FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED JUNE 30, 1997

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from to

Commission File Number 1-5318

KENNAMETAL INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-0900168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

State Route 981 South
P. O. Box 231
Latrobe, Pennsylvania 15650
(Address of principal executive offices)

Registrant's telephone number, including area code: 412-539-5000

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

Title of each class	Name of each exchange on which registered
Capital Stock, par value $1.25 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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

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, and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [X]

As of August 29, 1997, the aggregate market value of the registrant's Capital Stock held by non-affiliates of the registrant, estimated solely for the purposes of this Form 10-K, was approximately $1,060,100,000. For purposes of the foregoing calculation only, all directors and executive officers of the registrant and each person who may be deemed to own beneficially more than 5% of the registrant's Capital Stock have been deemed affiliates.

As of August 29, 1997, there were 26,198,183 shares of Capital Stock outstanding.

Documents Incorporated by Reference

Portions of the 1997 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the 1997 Annual Meeting of Shareholders are incorporated by reference into Parts III and IV.

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PART I

ITEM 1. BUSINESS

Overview
- --------
Kennametal Inc. was incorporated in Pennsylvania in 1943. Kennametal Inc. and subsidiaries ("Kennametal" or the "company") manufacture, purchase and distribute a broad range of tools, tooling systems, supplies and services for the metalworking, mining and highway construction industries. Kennametal specializes in developing and manufacturing metalcutting tools and wear-resistant parts using a specialized type of powder metallurgy. Kennametal's metalcutting tools are made of cemented carbides, ceramics, cermets and other hard materials. The company manufactures a complete line of toolholders and toolholding systems by machining and fabricating steel bars and other metal alloys. The company also distributes a broad range of industrial supplies used in the metalworking industry. Kennametal's mining and construction cutting tools are tipped with cemented carbide and are used for underground coal mining and highway construction, repair and maintenance.

On July 2, 1997, an initial public offering of approximately 20 percent of a newly formed subsidiary of the company, JLK Direct Distribution Inc. (JLK) was consummated. The new subsidiary was incorporated on April 28, 1997 and operates the metalworking industrial supply operations of the company. The company currently has approximately 80 percent ownership. (see Note 3 to the consolidated financial statements presented on page 31 of the 1997 Annual Report to Shareholders, and such information is incorporated herein by reference).

The matters discussed in this Form 10-K contain "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results can differ from those in the forward-looking statements to the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific change from the company's expectations.

Business Segment and Markets
- ----------------------------
The company operates predominantly as a tooling supplier specializing in powder metallurgy, which represents a single business segment. While many of the company's products are similar in composition, sales are classified into three markets: metalworking, industrial supply, and mining and construction. The company's sales by market are presented on page 21 of the 1997 Annual Report to Shareholders, and such information is incorporated herein by reference. Additional information about the company's operations by geographic area is presented on page 37 of the 1997 Annual Report to Shareholders, and such information is incorporated herein by reference.

Metalworking Markets
- --------------------
Kennametal markets, manufactures and distributes a full line of products and services for the metalworking industry. The company provides metalcutting tools to manufacturing companies in a wide range of industries throughout the world.

A Kennametal tooling system usually consists of a steel toolholder and an indexable cutting tool called an insert. During a metalworking operation, the toolholder is positioned in a machine tool that provides the turning power. While the workpiece or toolholder is rapidly rotating, the cutting tool insert contacts the workpiece and cuts or shapes the workpiece. The cutting tool insert is consumed during use and must be replaced periodically. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. The company also makes wear-resistant parts for use in abrasive environments and specialty applications.

Industrial Supply Market
- ------------------------
Kennametal distributes a full line of industrial supplies to the metalworking industry. These products include cutting tools, abrasives, precision measuring devices, power tools and hand tools, machine tool accessories and, to a lesser extent, some maintenance, repair and operating supplies. The majority of industrial supplies distributed by the company are purchased from other manufacturers, although the industrial supply product offering does include Kennametal-manufactured items.

Mining and Construction Market
- ------------------------------
Mining and construction cutting tools are fabricated from steel parts and tipped with cemented carbide. Mining tools, used primarily in the coal industry, include longwall shearer and continuous miner drums, blocks, bits, pinning rods, augers and a wide range of mining tool accessories. The company also supplies compacts for mining, quarrying, water well drilling and oil and gas exploration. Construction cutting tools include carbide-tipped bits for ditching, trenching and road planing, grader blades for site preparation and routine roadbed control, and snowplow blades and shoes for winter road plowing.

