funding policy is consistent with the funding requirements of applicable laws and regulations. Asset allocations are established in a manner consistent with projected plan liabilities, benefit payments and expected rates of return for the various asset classes. The expected rate of return for the investment portfolio is based on expected rates of return for various asset classes, as well as historical asset class and fund performance.

Postretirement Benefits

Prior to the spinoff, eligible retirees of TimkenSteel and their dependents were provided health care and life insurance benefits from the following Timken-sponsored plans: The Timken Company Bargaining Unit Welfare Benefit Plan for Retirees and The Timken Company Welfare Plan for Retirees. During 2014, the assets and liabilities of these postretirement plans related to TimkenSteel employees and retirees were transferred to postretirement plans sponsored by TimkenSteel as follows: TimkenSteel Corporation Bargaining Unit Welfare Benefit Plan for Retirees and TimkenSteel Corporation Welfare Benefit Plan for Retirees. Plan assets of $130.1 million, benefit plan obligations of $232.2 million and accumulated other comprehensive losses of $8.2 million ($5.0 million, net of tax) were recorded by TimkenSteel related to these plans. The amounts recorded related to the transfer to TimkenSteel plans were remeasured as of the date of transfer, which included updated valuation assumptions, as appropriate.

The following tables set forth the change in benefit obligation, change in plan assets, funded status and amounts recognized on the Consolidated Balance Sheets for the defined benefit pension plans as of December 31, 2015 and 2014:

	Pension		Postretirement	
Change in benefit obligation:	**2015**	**2014**	**2015**	**2014**
Benefit obligation at the beginning of year	**$1,257.5**	$ –	**$243.3**	$ –
Service cost	**16.8**	10.2	**1.7**	1.1
Interest cost	**51.3**	33.3	**9.4**	6.5
Actuarial (gains) losses	**(88.2)**	131.2	**(19.9)**	16.4
Benefits paid	**(70.2)**	(44.2)	**(19.2)**	(12.9)
Liabilities assumed from separation	**–**	1,134.8	**–**	232.2
Foreign currency translation adjustment	**(3.7)**	(7.8)	**–**	–
Benefit obligation at the end of year	**$1,163.5**	$1,257.5	**$215.3**	$243.3

	Pension		Postretirement	
Change in plan assets:	**2015**	**2014**	**2015**	**2014**
Fair value of plan assets at the beginning of year	**$ 1,229.3**	$ –	**$ 142.6**	$ –
Actual return on plan assets	**(12.0)**	87.5	**(0.6)**	5.0
Employee contributions	**–**	–	**–**	–
Company contributions / payments	**0.5**	0.3	**15.1**	20.4
Benefits paid	**(70.2)**	(44.2)	**(19.2)**	(12.9)
Assets received from separation	**–**	1,193.6	**–**	130.1
Foreign currency translation adjustment	**(4.0)**	(7.9)	**–**	–
Fair value of plan assets at end of year	**$ 1,143.6**	$ 1,229.3	**$ 137.9**	$ 142.6
Funded status at end of year	**($ 19.9)**	($ 28.2)	**($ 77.4)**	($100.7)

The accumulated benefit obligation at December 31, 2015 exceeded the fair value of plan assets for one of the Company's pension plans. For this plan the benefit obligation was $26.0 million, the accumulated benefit obligation was $23.6 million and the fair value of plan assets was $0 as of December 31, 2015.

The total pension accumulated benefit obligation for all plans was $1,132.8 million and $1,218.7 million as of December 31, 2015 and 2014, respectively.

Amounts recognized on the balance sheet at December 31, 2015 and 2014, for TimkenSteel's pension and postretirement benefit plans include:

	Pension		Postretirement	
	2015	**2014**	**2015**	**2014**
Non-current assets	**$ 20.0**	$ 8.0	**$ –**	$ –
Current liabilities	**(0.6)**	(0.4)	**(2.6)**	(17.4)
Non-current liabilities	**(39.3)**	(35.8)	**(74.8)**	(83.3)
	($ 19.9)	($ 28.2)	**($ 77.4)**	($100.7)

Included in accumulated other comprehensive loss at December 31, 2015 and 2014, were the following before-tax amounts that had not been recognized in net periodic benefit cost:

	Pension		Postretirement	
	2015	**2014**	**2015**	**2014**
Unrecognized net actuarial loss	**$400.3**	$433.8	**$7.5**	$20.0
Unrecognized prior service cost	**2.1**	2.7	**2.4**	3.4
	$402.4	$436.5	**$9.9**	$23.4

The change in plan assets and benefit obligations before tax recognized in accumulated other comprehensive loss for the year ended December 31, 2015 and 2014 were as follows:

	Pension		Postretirement	
	2015	**2014**	**2015**	**2014**
Beginning balance, January 1	**$436.5**	$ –	**$ 23.4**	$ –
Net actuarial loss (gain)	**1.2**	94.7	**(12.3)**	15.8
Recognized net actuarial loss	**(34.0)**	(18.1)	**(0.1)**	–
Recognized prior service cost	**(0.6)**	(0.5)	**(1.1)**	(0.6)
Net transfer from Timken	**–**	361.8	**–**	8.2
Foreign currency translation adjustment	**(0.7)**	(1.4)	**–**	–
Ending balance, December 31	**$402.4**	$436.5	**$ 9.9**	$23.4

Amounts expected to be amortized from accumulated other comprehensive loss and included in total net periodic benefit cost during the year ended December 31, 2016 are as follows:

	Pension	Postretirement
Net actuarial loss	$23.9	$ –
Prior service cost	0.6	1.1
	$24.5	**$1.1**

The weighted-average assumptions used in determining benefit obligation as of December 31, 2015 and 2014 were as follows:

	Pension		Postretirement	
Assumptions:	**2015**	**2014**	**2015**	**2014**
Discount rate	4.67%	4.21%	4.51%	4.05%
Future compensation assumption	2.76%	3.09%	n/a	n/a

The weighted-average assumptions used in determining benefit cost for the year ended December 31, 2015 and 2014 were as follows:

	Pension		Postretirement	
Assumptions:	**2015**	**2014**	**2015**	**2014**
Discount rate	4.21%	4.65%	4.05%	4.33%
Future compensation assumption	3.09%	3.11%	n/a	n/a
Expected long-term return on plan assets	6.98%	7.23%	5.00%	5.00%

The discount rate assumption is based on current rates of high-quality long-term corporate bonds over the same period that benefit payments will be required to be made. The expected rate of return on plan assets assumption is based on the weighted-average expected return on the various asset classes in the plans' portfolio. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance. At December 31, 2014, a new mortality table was used for purposes of determining TimkenSteel's mortality assumption that contributed to an increase in projected benefit obligations of approximately $75 million.

For measurement purposes, TimkenSteel assumed a weighted-average annual rate of increase in the per capita cost (health care cost trend rate) of 6.75% and 7.00% for 2015 and 2014, respectively, declining gradually to 5.00% in 2023 and thereafter for medical and prescription drug benefits, and 8.75% and 9.00% for 2015 and 2014, respectively, declining gradually to 5.00% in 2031 and thereafter for HMO benefits. A one percentage point increase in the assumed health care cost trend rate would have increased the 2015 and 2014 postretirement benefit obligation by $2.3 million and $3.5 million, respectively and increased the total service and interest cost components by $0.1 million in both the year ended December 31, 2015 and 2014. A one percentage point decrease would have decreased the 2015 and 2014 postretirement benefit obligation by $2.1 million and $3.1 million, respectively and decreased the total service and interest cost components by $0.1 million in both the year ended December 31, 2015 and 2014.

