Kennametal Reports Strong Growth in Second Quarter Earnings

January 28, 2004

-- Sales up 7% -- Reported earnings per diluted share of $0.30, above guidance -- Strong cash flow

LATROBE, Pa., Jan. 28 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2004 second- quarter earnings of $0.30 per diluted share compared with earnings of $0.07 per diluted share last year. Excluding special items in each period, diluted earnings per share were $0.34 for the quarter, exceeding guidance, compared with last year's earnings per share of $0.27. Sales of $461 million were 7 percent above prior year on foreign currency effects, and a one percent increase in organic volume.

Earnings Per Share Excluding Special Items	
Company Guidance (10/29/03)	$0.27 to $0.32
Analyst Estimate Range (01/23/04)	$0.30 to $0.34
Earnings, Excluding Special Items	$0.34

For the first six months of fiscal 2004, reported earnings of $0.54 per diluted share compared with earnings of $0.38 per diluted share last year. Excluding special items in each period, diluted earnings per share of $0.68 were 17% above prior year's earnings of $0.58.

Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said, "We were pleased to exceed our guidance for the quarter, and deliver 26 percent earnings per share growth over the prior year quarter. Our results reflect continued strong growth in the developing regions of Asia- Pacific and South America. In addition, our North American performance tracked well with macro-economic trends that have been forecasting a recovery for several months. Our confidence in the sustainability of the North American recovery was assisted by the return to growth of the Light and General Engineering market. Additionally, our sales to the Energy and Mining & Construction sectors grew at double-digit rates.

As anticipated, we continued to face persistent weakness in our European markets, which has been exacerbated by our end market and customer mix, particularly in the automotive sector."

Tambakeras continued, "In addition to our strong operating performance, we sustained our concurrent focus on generating cash and strengthening our balance sheet. $34 million of free operating cash flow contributed to a further reduction of debt, and reduced our debt-to-capital ratio to 37 percent. As promised, the quarter also included the completion of the Widia restructuring."

Highlights
Second Quarter - FY04

-- Sales of $460.8 million were 7 percent above last year's $431.7 million. Sales results include a 6 percent benefit from foreign currency exchange and a 1 percent increase in organic sales volume.

-- Reported net income was $10.9 million against net income of $2.5 million in the same quarter last year. Excluding special items, net income was $12.3 million for the quarter, a 30 percent increase compared to net income of $9.4 million last year reflecting the benefits of Widia synergies, cost reduction, reduced interest expense, and foreign currency exchange offset by increased employment costs.

-- The current quarter included net special charges of $1.4 million, or $0.04 per diluted share, associated with the previously announced curtailment charge related to the amendment of the Retirement Income Pension Plan, the finalization of the Widia integration and an allowance for a note receivable from a fiscal 2002 divestiture. These costs were offset by a gain on the sale of our 5 percent ownership interest in Toshiba Tungaloy. The prior-year quarter included net special charges of $7.0 million, or $0.20 per diluted share, largely related to the salaried workforce reduction and Widia integration.

-- As expected, net cash flow from operations was $43.2 million, versus $36.3 million for the prior year. Free operating cash flow was $33.8 million, versus $25.0 million in the same period last year due to positive operating performance and reduction in inventory levels.

-- Total debt was $481 million, down $44 million from June 2003, and $136 million below December 2002.

-- Debt to capital decreased to 37 percent, from 45 percent at the end of December in the prior year.

First Six Months - FY04

-- Sales of $905.4 million were 8 percent above last year's $835.9 million. The Widia acquisition and foreign currency exchange contributed to the growth.

-- Reported net income was $19.7 million compared to net income of $13.3 million in the same period last year. Excluding special items, net income was $24.4 million for the quarter, an 18 percent increase compared to net income of $20.6 million last year

Outlook

Performance in certain key North American markets during the December quarter corroborated positive macroeconomic indicators, and increased the probability of a sustained recovery in North American industrial markets. Europe remains challenging, with continued weakness in key markets and customers.

Tambakeras said, "On balance, we remain confident in our ability to deliver against our original earnings guidance for the year. While Europe is weaker than anticipated, North America is encouraging, and the rest of the world remains strong. In addition to North American market growth, the incremental seasonal strength of the second half of our fiscal year, and the addition of sales from the previously announced J&L and FSS contracts give us confidence that we will be able to deliver in excess of 35 percent earnings growth in fiscal 2004."