The company also makes proprietary metallurgical powders for use as a basic material in many of its metalworking, mining and construction products. In addition, the company produces a variety of metallurgical powders and related materials for specialized markets. These products include intermediate carbide powders, hardfacing materials and matrix powders that are sold to manufacturers of cemented carbide products, oil and gas drilling equipment and diamond drill bits.

Issuance of Subsidiary Stock

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On July 2, 1997, an initial public offering ("IPO") of approximately 4.9 million shares of common stock at a price of $20 per share of a newly formed subsidiary of the company, JLK was consummated. JLK operates the industrial supply operations consisting of the company's wholly owned J&L America, Inc. ("J&L") subsidiary and its Full Service Supply programs. The net proceeds from the offering were approximately $90 million and represented approximately 20 percent of JLK's common stock. The net proceeds were used by JLK to repay $20 million of indebtedness related to a dividend to the company and $20 million related to intercompany obligations to the company. The company used these proceeds to repay short term debt. The company today owns approximately 80 percent of the outstanding common stock of JLK and intends to retain a majority of both the economic and voting interests of JLK.

Acquisition
- -----------
In August 1993, the company acquired an 81 percent interest in Hertel AG ("Hertel") for $43 million in cash and $55 million of assumed debt. Hertel, based in Fuerth, Germany, is a manufacturer and marketer of cemented carbide tools and tooling systems which are similar to the metalcutting tools and tooling systems produced by the company. The acquisition of Hertel has not materially changed the product lines offered by the company. While the company's primary market is the United States, Hertel's primary market is Germany and western Europe. The acquisition of Hertel significantly increased the company's market share in these markets.

Since January 1, 1994, the company purchased additional shares of Hertel for $21 million, thereby increasing the company's ownership interest to 95 percent at June 30, 1997.

International Operations
- ------------------------
The company's principal international operations are conducted in Western Europe and Canada. In addition, the company has joint ventures in China, India, Italy, Poland and Russia, manufacturing and sales subsidiaries in Asia Pacific and sales agents and distributors in eastern Europe and other areas of the world.

The company's international operations are subject to the usual risks of doing business in those countries, including currency fluctuations and changes in social, political and economic environments. In management's opinion, the company's business is not materially dependent upon any one international location involving significant risk.

The company's international sales are presented on page 21 of the 1997 Annual Report to Shareholders, and such information is incorporated herein by reference. Information pertaining to the effects of foreign currency fluctuations is contained under the caption "Foreign Currency Translation" in the notes to the consolidated financial statements on page 30 of the 1997 Annual Report to Shareholders, and such information is incorporated herein by reference.

Marketing and Distribution
- --------------------------
The company's products are sold through three distinct channels: a direct sales force, Full Service Supply programs, and retail showrooms and mail-order catalogs. The company's manufactured products are sold to end users primarily through a direct sales force. Service engineers and technicians directly assist customers with product design, selection and application. In addition, Kennametal-manufactured products, together with a broad range of purchased products, are sold through Full Service Supply programs and retail showrooms and mail-order catalogs. The company also uses independent distributors and sales agents in the United States and certain international markets.

The company's products are marketed under various trademarks and tradenames, such as Kennametal*, Hertel*, the letter K combined with other identifying letters and/or numbers*, Block Style K*, Kendex*, Kenloc*, Top Notch*, Erickson*, Kyon*, KM*, Drill-Fix* and Fix-Perfect*. Purchased products are sold under the manufacturer's name or a private label.

Competition
- -----------
Kennametal is one of the world's leading producers of cemented carbide tools and maintains a strong competitive position, especially in North America and Europe. There is active competition in the sale of all products made by the company, with approximately 30 companies engaged in the cemented carbide business in the United States and many more outside the United States. Several competitors are divisions of larger corporations. In addition, several hundred fabricators and toolmakers, many of whom operate out of relatively small shops, produce tools similar to those made by the company and buy the cemented carbide components for such tools from cemented carbide producers, including the company. Major competition exists from both U.S.-based and international-based concerns. In addition, the company competes with thousands of industrial supply distributors.

The principal methods of competition in the company's business are service, product innovation, quality, availability and price. The company believes that its competitive strength rests on its customer service capabilities, including its multiple distribution channels, its global presence, its state-of-the-art manufacturing capabilities, its ability to develop new and improved tools responsive to the needs of its customers, and the consistent high quality of its products. These factors frequently permit the company to sell such products based on the value added for the customer rather than strictly on competitive prices.