The components of net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Pension			Postretirement		
	Years Ended December 31,			Years Ended December 31,		
Components of net periodic benefit cost:	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Service cost	**$ 16.8**	$ 10.2	$ –	**$ 1.7**	$ 1.1	$ –
Interest cost	**51.3**	33.3	–	**9.4**	6.5	–
Expected return on plan assets	**(77.4)**	(51.0)	–	**(6.9)**	(4.4)	–
Amortization of prior service cost	**0.6**	0.5	–	**1.1**	0.6	–
Amortization of net actuarial loss	**34.0**	18.1	–	**0.1**	–	–
Allocated benefit cost from Timken	**–**	5.2	23.8	**–**	2.2	6.4
Net Periodic Benefit Cost	**$ 25.3**	$ 16.3	$23.8	**$ 5.4**	$ 6.0	$6.4

As disclosed above, prior to the spinoff, employees of TimkenSteel participated in various retirement and postretirement benefits sponsored by The Timken Company. Because Timken provided these benefits to eligible employees and retirees of TimkenSteel, the costs to participating employees of TimkenSteel in these plans were reflected in the Consolidated Financial Statements, while the related assets and liabilities were retained by Timken. Expense allocations for these benefits were determined based on a review of personnel by business unit and based on allocations of corporate and other shared functional personnel. All cost allocations related to the various retirement benefit plans have been deemed paid by TimkenSteel to Timken in the period in which the cost was recorded in the Consolidated Statements of Operations as a component of cost of products sold and selling, general and administrative expenses. Allocated benefit cost from Timken were funded through intercompany transactions, which were reflected within the net parent investment on the Consolidated Balance Sheets.

TimkenSteel recognizes its overall responsibility to ensure that the assets of its various defined benefit pension plans are managed effectively and prudently and in compliance with its policy guidelines and all applicable laws. Preservation of capital is important; however, TimkenSteel also recognizes that appropriate levels of risk are necessary to allow its investment managers to achieve satisfactory long-term results consistent with the objectives and the fiduciary character of the pension funds. Asset allocations are established in a manner consistent with projected plan liabilities, benefit payments and expected rates of return for various asset classes. The expected rate of return for the investment portfolios is based on expected rates of return for various asset classes, as well as historical asset class and fund performance. The target allocations for plan assets are 20% equity securities, 58% debt securities and 22% in all other types of investments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The FASB provides accounting rules that classify the inputs used to measure fair value into the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 – Unobservable inputs for the asset or liability.

The following table presents the fair value hierarchy for those investments of TimkenSteel's pension assets measured at fair value on a recurring basis as of December 31, 2015:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 27.8	$ 2.1	$ 25.7	$–
U.S government and agency securities	220.7	213.1	7.6	–
Corporate bonds	125.6	–	125.6	–
Equity securities	78.8	78.8	–	–
Common collective funds	498.7	–	498.7	–
Mutual funds	74.9	33.9	41.0	–
Real estate partnerships	63.5	–	63.5	–
Risk parity(1)	53.6	–	53.6	–
Total Assets	**$1,143.6**	**$327.9**	**$815.7**	**$–**

(1) Investments in multi-asset risk parity strategy funds with holdings in domestic and international debt and equity securities, commodities, real estate, and derivative investments.

The following table presents the fair value hierarchy for those investments of TimkenSteel's pension assets measured at fair value on a recurring basis as of December 31, 2014

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 51.8	$ 0.5	$ 51.3	$–
U.S government and agency securities	298.9	283.7	15.2	–
Corporate bonds	133.8	–	133.8	–
Equity securities	150.5	150.5	–	–
Common collective funds	406.8	–	406.8	–
Mutual funds	74.2	34.2	40.0	–
Real estate partnerships	56.3	–	56.3	–
Risk parity(1)	57.0	–	57.0	–
Total Assets	**$1,229.3**	**$468.9**	**$760.4**	**$–**

(1) Investments in multi-asset risk parity strategy funds with holdings in domestic and international debt and equity securities, commodities, real estate, and derivative investments.

The following table presents the fair value hierarchy for those investments of TimkenSteel's postretirement assets measured at fair value on a recurring basis as of December 31, 2015:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 1.0	$–	$ 1.0	$–
Common collective funds	124.1	–	124.1	–
Risk parity[(1)]	12.8	–	12.8	–
Total Assets	**$137.9**	**$–**	**$137.9**	**$–**

[(1)] Investments in multi-asset risk parity strategy funds with holdings in domestic and international debt and equity securities, commodities, real estate, and derivative investments.

The following table presents the fair value hierarchy for those investments of TimkenSteel's postretirement assets measured at fair value on a recurring basis as of December 31, 2014:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 2.2	$–	$ 2.2	$–
Common collective funds	126.3	–	126.3	–
Risk parity[(1)]	14.1	–	14.1	–
Total Assets	**$142.6**	**$–**	**$142.6**	**$–**

[(1)] Investments in multi-asset risk parity strategy funds with holdings in domestic and international debt and equity securities, commodities, real estate, and derivative investments.

Future benefit payments are expected to be as follows:

		Postretirement	
Benefit Payments:	**Pension**	**Gross**	**Medicare Part D Subsidy Receipts**
2016	$ 74.2	$20.9	$0.8
2017	73.8	20.4	0.9
2018	82.3	20.0	1.0
2019	74.6	19.3	1.1
2020	77.1	18.4	1.1
2021-2025	373.2	81.7	6.3

Defined Contribution Plan

Prior to the spinoff, substantially all of TimkenSteel's employees in the United States and employees at certain foreign locations participated in defined contribution retirement and savings plans sponsored by Timken. TimkenSteel recorded expense primarily related to employer matching contributions to these defined contribution plans of $5.8 million in 2015, $4.7 million in 2014, $3.8 million in 2013.

NOTE 9 – EARNINGS PER SHARE

On June 30, 2014, 45.4 million TimkenSteel common shares were distributed to Timken shareholders in conjunction with the spinoff. For comparative purposes, and to provide a more meaningful calculation for weighted average shares, this amount was assumed to be outstanding as of the beginning of each period prior to the spinoff in the calculation of basic weighted average shares. In addition, for the dilutive weighted average share calculations, the dilutive securities outstanding at June 30, 2014 were assumed to also be outstanding as of the beginning of each period prior to the spinoff.

Basic earnings per share are computed based upon the weighted average number of common shares outstanding. Diluted earnings per share are computed based upon the weighted average number of common shares outstanding plus the dilutive effect of common share equivalents calculated using the treasury stock method. Treasury stock is excluded from the denominator in calculating both basic and diluted earnings per share.

For the years ended December 31, 2015, 2014 and 2013, 2.0 million, 0.1 million and 0.2 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their inclusion would have been anti-dilutive. In periods in which a net loss has occurred, as is the case for the year ended December 31, 2015, the dilutive effect of stock-based awards is not recognized and thus is not utilized in the calculation of diluted earnings per share.