Sales for the third quarter of fiscal 2004 are expected to grow 10 to 12 percent year-over-year, including the impact of currency. Organic growth is anticipated to be 4 to 6 percent year-over-year, compared to a 1 percent increase in the second quarter. Reported diluted earnings per share are expected to be $0.50 to $0.60 per share.

Guidance for the full year remains essentially unchanged, but has been modified to reflect recent increases in raw material prices and persistent weakness in Europe. Sales are expected to grow 9 to 11 percent year-over- year, including the impact of currency. Reported diluted earnings per share are expected to be $1.75 to $1.95 per share. This includes net charges to date of approximately $0.14 per share. Excluding these charges, diluted earnings per share are forecasted to range from $1.90 to $2.10 per share. The earnings outlook includes $0.12 to $0.15 of accretion from Widia.

Kennametal anticipates net cash flow provided by operating activities of approximately $160 to $175 million in fiscal 2004. Purchases of property, plant and equipment and proceeds from disposals of property, plant and equipment are expected to be approximately $50 to $60 million, net. Adjusting net cash flow provided by operating activities for the above items, Kennametal expects to generate between $100 and $125 million of free operating cash flow.

Kennametal advises shareholders to note monthly order trends, for which the company makes a disclosure ten business days after the conclusion of each month. This information is available on the Investor Relations section of Kennametal's corporate web site at www.kennametal.com.

Dividend Declared

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable February 25, 2004, to shareowners of record as of the close of business February 10, 2004.

Second quarter results will be discussed in a live Internet broadcast at 10:00 a.m. today. Access the live or archived conference by visiting the Investor Relations section of Kennametal's corporate web site at www.kennametal.com.

This release contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the fact they use words such as "should," "anticipate," "estimate," "approximate," "expect," "may," "will," "project," "intend," "plan," "believe," and others words of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements are likely to relate to, among other things, our goals, plans and projections regarding our financial position, results of operations, market position and product development, which are based on current expectations that involve inherent risks and uncertainties, including factors that could delay, divert or change any of them in the next several years. Although it is not possible to predict or identify all factors, they may include the following: global economic conditions; future terrorist attacks; epidemics; risks associated with integrating and divesting businesses and achieving the expected savings and synergies; demands on management resources; risks associated with international markets such as currency exchange rates, and social and political environments; competition; labor relations; commodity prices; demand for and market acceptance of new and existing products; and risks associated with the implementation of restructuring plans and environmental remediation matters. We can give no assurance that any goal or plan set forth in forward- looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

Kennametal Inc. aspires to be the premier tooling solutions supplier in the world with operational excellence throughout the value chain and best-in-class manufacturing and technology. Kennametal strives to deliver superior shareowner value through top-tier financial performance. The company provides customers a broad range of technologically advanced tools, tooling systems and engineering services aimed at improving customers' manufacturing competitiveness. With about 13,500 employees worldwide, the company's annual sales approximate $1.8 billion, with nearly half coming from sales outside the United States. Kennametal is a five-time winner of the GM "Supplier of the Year" award and is represented in more than 60 countries. Kennametal operations in Europe are headquartered in Frth, Germany. Kennametal Asia Pacific operations are headquartered in Singapore. For more information, visit the company's web site at www.kennametal.com.

FINANCIAL HIGHLIGHTS

Consolidated financial highlights for Kennametal Inc. (NYSE: KMT) for the quarter and six months ended December 31, 2003 and 2002 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income (Unaudited)

	Quarter Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Sales	$460,778	$431,731	$905,353	$835,949
Cost of goods sold (A)	313,146	294,248	613,614	567,497
Gross profit	147,632	137,483	291,739	268,452
Operating expense(B)	124,723	115,677	245,962	220,512
Restructuring and asset impairment charges	3,120	8,561	3,670	8,380
Amortization of intangibles	486	1,300	956	2,114
Operating income	19,303	11,945	41,151	37,446
Interest expense	6,547	9,594	13,147	18,079
Other (income), net (C)	(3,855)	(1,721)	(2,518)	(1,127)
Income before provision for income taxes and minority interest	16,611	4,072	30,522	20,494
Provision for income taxes	5,315	893	9,767	6,148
Minority interest	404	709	1,099	1,047
Net income	$10,892	$2,470	$19,656	$13,299
Basic earnings per share	$0.31	$0.07	$0.55	$0.38
Diluted earnings per share	$0.30	$0.07	$0.54	$0.38
Dividends per share	$0.17	$0.17	$0.34	$0.34
Basic weighted average share outstanding	35,604	35,126	35,470	35,086
Diluted weighted average shares outstanding	36,260	35,414	36,124	35,379