Seasonality
- -----------
Seasonal variations do not have a major effect on the company's business. However, to varying degrees, traditional summer vacation shutdowns of

metalworking customers' plants and holiday shutdowns often affect the company's sales levels during the first and second quarters of its fiscal year.

Backlog

The company's backlog of orders generally is not significant to its operations. Approximately 80 percent of all orders are filled from stock, and the balance generally is filled within short lead times.

Research and Development

The company is involved in research and development of new products and processes. Research and development expenses totaled $24.1 million, $20.6 million and $18.7 million in 1997, 1996 and 1995, respectively. Additionally, certain costs associated with improving manufacturing processes are included in cost of goods sold. The company holds a number of patents and licenses which, in the aggregate, are not material to the operation of the business.

The company has brought a number of new products to market during the past few years. These include metalcutting inserts that incorporate innovative tool geometries or compositions for improved chip control and productivity. These new compositions include KC994M* multi-coated metalcutting inserts for milling applications, KC9010* and KC9025* multi-coated metalcutting inserts for turning applications, Kyon 3500* ceramic metalcutting inserts for machining cast irons, and KCD25* diamond-coated metalcutting inserts for machining aluminum alloys and other nonferrous materials.

Raw Materials and Supplies

Major metallurgical raw materials consist of ore concentrates, compounds and secondary materials containing tungsten, tantalum, titanium, niobium and cobalt. Although these raw materials are in relatively adequate supply, major sources are located abroad and prices at times have been volatile. For these reasons, the company exercises great care in the selection, purchase and inventory availability of these materials. The company also purchases substantial quantities of steel bars and forgings for making toolholders and other tool parts and accessories. Products purchased for resale are obtained from thousands of suppliers located in the United States and abroad.

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* Trademark owned by Kennametal Inc. or Kennametal Hertel AG

Employees

The company employed approximately 7,500 persons at June 30, 1997, of which 4,700 were located in the United States and 2,800 in other parts of the world, principally Europe and Asia Pacific. Approximately 1,100 employees were represented by labor unions, of which 170 were hourly-rated employees located at plants in the Latrobe, Pennsylvania area. The remaining 930 employees represented by labor unions were employed at seven plants located outside of the United States. The company considers its labor relations to be generally good.

Regulation

Compliance with government laws and regulations pertaining to the discharge of materials or pollutants into the environment or otherwise relating to the protection of the environment did not have a material effect on the company's capital expenditures, earnings or competitive position for the year covered by this report, nor is such compliance expected to have a material effect in the future.

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at four Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flows of the company.

The company maintains a Corporate Environmental, Health and Safety ("EH&S") Department as well as an EH&S Policy Committee to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, the company has established an EH&S administrator at each of its domestic manufacturing facilities. The company's financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly and annual basis, management establishes or adjusts financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

Corporate Directory

The following is a summary of the company's consolidated subsidiaries and affiliated companies as of June 30, 1997:

CONSOLIDATED SUBSIDIARIES (% OWNERSHIP)
Kennametal Australia Pty. Ltd., Australia
Kennametal Foreign Sales Corporation, Barbados
Kennametal Ltd., Canada
Kennametal (China) Limited, China
Kennametal (Shanghai) Ltd., China
Shanxi-Kennametal Mining Cutting Systems Manufacturing
  Company Limited, China (70%)
Xuzhou-Kennametal Mining Cutting Systems Manufacturing

Company Limited, China (70%)
Kennametal Hertel Limited, England
Kennametal Hertel AG, Germany (95%)
Kennametal Hardpoint H.K. Ltd., Hong Kong (90%)
Kobe Kennametal K.K., Japan (51%)
Kennametal Hertel (Malaysia) Sdn. Bhd., Malaysia
Kennametal de Mexico, S.A. de C.V., Mexico
Kennametal/Becker-Warkop Ltd., Poland (84%)
Kennametal Hertel (Singapore) Pte. Ltd., Singapore
Kennametal South Africa (Proprietary) Limited, South Africa
Kennametal Hardpoint (Taiwan) Inc., Taiwan (90%)
Kennametal Hertel Co., Ltd., Thailand (48%)
Adaptive Technologies Corp., United States
Kennametal Hardpoint Inc., United States (90%)
Circle Machine Company, United States
JLK Direct Distribution Inc., United States

CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG
Kennametal Hertel Belgium S.A., Belgium
Kennametal Hertel France S.A., France
Materiels de Precision et de Production S.A., France
Kennametal Hertel G.m.b.H., Germany
Kennametal Hertel Nederland B.V., Netherlands
Nederlandse Hardmetaal Fabrieken B.V., Netherlands
Kennametal GTS G.m.b.H. Korea, South Korea (branch)