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
Numerator:			
Net (loss) income for basic and diluted earnings per share	($ 72.4)	$ 104.4	$ 89.5
Denominator:			
Weighted average shares outstanding, basic	44,533,725	45,541,705	45,729,624
Dilutive effect of stock-based awards	–	502,438	519,883
Weighted average shares outstanding, diluted	44,533,725	46,044,143	46,249,507
Basic (loss) earnings per share	($ 1.63)	$ 2.29	$ 1.96
Diluted (loss) earnings per share	($ 1.63)	$ 2.27	$ 1.94

NOTE 10 – STOCK-BASED COMPENSATION

Description of the Plan

Prior to the spinoff, employees of TimkenSteel were eligible to participate in The Timken Company Long-Term Incentive Plan (Timken LTIP Plan) and The Timken Company 2011 Long-Term Incentive Plan (Timken 2011 Plan) and were eligible to receive Timken stock-based awards including stock options, restricted share awards and performance-based restricted share units. Effective June 30, 2014, TimkenSteel employees and non-employee directors began participating in the TimkenSteel Corporation 2014 Equity and Incentive Compensation Plan (TimkenSteel 2014 Plan).

The TimkenSteel 2014 Plan authorizes the Compensation Committee of the TimkenSteel Board of Directors to grant non-qualified or incentive stock options, stock appreciation rights, stock awards (including restricted shares, restricted share unit awards, performance shares, performance units, deferred shares and common shares) and cash awards to TimkenSteel employees and non-employee directors. No more than 6.75 million TimkenSteel common shares may be delivered under the TimkenSteel 2014 Plan. The TimkenSteel 2014 Plan contains fungible share counting mechanics, which generally means that awards other than stock options and stock appreciation rights will be counted against the aggregate share limit as 2.46 common shares for every one common share that is actually issued or transferred under such awards. This means, for example, that if all awards made under the TimkenSteel 2014 Plan consisted of restricted stock awards, only approximately 2.7 million common shares could be issued in settlement of such awards with the 6.75 million common shares authorized by the TimkenSteel 2014 Plan. The TimkenSteel 2014 Plan authorized up to 3.0 million common shares for use in granting "replacement awards" to current holders of Timken equity awards under Timken's equity compensation plans at the time of the spinoff. As of December 31, 2015, approximately 3.5 million shares of TimkenSteel common stock remained available for grants under the TimkenSteel 2014 Plan.

In connection with the spinoff, stock compensation awards granted under the Timken LTIP Plan and the Timken 2011 Plan were adjusted as follows:

- Vested and unvested stock options were adjusted so that the grantee holds options to purchase both Timken and TimkenSteel common shares.
- The adjustment to the Timken and TimkenSteel stock options, when combined, were intended to generally preserve the intrinsic value of each original option grant and the ratio of the exercise price to the fair market value of Timken common shares on June 30, 2014.
- Unvested restricted stock awards were replaced with adjusted, substitute awards for restricted shares or units, as applicable, of Timken and TimkenSteel common shares. The new awards of restricted stock were intended to generally preserve the intrinsic value of the original award determined as of June 30, 2014.
- Vesting periods of awards were unaffected by the adjustment and substitution.

Awards granted in connection with the adjustment of awards originally issued under the Timken LTIP Plan and the Timken 2011 Plan are referred to as replacement awards under the TimkenSteel 2014 Plan and, as noted above, reduce the maximum number of TimkenSteel common shares available for delivery under the TimkenSteel 2014 Plan. TimkenSteel records compensation expense for both TimkenSteel and Timken common shares for awards held by TimkenSteel employees only.

The following table provides the significant assumptions used to calculate the grant date fair market values of options granted using a Black-Scholes option pricing method:

	2015	2014 Subsequent to Spinoff	2014 Prior to Spinoff	2013
Weighted-average fair value per option	$11.21	$18.43	$23.17	$21.17
Risk-free interest rate	1.47%	1.78%	1.80%	1.09%
Dividend yield	1.93%	1.22%	1.75%	2.29%
Expected stock volatility	47.10%	47.00%	50.35%	50.66%
Expected life-years	6	6	6	6

The expected life of stock option awards granted is based on historical data and represents the period of time that options granted are expected to be held prior to exercise. In the absence of adequate stock price history of TimkenSteel common stock, expected volatility related to stock option awards granted subsequent to the spinoff is based on the historical volatility of a selected group of peer companies' stock. Prior to the spin, volatility was calculated using the historical volatility of Timken stock. Expected annual dividends per share are estimated using the most recent dividend payment per share as of the grant date. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The following summarizes TimkenSteel stock option activity from January 1, 2015 to December 31, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (millions)
Outstanding as of December 31, 2014	1,521,052	$28.15		
Granted	221,760	$29.00		
Exercised	(77,823)	$17.60		
Canceled, forfeited or expired	(47,486)	$31.36		
Outstanding as of December 31, 2015	1,617,503	$28.68	6.01	$–
Options expected to vest	546,077	$32.22	8.00	$–
Options exercisable	1,016,330	$26.59	4.84	$–

Stock options presented in this table represent TimkenSteel awards only, including those held by Timken employees.

The total intrinsic value of stock options exercised during the period from January 1, 2015 to December 31, 2015 was $1.0 million. Cash proceeds from the exercise of stock options were $1.5 million. The tax benefit from stock option exercises was $0.4 million.

The following summarizes TimkenSteel stock-settled restricted share award activity from January 1, 2015 to December 31, 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2014	292,258	$32.04
Granted	162,190	$29.16
Vested	(90,921)	$30.31
Canceled, forfeited or expired	(24,117)	$43.58
Outstanding as of December 31, 2015	339,410	$30.31

Restricted share awards presented in this table represent TimkenSteel awards only, including those held by Timken employees.

The adjustment of the stock compensation awards occurred in conjunction with the distribution of TimkenSteel common shares to Timken shareholders in the June 30, 2014 after-market distribution. Outstanding restricted share awards include restricted shares, restricted shares units, performance-based restricted shares and deferred shares that will settle in common shares. Outstanding restricted shares and restricted share units generally cliff-vest after three years or vest in 25% increments annually beginning on the first anniversary of the date of grant. Performance-based restricted shares vest based on achievement of specified performance objectives.

TimkenSteel recognized stock-based compensation expense of $7.0 million ($4.3 million after tax), $6.0 million ($3.8 million after tax) and $2.8 million ($1.8 million after tax) for the years ended December 31, 2015, 2014 and 2013, respectively, related to stock option awards and stock-settled restricted share awards. 2014 compensation expense includes the recognition of $0.3 million of incremental compensation expense in the second quarter of 2014 resulting from the adjustment and substitution of stock-settled awards.

As of December 31, 2015, unrecognized compensation cost related to stock option awards and stock-settled restricted shares was $9.0 million, which is expected to be recognized over a weighted average period of 1.5 years. The calculations of unamortized expense and weighted-average periods include awards based on both TimkenSteel and Timken stock awards held by TimkenSteel employees.

Certain restricted stock units, including performance-based restricted stock units, are settled in cash and were adjusted and substituted as described above. TimkenSteel accrued $1.6 million and $5.3 million as of December 31, 2015 and 2014, respectively, which was included in salaries, wages and benefits, and other non-current liabilities on the Consolidated Balance Sheets. TimkenSteel paid $2.9 million for cash settled restricted stock units during 2015.