(A) For the quarter ended December 31, 2003, these amounts include charges of $0.8 million for the pension curtailment. For the six months ended December 31, 2003, these amounts include charges of $0.1 million for integration activities, $2.9 million related to restructuring programs, and $0.8 million for the pension curtailment. For the quarter and six months ended December 31, 2002, these amounts include charges of $0.1 million for integration activities related to the Widia acquisition.

(B) For the quarter ended December 31, 2003, these amounts include charges of $1.8 million related to a note receivable from a divestiture of a business by Kennametal in 2002, and $0.5 million related to the pension curtailment. For the six months ended December 31, 2003, these amounts include charges of $1.8 million related to a note receivable from a divestiture of a business by Kennametal in 2002, $0.5 million related to the pension curtailment, and $1.4 million for integration activities related to the Widia acquisition. For the quarter and six months ended December 31, 2002, these amounts include charges of $1.3 million and $2.0 million, respectively, for integration activities related to the Widia acquisition.

(C) For the quarter and six months ended December 31, 2003, these amounts include income of $4.4 million related to a gain on the sale of Toshiba Tungaloy investment and a charge of $0.2 million on a note receivable from a divestiture of a business by Kennametal in 2002.

FINANCIAL HIGHLIGHTS (Continued)

In addition to reported results under U.S. GAAP, the following financial highlight tables also include, where appropriate, a reconciliation of results excluding special items and free operating cash flow (which are non-GAAP measures), to the most directly comparable GAAP measures. Management believes that each of these non-GAAP financial measures is useful to investors to more easily compare the Company's financial performance period to period.

RECONCILIATION TO GAAP - QUARTER ENDED DECEMBER 31 (Unaudited)

	Gross Profit	Operating Expense	Operating Income	Other (Income)/ Expense	Net Income	Diluted Earnings Per Share
2003 Reported Results	$147,632	$124,723	$19,303	$(3,855)	$10,892	$0.30
MSSG Restructuring	7	-	1,630	-	1,109	0.03
AMSG Restructuring	-	-	1,497	-	1,018	0.03
Pension Curtailment	779	(520)	1,299	-	883	0.02
Gain on Toshiba Investment	-	-	-	4,397	(2,990)	(0.08)
Note Receivable	-	(1,817)	1,817	(183)	1,360	0.04
2003 Results Excluding Special Items	$148,418	$122,386	$25,546	$359	$12,272	$0.34
2002 Reported Results	$137,483	$115,677	$11,945	$(1,721)	$2,470	$0.07
MSSG Restructuring	-	-	4,849	-	3,394	0.10
AMSG Restructuring	-	-	2,259	-	1,577	0.04
Corporate Restructuring	-	-	958	-	670	0.02
J&L Restructuring	-	-	466	-	327	0.01
FSS Restructuring	-	-	29	-	20	-
Widia Integration Costs - MSSG	54	(1,306)	1,360	-	967	0.03
Widia Integration Costs - AMSG	-	(4)	4	-	3	-
2002 Results Excluding Special Items	$137,537	$114,367	$21,870	$(1,721)	$9,428	$0.27

FINANCIAL HIGHLIGHTS (Continued)

RECONCILIATION TO GAAP - SIX MONTHS ENDED DECEMBER 31 (Unaudited)

	Gross Profit	Operating Expense	Operating Income	Other (Income)/ Expense	Net Income	Diluted Earnings Per Share
2003 Reported Results	$291,739	$245,962	$41,151	$(2,518)	$19,656	$0.54
MSSG Restructuring	2,850	-	5,023	-	3,416	0.10
AMSG Restructuring	-	-	1,497	-	1,018	0.03
Widia Integration Costs - MSSG	63	(1,448)	1,511	-	1,027	0.03
Widia Integration Costs - AMSG	48	-	48	-	33	-
Pension Curtailment	779	(520)	1,299	-	883	0.02
Gain on Toshiba Investment	-	-	-	4,397	(2,990)	(0.08)
Note Receivable	-	(1,817)	1,817	(183)	1,360	0.04
2003 Results						