NOTE 11 – SEGMENT INFORMATION

TimkenSteel operates and reports financial results for two segments: Industrial & Mobile and Energy & Distribution. These segments represent the level at which the Chief Operating Decision Maker (CODM) reviews the financial performance of TimkenSteel and makes operating decisions. Segment earnings before interest and taxes (EBIT) is the measure of profit and loss that the CODM uses to evaluate the financial performance of TimkenSteel and is the basis for resource allocation, performance reviews and compensation. For these reasons, TimkenSteel believes that Segment EBIT represents the most relevant measure of segment profit and loss. The CODM may exclude certain charges or gains from EBIT, such as corporate charges and other special charges, to arrive at a Segment EBIT that is a more meaningful measure of profit and loss upon which to base operating decisions. TimkenSteel defines Segment EBIT margin as Segment EBIT as a percentage of net sales.

Effective January 1, 2016, TimkenSteel will realign its reportable segments as a result of recent organizational changes made to better align resources to support its business strategy. As a result, TimkenSteel will conduct its business activities and report financial results in one business segment. The presentation of financial results as one reportable segment is consistent with the way the Company operates its business under the realigned organization and is consistent with the manner in which the CODM evaluates performance and makes resource and operating decisions for the business.

Industrial & Mobile

The Industrial & Mobile segment is a leading provider of high-quality air-melted alloy steel bars, tubes, precision components and value-added services. For the industrial market sector, TimkenSteel sells to original equipment manufacturers including agriculture, construction, machinery, military, mining, power generation and rail. For the mobile market sector, TimkenSteel sells to automotive customers including light-vehicle, medium-truck and heavy-truck applications. Products in this segment are in applications, including engine, transmission and driveline components, large hydraulic system components, military ordnance, mining and construction drilling applications and other types of equipment.

Energy & Distribution

The Energy & Distribution segment is a leading provider of high-quality air-melted alloy steel bars, seamless tubes and value-added services such as thermal treatment and machining. The Energy & Distribution segment offers unique steel chemistries in various product configurations to improve customers' performance in demanding drilling, completion and production activities. Application of TimkenSteel's engineered material solutions can be found in both offshore and land-based drilling rig activities. Vertical and horizontal drilling and completion applications include high strength drill string components and specialized completion tools that enable hydraulic fracturing for shale gas and oil. Distribution channel activity also is conducted through this segment. Distribution channel activity constitutes direct sales of steel bars and seamless mechanical tubes to distributors. TimkenSteel authorized service centers enable TimkenSteel to collaborate with various independent service centers to deliver differentiated solutions for end users.

	Years Ended December 31,		
	2015	**2014**	**2013**
Net Sales:			
Industrial & Mobile	**$ 804.0**	$ 962.0	$ 865.0
Energy & Distribution	**302.2**	712.2	515.9
	$ 1,106.2	$1,674.2	$1,380.9
Segment EBIT:			
Industrial & Mobile	**($ 60.1)**	$ 79.8	$ 83.9
Energy & Distribution	**(72.1)**	98.8	58.6
Total Segment EBIT	**($ 132.2)**	$ 178.6	$ 142.5
Unallocated[1]	**20.6**	(19.5)	(14.7)
Interest expense	**(3.4)**	(0.9)	(0.2)
(Loss) Income Before Income Taxes	**($ 115.0)**	$ 158.2	$ 127.6

(1) Unallocated are costs associated with strategy, corporate development, tax, treasury, legal, internal audit, LIFO and general administration expenses.

Energy & Distribution intersegment sales to the Industrial & Mobile segment were $0.3 million, $1.5 million and $1.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

	Years Ended December 31,		
	2015	**2014**	**2013**
Capital Expenditures:			
Industrial & Mobile	**$36.2**	$ 59.6	$ 83.5
Energy & Distribution	**42.0**	70.0	99.3
	$78.2	$129.6	$182.8
Depreciation and Amortization:			
Industrial & Mobile	**$36.0**	$ 27.8	$ 22.1
Energy & Distribution	**37.4**	30.2	27.9
	$73.4	$ 58.0	$ 50.0

	December 31,	
	2015	**2014**
Assets Employed at Year-end:		
Industrial & Mobile	**$ 576.3**	$ 700.1
Energy & Distribution	**616.9**	750.7
Unallocated[2]	**(51.4)**	(86.7)
	$1,141.8	$1,364.1

(2) Unallocated assets are costs associated with LIFO.

Geographic Information

Net sales by geographic area are reported by the country in which the customer is domiciled. Long-lived assets include property, plant and equipment and intangible assets subject to amortization. Long-lived assets by geographic area are reported by the location of the TimkenSteel subsidiary to which the asset is attributed.

	Years Ended December 31,		
	2015	**2014**	**2013**
Net Sales:			
United States	**$ 979.5**	$1,514.9	$1,244.4
Foreign	**126.7**	159.3	136.5
	$1,106.2	$1,674.2	$1,380.9

	December 31,	
	2015	**2014**
Long-lived Assets:		
United States	**$799.3**	$801.6
Foreign	**0.6**	0.6
	$799.9	$802.2

NOTE 12 – INCOME TAX PROVISION

(Loss) income from operations before income taxes, based on geographic location of the operations to which such earnings are attributable, is provided below.

	Years Ended December 31,		
	2015	**2014**	**2013**
United States	**($117.3)**	$155.0	$125.9
Non-United States	**2.3**	3.2	1.7
(Loss) income from operations before income taxes	**($115.0)**	$158.2	$127.6

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

	Years Ended December 31,		
	2015	**2014**	**2013**
Current:			
Federal	**$ –**	$32.3	$18.5
State and local	**(1.2)**	5.3	3.5
Foreign	**0.1**	0.5	0.1
	($ 1.1)	$38.1	$22.1
Deferred:			
Federal	**($ 41.0)**	$17.6	$15.5
State and local	**(0.5)**	(1.9)	0.5
	(41.5)	15.7	16.0
United States and foreign tax (benefit) expense on (loss) income	**($ 42.6)**	$53.8	$38.1

Tax payments made by TimkenSteel for the year ended December 31, 2015 were $0.5 million for U.S. state payments. At December 31, 2015, TimkenSteel had refundable overpayments of federal income taxes of $6.9 million and state income taxes of $1.7 million. TimkenSteel recorded that receivable as a component of prepaid expenses on the Consolidated Balance Sheets.

The reconciliation between TimkenSteel's effective tax rate on (loss) income from continuing operations and the statutory tax rate is as follows:

	Years Ended December 31,		
	2015	**2014**	**2013**
Tax at the U.S. federal statutory rate	**($40.2)**	$55.4	$44.6
Adjustments:			
State and local income taxes, net of federal tax benefit	**(2.7)**	2.1	2.5
Foreign earnings taxed at different rates including tax holidays	**(0.1)**	(0.2)	(0.3)
U.S. domestic manufacturing deduction	**–**	(3.2)	(2.3)
U.S. research tax credit	**(0.5)**	(0.6)	(0.5)
Accruals and settlements related to tax audits	**–**	–	(6.1)
Other items, net	**0.9**	0.3	0.2
(Benefit) provision for income taxes	**($42.6)**	$53.8	$38.1
Effective income tax rate	**37.0%**	34.0%	29.9%

Income tax expense includes U.S. and international income taxes. Except as required under U.S. tax law, U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside the United States. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. Undistributed earnings of foreign subsidiaries that are invested indefinitely outside of the United States were $1.6 million, $1.5 million and $6.4 million at December 31, 2015, 2014 and 2013, respectively. The amount of any unrecognized deferred income tax liability on this temporary difference is not material.

The effect of temporary differences giving rise to deferred tax assets and liabilities at December 31, 2015 and 2014 was as follows:

	December 31,	
	2015	2014
Deferred tax assets:		
Pension and other postretirement benefits	$ 39.7	$ 52.7
Other employee benefit accruals	7.2	17.2
Tax loss carryforwards	63.7	18.1
Intangible assets	2.9	3.0
Inventory	2.9	–
State decoupling	1.6	–
Other, net	3.7	1.7
Deferred tax assets subtotal	$ 121.7	$ 92.7
Valuation allowances	(10.2)	(11.7)
Deferred tax assets	111.5	80.8
Deferred tax liabilities:		
Depreciation	($ 136.3)	($ 131.9)
Inventory	(1.0)	(3.7)
Other, net	(1.1)	–
Deferred tax liabilities subtotal	(138.4)	(135.6)
Net deferred tax liabilities	($ 26.9)	($ 54.8)

As of December 31, 2015, TimkenSteel had loss carryforwards in the U.S. and various non-U.S. jurisdictions totaling $196.2 million having U.S. expiration dates of 2034 and 2035. TimkenSteel has provided valuation allowances of $10.2 million against these carryforwards. The majority of the non-U.S. loss carryforwards represent local country net operating losses for branches of TimkenSteel or entities treated as branches of TimkenSteel under U.S. tax law. Tax benefits have been recorded for these losses in the United States. The related local country net operating loss carryforwards are offset fully by valuation allowances.

As of December 31, 2015, TimkenSteel had no total gross unrecognized tax benefits, and no amounts which represented unrecognized tax benefits that would favorably impact TimkenSteel's effective income tax rate in any future periods if such benefits were recognized. As of December 31, 2015, TimkenSteel does not anticipate a change in its unrecognized tax positions during the next 12 months. TimkenSteel had no accrued interest and penalties related to uncertain tax positions as of December 31, 2015. TimkenSteel records interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2014, TimkenSteel had no total gross unrecognized tax benefits and no amount of unrecognized tax benefits that would favorably impact TimkenSteel's effective income tax rate in any future periods if such benefits were recognized. TimkenSteel had no interest and penalties related to uncertain tax positions as of December 31, 2014. TimkenSteel records interest and penalties related to uncertain tax positions as a component of income tax expense.

The reconciliation of TimkenSteel's total gross unrecognized tax benefits is as follows:

	Years Ended December 31,		
	2015	2014	2013
Beginning balance, January 1	$–	$ 0.7	$ 8.0
Tax positions related to prior years:			
Additions	–	–	0.3
Reductions	–	(0.7)	(6.0)
Settlements	–	–	(1.6)
Ending balance, December 31	$–	$ –	$ 0.7

As of December 31, 2015, Timken is subject to examination by the IRS for tax years 2006 to June 30, 2014. Timken also is subject to tax examination in various U.S. state and local tax jurisdictions for tax years 2006 to June 30, 2014. Timken also is subject to tax examination in various foreign tax jurisdictions, including Mexico for tax years 2007 to June 30, 2014, China for tax years 2010 to the present and the United Kingdom for tax years 2011 to June 30, 2014. TimkenSteel is subject to examination by the IRS for the period June 30, 2014 through December 31, 2015. TimkenSteel also is subject to tax examinations in various foreign tax jurisdictions, including Mexico, China, Poland, Singapore and the United Kingdom for the period June 30, 2014 through December 31, 2015.

NOTE 13 – CONTINGENCIES

TimkenSteel has a number of loss exposures that are incurred in the ordinary course of business such as environmental claims, product liability claims, product warranty claims, litigation and accounts receivable reserves. Establishing loss reserves for these matters requires management's estimate and judgment with regards to risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances.

Environmental Matters

From time to time, TimkenSteel may be a party to lawsuits, claims or other proceedings related to environmental matters and/or may receive notices of potential violations of environmental laws and regulations from the U.S. Environmental Protection Agency and similar state or local authorities. TimkenSteel recorded reserves for such environmental matters as other current liabilities on the Consolidated Balance Sheets. Accruals related to such environmental matters represent management's best estimate of the fees and costs associated with these matters. Although it is not possible to predict with certainty the outcome of such matters, management believes that their ultimate dispositions, should not have a material adverse effect on TimkenSteel's financial position, cash flows, or results of operations. The following summarizes TimkenSteel reserves for environmental matters activity from January 1, 2014 to December 31, 2015:

	Years Ended December 31,	
	2015	2014
Beginning balance, January 1	$ 1.3	$ –
Expenses	0.5	1.5
Payments	(0.5)	(0.2)
Ending balance, December 31	$ 1.3	$ 1.3

NOTE 14 – RESTRUCTURING CHARGES

During the second quarter of 2015, TimkenSteel approved and began implementing a cost reduction plan that resulted in the reduction of TimkenSteel's salaried and hourly headcount. As a result, TimkenSteel recognized restructuring charges consisting of severance, benefits and other associated expenses of $1.6 million, $0.3 million and $3.7 million for the second, third and fourth quarters of 2015, respectively. TimkenSteel recorded reserves for such restructuring charges as other current liabilities on the Consolidated Balance Sheets. Of the $5.6 million charge, $4.3 million related to the Industrial & Mobile segment and $1.3 million related to the Energy & Distribution segment. The following is a rollforward of the consolidated restructuring accrual for the twelve months ended December 31, 2015:

	2015
Beginning balance, January 1	**$ –**
Expenses	**5.6**
Payments	**(3.3)**
Ending balance, December 31	**$ 2.3**

NOTE 15 – RELATIONSHIP WITH TIMKEN AND RELATED ENTITIES

Prior to the spinoff on June 30, 2014, TimkenSteel was managed and operated in the normal course of business with other affiliates of Timken. Transactions between Timken and TimkenSteel, with the exception of sales and purchase transactions and reimbursements for payments made to third-party service providers by Timken on TimkenSteel's behalf, are reflected in equity in the Consolidated Balance Sheets as net parent investment and in the Consolidated Statements of Cash Flows as a financing activity in net transfers (to)/from Timken and affiliates.

Corporate Costs/Allocations

For the periods prior to April 1, 2014, the Consolidated Financial Statements include corporate costs incurred by Timken for services that were provided to or on behalf of TimkenSteel, including but not limited to legal, treasury, corporate administration, technology and human resource services. These costs consist of allocated cost pools and direct costs. Corporate costs were directly charged to, or allocated to, TimkenSteel using methods management believes are consistent and reasonable. TimkenSteel direct costs were incurred directly by TimkenSteel based on negotiated usage rates and dedicated employee assignments. These corporate charges and allocations were deemed paid by TimkenSteel to Timken in the period in which the costs were recorded in the Consolidated Statements of Operations. Net charges from Timken for these services, reflected in selling, general and administrative expenses, were $7.4 million and $23.2 million for years ended December 31, 2014 and 2013, respectively. Effective April 1, 2014, TimkenSteel performed these functions using internal resources or services provided by third parties, certain of which were provided by Timken and directly charged to TimkenSteel. Timken will continue to provide such services during a transition period pursuant to a transition services agreement described below.

Transactions with Other Timken Businesses

TimkenSteel sold finished goods to Timken and its businesses. During the years ended December 31, 2015, 2014 and 2013, respectively, revenues from related party sales of products totaled $46.5 million or 4.2% of net sales, $84.6 million, or 5.1% of net sales and $75.1 million or 5.4%, respectively. Prior to the spinoff, TimkenSteel recorded related-party receivables from other Timken businesses as Accounts receivable due from related party in its Consolidated Balance Sheets. Upon separation, outstanding amounts were reclassified to trade receivables.