Excluding Special Items	$295,479	$242,177	$52,346	$1,696	$24,403	$0.68
2002 Reported Results	$268,452	$220,512	$37,446	$(1,127)	$13,299	$0.38
MSSG Restructuring	-	-	4,849	-	3,394	0.10
AMSG Restructuring	-	-	2,078	-	1,454	0.04
Corporate Restructuring	-	-	958	-	670	0.02
J&L Restructuring	-	-	466	-	327	0.01
FSS Restructuring	-	-	29	-	20	-
Widia Integration Costs - MSSG	54	(2,017)	2,071	-	1,450	0.03
Widia Integration Costs - AMSG	-	(4)	4	-	3	-
2002 Results Excluding Special Items	$268,506	$218,491	$47,901	$(1,127)	$20,617	$0.58

FINANCIAL HIGHLIGHTS (Continued)

SEGMENT DATA (Unaudited):

	Quarter Ended December 31, 2003	Quarter Ended December 31, 2002*	Six Months Ended December 31, 2003	Six Months Ended December 31, 2002*
Sales:				
Metalworking Solutions and Services Group	$283,493	$269,413	$554,622	$510,234
Advanced Materials Solutions Group	94,751	83,305	188,382	166,714
J&L Industrial Supply	50,341	48,076	98,480	96,283
Full Service Supply	32,193	30,937	63,869	62,718
Total Sales	$460,778	$431,731	$905,353	$835,949
Sales By Geographic Region:				
Within the United States	$236,203	$229,506	$468,817	$468,630
International	224,575	202,225	436,536	367,319
Total Sales	$460,778	$431,731	$905,353	$835,949
Operating Income (Loss), as reported:				
Metalworking Solutions and Services Group	$22,684	$17,394	$46,186	$41,004
Advanced Materials Solutions Group	9,407	6,339	21,229	17,724
J&L Industrial Supply	4,306	1,722	6,991	3,886
Full Service Supply	(159)	(332)	(440)	(351)
Corporate and Eliminations	(16,935)	(13,178)	(32,815)	(24,817)
Total Operating Income	$19,303	$11,945	$41,151	$37,446
Operating Income (Loss), excluding special charges:				
Metalworking Solutions and Services Group	$24,314	$23,603	$52,720	$47,924
Advanced Materials Solutions Group	10,904	8,602	22,774	19,806
J&L Industrial Supply	4,306	2,188	6,991	4,352
Full Service Supply	(159)	(303)	(440)	(322)
Corporate and Eliminations	(13,819)	(12,220)	(29,699)	(23,859)
Total Operating Income	$25,546	$21,870	$52,346	$47,901

* Prior year segment data has been restated for organizational changes.

FINANCIAL HIGHLIGHTS (Continued)

OPERATING INCOME (LOSS) RECONCILIATION (Unaudited):

QUARTER ENDED DECEMBER 31,

	MSSG	AMSG	Corp & J&L	FSS	Elim.	Total
2003 Reported Operating Income (Loss)	$22,684	$9,407	$4,306	$(159)	$(16,935)	$19,303
Restructuring	1,630	1,497	-	-	-	3,127
Pension Curtailment	-	-	-	-	1,299	1,299
Note Receivable	-	-	-	-	1,817	1,817
2003 Operating Income (Loss) Excluding Special Charges	$24,314	$10,904	$4,306	$(159)	$(13,819)	$25,546
2002 Reported Operating Income (Loss)	$17,394	$6,339	$1,722	$(332)	$(13,178)	$11,945
Restructuring	4,849	2,259	466	29	958	8,561
Widia Integration Costs	1,360	4	-	-	-	1,364
2002 Operating Income (Loss) Excluding Special Charges	$23,603	$8,602	$2,188	$(303)	$(12,220)	$21,870

SIX MONTHS ENDED DECEMBER 31,

	MSSG	AMSG	Corp & J&L	FSS	Elim.	Total
2003 Reported Operating Income (Loss)	$46,186	$21,229	$6,991	$(440)	$(32,815)	$41,151
Restructuring	5,023	1,497	-	-	-	6,520
Widia Integration Costs	1,511	48	-	-	-	1,559
Pension Curtailment	-	-	-	-	1,299	1,299
Note Receivable	-	-	-	-	1,817	1,817
2003 Operating Income (Loss) Excluding Special Charges	$52,720	$22,774	$6,991	$(440)	$(29,699)	$52,346
2002 Reported Operating Income (Loss)	$41,004	$17,724	$3,886	$(351)	$(24,817)	$37,446
Restructuring	4,849	2,078	466	29	958	8,380
Widia Integration Costs	2,071	4	-	-	-	2,075
2002 Operating Income (Loss) Excluding Special Charges	$47,924	$19,806	$4,352	$(322)	$(23,859)	$47,901