TimkenSteel purchased material from Timken and its businesses for less than $1.0 million, approximately $1 million and $5 million during the years ended December 31, 2015, 2014 and 2013, respectively. In addition, certain of TimkenSteel's third-party service providers were paid by Timken on behalf of TimkenSteel. TimkenSteel would subsequently reimburse Timken in cash for such payments. Prior to the spinoff, TimkenSteel recorded related-party payables to other Timken businesses as Accounts payable due to related party in its Consolidated Balance Sheets. Upon separation, outstanding amounts were reclassified to trade payables.

Material Agreements Between TimkenSteel and Timken

On June 30, 2014, TimkenSteel entered into a separation and distribution agreement and several other agreements with Timken to affect the spinoff and to provide a framework for the relationship with Timken. These agreements govern the relationship between TimkenSteel and Timken subsequent to the completion of the spinoff and provide for the allocation between TimkenSteel and Timken of assets, liabilities and obligations attributable to periods prior to the spinoff. Because these agreements were entered into in the context of a related party transaction, the terms may not be comparable to terms that would be obtained in a transaction between unaffiliated parties.

Separation and Distribution Agreement – The separation and distribution agreement contains the key provisions relating to the spinoff, including provisions relating to the principal intercompany transactions required to effect the spinoff, the conditions to the spinoff and provisions governing the relationships between TimkenSteel and Timken after the spinoff.

Tax Sharing Agreement – The tax sharing agreement, which generally governs TimkenSteel's and Timken's respective rights, responsibilities and obligations after the spinoff with respect to taxes for any tax period ending on or before the distribution date, as well as tax periods beginning before and ending after the distribution date. Generally, TimkenSteel is liable for all pre-distribution U.S. federal income taxes, foreign income taxes and non-income taxes attributable to TimkenSteel's business, and all other taxes attributable to TimkenSteel, paid after the distribution. In addition, the tax sharing agreement addresses the allocation of liability for taxes that are incurred as a result of restructuring activities undertaken to effectuate the distribution. The tax sharing agreement also provides that TimkenSteel is liable for taxes incurred by Timken that arise as a result of TimkenSteel's taking or failing to take, as the case may be, certain actions that result in the distribution failing to meet the requirements of a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended.

Employee Matters Agreement – TimkenSteel entered into an employee matters agreement with Timken, which generally provides that TimkenSteel and Timken has responsibility for its own employees and compensation plans, subject to certain exceptions as described in the agreement. In general, prior to the spinoff, TimkenSteel employees participated in various retirement, health and welfare, and other employee benefit and compensation plans maintained by Timken. Following the spinoff (or earlier, in the case of the tax-qualified defined benefit plans and retiree medical plans), pursuant to the employee matters agreement, TimkenSteel employees and former employees generally participate in similar plans and arrangements established and maintained by TimkenSteel. The employee matters agreement provides for the bifurcation of equity awards as described in Note 10 – "Stock-Based Compensation". Among other things, the employee matters agreement also provides for TimkenSteel's assumption of certain employment-related contracts that its employees originally entered into with Timken, the allocation of certain employee liabilities and the cooperation between TimkenSteel and Timken in the sharing of employee information.

Transition Services Agreement – The transition services agreement governs the process under which TimkenSteel and Timken provide and/or make available various administrative services and assets to each other, during what is expected to be a period of 24 months or less beginning on the distribution date. Services provided by Timken to TimkenSteel included certain services related to engineering, finance, facilities, information technology and employee benefits.

NOTE 16 – SUBSEQUENT EVENTS

On February 26, 2016, TimkenSteel, as borrower, and certain domestic subsidiaries thereof, as subsidiary guarantors, entered into Amendment No. 1 to the Amended and Restated Credit Agreement (the "Amendment"), with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which amends TimkenSteel's existing Amended and Restated Credit Agreement, dated as of December 21, 2015 (as amended by the Amendment, the "Amended Credit Agreement").

The Amendment makes several modifications, including, without limitation: (1) reducing the aggregate principal amount of commitments thereunder from $300 million to $265 million, (2) eliminating the one-time $100 million liquidity requirement, (3) providing TimkenSteel with greater flexibility to incur additional indebtedness, (4) increasing the applicable interest rate margins by an additional 0.75% (with an additional 0.75% increase at a later date under certain circumstances) and increasing the unused commitment fee by an additional 0.10%, (5) permitting TimkenSteel to engage in certain sale and leaseback transactions, (6) modifying the minimum availability to be a block on availability under certain circumstances equal to the greater of $28.9 million and 12.5% of the aggregate commitments (except that in the event of a mandatory reduction in the commitments the block on availability will be equal to the greater of $20.0 million and 12.5% of the aggregate commitments), effectively preventing us from borrowing if availability is below the minimum threshold and (7) eliminating any requirement to comply with the fixed charge coverage ratio other than for the periods beginning January 1, 2017 and ending June 30, 2017, July 31, 2017 and August 31, 2017.

Also, on February 26, 2016, TimkenSteel entered into an agreement for a sale and leaseback transaction (the "Transaction") regarding its Canton, Ohio office facilities for a purchase price of $20 million. TimkenSteel will lease back the facilities for a term of 20 years. TimkenSteel anticipates closing the Transaction in the second quarter of 2016.

SUPPLEMENTAL DATA

Selected Quarterly Financial Data (Unaudited)

(dollars in millions, except per share data)

Selected quarterly operating results for each quarter of fiscal 2015 and 2014 for TimkenSteel are as follows:

	Quarters Ended			
	December 31	**September 30**	**June 30**	**March 31**
2015				
Net Sales	**$ 206.6**	$ 232.7	$ 278.2	$388.7
Gross (Loss) Profit	**(6.2)**	(20.5)	(6.1)	41.6
Net (Loss) Income[1]	**(24.2)**	(30.8)	(24.3)	6.9
Per Share Data:[2]				
Basic (loss) earnings per share	**($ 0.55)**	($ 0.69)	($ 0.54)	$ 0.15
Diluted (loss) earnings per share	**($ 0.55)**	($ 0.69)	($ 0.54)	$ 0.15

	Quarters Ended			
	December 31	**September 30**	**June 30**	**March 31**
2014				
Net Sales	$408.3	$434.2	$442.2	$389.5
Gross Profit	56.4	71.2	72.7	73.5
Net Income[1]	16.4	25.7	28.6	33.7
Per Share Data:[2]				
Basic earnings per share	$ 0.36	$ 0.56	$ 0.63	$ 0.74
Diluted earnings per share	$ 0.36	$ 0.56	$ 0.62	$ 0.73

(1) Net Loss for the second, third, and fourth quarters of 2015 included restructuring charges of $1.6 million, $0.3 million and $3.7 million, respectively. The restructuring costs related to a cost reduction plan that reduced TimkenSteel's salaried and hourly headcount. See Note 14 – "Restructuring Charges" in the Notes to the Consolidated Financial Statements.

Net Income for the fourth quarter of 2014 included impairment charges of $1.2 million. The fourth quarter 2014 impairment charges related to the write-offs of a trade name as well as certain costs associated with a discontinued real estate project.

(2) Basic and diluted earnings per share are computed independently for each of the periods presented. Accordingly, the sum of the quarterly earnings per share amounts may not equal the total for the year. For comparative purposes, and to provide a more meaningful calculation for weighted average shares, this amount was assumed to be outstanding as of the beginning of each period presented prior to the spinoff in the calculation of basic weighted average shares. See Note 9 – "Earnings Per Share" in the Notes to the Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report on Form 10-K, our management carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of TimkenSteel is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. TimkenSteel's internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TimkenSteel management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment under COSO's "Internal Control-Integrated Framework (2013 framework)," management believes that, as of December 31, 2015, TimkenSteel's internal control over financial reporting is effective.

Ernst & Young LLP, independent registered public accounting firm, has issued an audit report on our assessment of TimkenSteel's internal control over financial reporting as of December 31, 2015. Please refer to Item 8, "Reports of Independent Registered Public Accounting Firm".

CHANGES IN INTERNAL CONTROLS

There have been no changes during the Company's fourth quarter of 2015 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On February 26, 2016, TimkenSteel, as borrower, and certain domestic subsidiaries thereof, as subsidiary guarantors, entered into Amendment No. 1 to the Amended and Restated Credit Agreement (the "Amendment"), with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which amends TimkenSteel's existing Amended and Restated Credit Agreement, dated as of December 21, 2015 (as amended by the Amendment, the "Amended Credit Agreement").

The Amendment makes several modifications, including, without limitation: (1) reducing the aggregate principal amount of commitments thereunder from $300 million to $265 million, (2) eliminating the one-time $100 million liquidity requirement, (3) providing TimkenSteel with greater flexibility to incur additional indebtedness,

(4) increasing the applicable interest rate margins by an additional 0.75% (with an additional 0.75% increase at a later date under certain circumstances) and increasing the unused commitment fee by an additional 0.10%, (5) permitting TimkenSteel to engage in certain sale and leaseback transactions, (6) modifying the minimum availability to be a block on availability under certain circumstances equal to the greater of $28.9 million and 12.5% of the aggregate commitments (except that in the event of a mandatory reduction in the commitments the block on availability will be equal to the greater of $20.0 million and 12.5% of the aggregate commitments), effectively preventing us from borrowing if availability is below the minimum threshold and (7) eliminating any requirement to comply with the fixed charge coverage ratio other than for the periods beginning January 1, 2017 and ending June 30, 2017, July 31, 2017 and August 31, 2017.

PART III.
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Required information will be set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference. Information regarding the executive officers of the registrant is included in Part I hereof. Information regarding the Company's Audit Committee and its Audit Committee Financial Expert is set forth under the caption "Audit Committee" in the proxy statement filed in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

The Company's Corporate Governance Guidelines and the charters of its Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available on the Company's website at www.timkensteel.com and are available to any shareholder in print, without charge, upon request to the General Counsel. The information on the Company's website is not incorporated by reference into this Annual Report on Form 10-K.

The Company has adopted a code of ethics that applies to all of its employees, including its principal executive officer, principal financial officer and principal accounting officer, as well as its directors. The Company's code of ethics, the TimkenSteel Code of Conduct, is available on its website at www.timkensteel.com and in print, without charge, upon request to the General Counsel. The Company intends to disclose any amendment to its code of ethics or waiver from its code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer, or any Director by posting such amendment or waiver, as applicable, on its website.

ITEM 11. EXECUTIVE COMPENSATION

Required information will be set forth under the captions "Compensation Discussion and Analysis;" "2015 Summary Compensation Table;" "2015 Grants of Plan-Based Awards Table;" "Outstanding Equity Awards at 2015 Year-End Table;" "2015 Option Exercises and Stock Vested Table;" "Pension Benefits;" "2015 Nonqualified Deferred Compensation Table;" "Potential Payments Upon Termination or Change in Control;" "Director Compensation;" "Compensation Committee;" "Compensation Committee Interlocks and Insider Participation;" and "Compensation Committee Report" in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Required information, including with respect to institutional investors owning more than 5% of the Company's common shares, will be set forth under the caption "Beneficial Ownership of Common Stock" in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

Required information is set forth under the caption "Equity Compensation Plan Information" in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Required information will be set forth under the captions “Director Independence” and “Related Party Transactions Approval Policy” in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Required information regarding fees paid to and services provided by the Company’s independent auditor during the years ended December 31, 2015 and 2014 and the pre-approval policies and procedures of the Audit Committee of the Company’s Board of Directors will be set forth under the captions “Services of Independent Auditor for 2015” and “Audit Committee Pre-Approval Policies and Procedures” in the proxy statement to be filed within 120 days of December 31, 2015 in connection with the annual meeting of shareholders to be held on or about April 28, 2016, and is incorporated herein by reference.

PART IV.
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) – Financial Statements are included in Part II, Item 8 of the Annual Report on Form 10-K.

(a)(2) – Schedule II – Valuation and Qualifying Accounts is submitted as a separate section of this report. Schedules I, III, IV and V are not applicable to the Company and, therefore, have been omitted.

(a)(3) Listing of Exhibits

Exhibit Number	Exhibit Description
2.1†	Separation and Distribution Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
3.1	Amended and Restated Articles of Incorporation of TimkenSteel Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 13, 2014, File No. 001-36313).
3.2	Code of Regulations of TimkenSteel Corporation (incorporated by reference to Exhibit 3.2 of Amendment No. 3 to the Company's Registration Statement on Form 10 filed on May 15, 2014, File No. 001-36313).
10.1†	Tax Sharing Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
10.2†	Employee Matters Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
10.3†	Transition Services Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
10.4†	Trademark License Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
10.5†	Noncompetition Agreement, dated as of June 30, 2014, by and between TimkenSteel Corporation and The Timken Company.
10.6	TimkenSteel Corporation 2014 Equity and Incentive Compensation Plan (incorporated by reference to Appendix B to the Company's 2015 Proxy Statement filed on March 19, 2015, File No. 001-36313).
10.7	TimkenSteel Corporation Senior Executive Management Performance Plan (incorporated by reference to Appendix A to the Company's 2015 Proxy Statement filed on March 19, 2015, File No. 001-36313).
10.8††	TimkenSteel Corporation Annual Performance Award Plan.
10.9††	Form of Director Indemnification Agreement.
10.10††	Form of Officer Indemnification Agreement.
10.11††	Form of Director and Officer Indemnification Agreement.
10.12	Supplemental Pension Plan of TimkenSteel Corporation (Effective June 30, 2014) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 13, 2014, File No. 001-36313).