FINANCIAL HIGHLIGHTS (Continued)

RECONCILIATION TO OPERATING CASH FLOW INFORMATION (Unaudited)

	Quarter Ended December 31, 2003	Quarter Ended December 31, 2002	Six Months Ended December 31, 2003	Six Months Ended December 31, 2002
Net income	$10,892	$2,470	$19,656	$13,299
Other non-cash items	4,746	3,484	11,219	5,489
Depreciation and amortization	16,489	20,914	31,840	39,980

Change in inventory	11,709	3,379	15,437	13,500
Change in accounts receivable	18,343	24,973	23,397	30,911
Change in accounts payable	3,332	(11,637)	(9,180)	(25,736)
Change in other assets and liabilities	(22,354)	(7,310)	(37,027)	(2,856)
Net cash flow provided by operating activities	43,157	36,273	55,342	74,587
Purchase of property, plant and equipment	(11,259)	(11,536)	(21,853)	(22,011)
Proceeds from disposals of property, plant and equipment	1,854	238	2,388	843
Free operating cash flow	$33,752	$24,975	$35,877	$53,419

CONDENSED BALANCE SHEETS (Unaudited)

	Quarter Ended		
	12/31/03	09/30/03	06/30/03
ASSETS			
Cash and equivalents	$15,086	$14,720	$15,093
Accounts receivable, net of allowance	223,087	232,146	231,803
Inventories	386,250	387,877	389,613
Deferred income taxes	88,020	86,888	97,237
Other current assets	39,460	47,003	48,606
Total current assets	751,903	768,634	782,352
Property, plant and equipment, net	487,530	489,242	489,828
Goodwill and Intangible assets, net	500,890	484,662	470,165
Other assets	72,802	67,108	71,542
Total	$1,813,125	$1,809,646	$1,813,887
LIABILITIES			
Short-term debt, including notes payable	$12,872	$11,375	$10,845
Accounts payable	112,563	107,653	118,509
Accrued liabilities	183,835	197,578	206,993
Total current liabilities	309,270	316,606	336,347
Long-term debt	468,455	508,763	514,842
Deferred income taxes	36,087	41,368	43,543
Other liabilities	191,585	180,258	178,698
Total liabilities	1,005,397	1,046,995	1,073,430
MINORITY INTEREST	16,286	16,089	18,880
SHAREOWNERS' EQUITY	791,442	746,562	721,577
Total	$1,813,125	$1,809,646	$1,813,887

	Quarter Ended	
	03/31/03	12/31/02
ASSETS		
Cash and equivalents	$17,250	$18,155
Accounts receivable, net of allowance	235,908	199,261
Inventories	408,996	403,530
Deferred income taxes	81,651	80,204
Other current assets	44,286	53,868
Total current assets	788,091	755,018
Property, plant and equipment, net	476,208	480,066
Goodwill and Intangible assets, net	491,987	478,060
Other assets	107,159	104,937
Total	$1,863,445	$1,818,081
LIABILITIES		
Short-term debt, including notes payable	$15,068	$17,591
Accounts payable	120,981	92,114

Accrued liabilities	208,816	171,726
Total current liabilities	344,865	281,431
Long-term debt	565,067	599,425
Deferred income taxes	38,382	46,801
Other liabilities	140,550	135,101
Total liabilities	1,088,864	1,062,758
MINORITY INTEREST	18,070	17,594
SHAREOWNERS' EQUITY	756,511	737,729
Total	$1,863,445	$1,818,081

RECONCILIATION OF FORECASTED GAAP CASH FLOW INFORMATION (Unaudited)

	Twelve Months Ended June 30, 2004
Forecasted net cash flow provided by operating activities	$160,000 - 175,000
Forecasted purchases and disposals of property, plant and equipment	(50,000) - (60,000)
Forecasted free operating cash flow	$100,000 - 125,000

SOURCE Kennametal Inc.