Exhibit Number	Exhibit Description
10.13	Form of Amended and Restated Employee Excess Benefits Agreement with TimkenSteel Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 13, 2014, File No. 001-36313).
10.14	Form of Severance Agreement with TimkenSteel Corporation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 13, 2014, File No. 001-36313).
10.15	Amended and Restated TimkenSteel Corporation 2014 Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.16	Amended and Restated TimkenSteel Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.17	Amendment and Restatement Agreement dated as of December 21, 2015, by and among TimkenSteel Corporation, the other loan parties and lenders thereto and JPMorgan Chase Bank, N.A., as administrative agent (which includes the Amended and Restated Credit Agreement, dated as of December 21, 2015, among TimkenSteel Corporation, JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, National Association, as syndication agent, the other agents and lenders party thereto and Bank of America, N.A. and HSBC Bank USA, National Association, as co-documentation agents, and J.P. Morgan Securities LLC and PNC Capital Markets, LLC, as joint bookrunners and joint lead arrangers) (incorporated by reference to Exhibit Number 10.1 to the Company's Current Report on Form 8-K filed on January 8, 2016, File No. 001-36313).
10.18	Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.19	Form of Time-Based Restricted Stock Unit Agreement (Cliff Vesting) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.20	Form of Time-Based Restricted Stock Unit Agreement (Ratable Vesting) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.21*	Form of Performance-Based Restricted Stock Unit Agreement.
10.22	Form of Deferred Shares Agreement (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, File No. 001-36313).
10.23*	Amendment No. 1 to Amended and Restated Credit Agreement, dated as of February 26, 2016, among TimkenSteel Corporation, the other loan parties and lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.
12.1*	Computation of Ratio of Earnings to Fixed Charges.
21.1*	A list of subsidiaries of the Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney.

Exhibit Number	Exhibit Description
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

† Incorporated by reference to the exhibit filed under the corresponding Exhibit Number of the Company's Current Report on Form 8-K filed on July 3, 2014, File No. 001-36313.

†† Incorporated by reference to the exhibit filed under the corresponding Exhibit Number of Amendment No. 3 to the Company's Registration Statement on Form 10 filed on May 15, 2014, File No. 001-36313.

* Filed herewith.

** Furnished herewith.

Schedule II-Valuation and Qualifying Accounts

	2015	2014	2013
Allowance for uncollectible accounts:			
Balance at Beginning of Period	**$ 0.2**	$ 0.2	$ 1.1
Additions:			
Charged to Costs and Expenses(1)	**1.3**	–	(0.9)
Deductions(2)	**–**	–	–
Balance at End of Period	**$ 1.5**	$ 0.2	$ 0.2
Allowance for surplus and obsolete inventory:			
Balance at Beginning of Period	**$ 2.9**	$ 1.9	$ 1.5
Additions:			
Charged to Costs and Expenses(3)	**7.2**	1.6	1.7
Deductions(4)	**(1.7)**	(0.6)	(1.3)
Balance at End of Period	**$ 8.4**	$ 2.9	$ 1.9
Valuation allowance on deferred tax assets:			
Balance at Beginning of Period	**$11.7**	$14.1	$14.7
Additions:			
Charged to Costs and Expenses(5)	**–**	–	–
Charged to Other Accounts(6)	**–**	–	0.2
Deductions(7)	**(1.5)**	(2.4)	(0.8)
Balance at End of Period	**$10.2**	$11.7	$14.1

(1) Provision for uncollectible accounts included in expenses.

(2) Actual accounts written off against the allowance-net of recoveries.

(3) Provisions for surplus and obsolete inventory included in expenses.

(4) Inventory items written off against the allowance.

(5) Increase in valuation allowance is recorded as a component of the provision for income taxes.

(6) Includes valuation allowances recorded against other comprehensive income/loss or goodwill.

(7) Amount primarily relates to foreign currency translation adjustments, the removal of losses not carried over to TimkenSteel and a decrease in UK tax rates.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIMKENSTEEL CORPORATION

Date: February 29, 2016

/s/ Christopher J. Holding

Christopher J. Holding
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Title	Date
/s/ Ward J. Timken, Jr. **Ward J. Timken, Jr.**	Chairman, Chief Executive Officer and President (Principal Executive Officer)	February 29, 2016
/s/ Christopher J. Holding **Christopher J. Holding**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 2016
/s/ Tina M. Beskid **Tina M. Beskid**	Vice President, Corporate Controller & Investor Relations (Principal Accounting Officer)	February 29, 2016
* **Joseph A. Carrabba**	Director	February 29, 2016
* **Phillip R. Cox**	Director	February 29, 2016
* **Diane C. Creel**	Director	February 29, 2016
* **Terry L. Dunlap**	Director	February 29, 2016
* **Randall H. Edwards**	Director	February 29, 2016
* **Donald T. Misheff**	Director	February 29, 2016
* **John P. Reilly**	Director	February 29, 2016
* **Ronald A. Rice**	Director	February 29, 2016
* **Randall A. Wotring**	Director	February 29, 2016

*Signed by the undersigned as attorney-in-fact and agent for the Directors indicated.

/s/ Frank A. DiPiero **Frank A. DiPiero**	Executive Vice President, General Counsel and Secretary	February 29, 2016

Exhibit 31.1

CERTIFICATION

I, Ward J. Timken, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of TimkenSteel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

/s/ Ward J. Timken, Jr.

Ward J. Timken, Jr.
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION

I, Christopher J. Holding, certify that:

1. I have reviewed this annual report on Form 10-K of TimkenSteel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

/s/ Christopher J. Holding

Christopher J. Holding
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of TimkenSteel Corporation (the “Company”) on Form 10-K for the period ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: February 29, 2016	/s/ Ward J. Timken, Jr.
	Ward J. Timken, Jr. Chairman, Chief Executive Officer and President (Principal Executive Officer)
Date: February 29, 2016	/s/ Christopher J. Holding
	Christopher J. Holding Executive Vice President and Chief Financial Officer (Principal Financial Officer)

CORPORATE OFFICES

TimkenSteel Corporation
1835 Dueber Ave. SW
Canton, OH 44706-0932
telephone: 330-471-7000
website: timkensteel.com

STOCK LISTING

TimkenSteel stock is traded on the New York Stock Exchange under the symbol TMST.

NYSE ANNUAL CEO CERTIFICATION

The annual CEO certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual was submitted without qualification by Ward J. Timken, Jr., on June 9, 2015.

ANNUAL MEETING OF SHAREHOLDERS

April 28, 2016, 10 a.m. EDT
TimkenSteel Corporate Offices

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
950 Main Avenue
Suite 1800
Cleveland, OH 44113-7214

PUBLICATIONS

The Notice of Annual Meeting and Proxy Statement are made available to shareholders in March.

Copies of the Annual Report, Proxy Statement, Forms 10-K and 10-Q may be obtained from the company's website, investors.timkensteel.com, or by written request at no charge from:

TimkenSteel Corporation
Shareholder Relations, GNE-15
P.O. Box 6928
Canton, OH 44706-0928

SHAREHOLDER INFORMATION

TimkenSteel Corporation offers an open enrollment stock purchase plan through its transfer agent, Wells Fargo. This program allows current shareholders and new investors the opportunity to purchase shares of common stock without a broker.

Information and enrollment materials are available online or by contacting Wells Fargo. Inquiries regarding change of address or lost certificates should be directed to:

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0856
phone: 800-468-9416 or 651-450-4064
Wells Fargo Shareowner Services
website: shareowneronline.com

INVESTOR RELATIONS

Investors and securities analysts may contact:

Tina Beskid
Vice President, Corporate Controller
& Investor Relations
TimkenSteel Corporation
1835 Dueber Ave. SW
Canton, OH 44706-0928
email: ir@timkensteel.com

TimkenSteel

TimkenSteel creates tailored steel products and services for demanding applications, helping customers push the bounds of what's possible within their industries. The company reaches around the world in its customers' products and leads North America in large alloy steel bars and seamless mechanical tubing made of its special bar quality steel, as well as supply chain and steel services.

TIMKENSTEEL

2015 ANNUAL REPORT

NYSE: TMST
timkensteel.com
Twitter: @TimkenSteel

6M 03-16 Order No. 0189
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