CONSOLIDATED SUBSIDIARIES OF JLK DIRECT DISTRIBUTION INC.
J&L America, Inc., United States

CONSOLIDATED SUBSIDIARIES OF J&L AMERICA, INC.
J&L Industrial Supply UK, England (branch)
Mill & Abrasive Supply, Inc., United States
Strelinger Company, United States

AFFILIATED COMPANIES (% OWNERSHIP)
Kennametal Hertel G. Beisteiner G.m.b.H., Austria (26%)
Birla Kennametal Ltd., India (40%)
Drillco Hertel Ltd., India (50%)
Kennametal Ca.Me.S., S.p.A., Italy (51%)
Kennametal Hertel S.p.A., Italy (40%)
Wilke Carbide B.V., Netherlands (50%)
PIGMA-Kennametal Joint Venture, Russia (49%)
Kenci, S.A., Spain (20%)

ITEM 2. PROPERTIES

Presented below is a summary of principal manufacturing facilities used by the company and its majority-owned subsidiaries.

Location	Owned/Leased	Principal Products
UNITED STATES:		
Monrovia, California	Leased	Boring Bars
Troy, Michigan	Leased	Metalworking Toolholders
Fallon, Nevada	Owned	Metallurgical Powders
Henderson, North Carolina	Owned	Metallurgical Powders
Roanoke Rapids, North Carolina	Owned	Metalworking Inserts
Orwell, Ohio	Owned	Metalworking Inserts
Solon, Ohio	Owned	Metalworking Toolholders
Bedford, Pennsylvania	Owned	Mining and Construction Tools and Wear Parts
Latrobe, Pennsylvania	Owned	Metallurgical Powders and Wear Parts
Johnson City, Tennessee	Owned	Metalworking Inserts
New Market, Virginia	Owned	Metalworking Toolholders
INTERNATIONAL (a):		
Victoria, Canada	Owned	Wear Parts
Shanxi, China	Owned	Mining Tools
Xuzhou, China	Owned	Mining Tools
Blaydon, England	Leased	Mining Tools
Kingswinford, England	Leased	Metalworking Toolholders
Bordeaux, France	Leased	Metalworking Cutting Tools
Ebermannstadt, Germany	Owned	Metalworking Inserts
Mistelgau, Germany	Owned	Metallurgical Powders, Metalworking Inserts and Wear Parts
Nabburg, Germany	Owned	Metalworking Toolholders
Vohenstrauss, Germany	Leased	Metalworking Carbide Drills
Arnhem, Netherlands	Owned	Wear Products

(a) In January 1996, the company began construction of a $20-million facility in Shanghai, China, to manufacture cemented carbide metalcutting tools. Operations are planned to begin in 1998.

The company also has a network of warehouses and customer service centers located throughout North America, Western Europe, Asia and Australia, a significant portion of which are leased. The majority of the company's research and development efforts are conducted in a corporate technology center located adjacent to world headquarters in Latrobe, Pennsylvania and in Fuerth, Germany.

All significant properties are used in the company's dominant business of powder metallurgy, tools, tooling systems and supplies. The company's production capacity is adequate for its present needs. The company believes that its properties have been adequately maintained, are generally in good condition and are suitable for the company's business as presently conducted.

ITEM 3. LEGAL PROCEEDINGS

(a) In connection with a Domination Contract with Kennametal Hertel AG, under German law, the company is required to offer to minority shareholders to purchase their shares for a reasonable compensation and to guarantee dividends while the Domination Contract is in effect (having an indefinite term which may be terminated by giving six months notice to the end of each fiscal year of Kennametal Hertel AG) and to pay Kennametal Hertel AG any net cumulative losses it sustains during the term of the contract and has liability to Kennametal Hertel AG creditors as if Kennametal Hertel AG merged with the company. Several minority shareholders are contesting the reasonableness of the purchase price for minority shares and the minimum dividend on minority shares offered by the company in connection with the Domination Contract through litigation in Germany. It is management's opinion that the company and Kennametal Hertel AG have viable defenses to the contest of the reasonableness of the minority share purchase price and minimum dividend and, in any event, that the ultimate outcome of this matter will not have a material adverse effect on the results of operations, cash flows or financial position of the company.

(b) There are no other material pending legal proceedings, other than litigation incidental to the ordinary course of business, to which the company or any of its subsidiaries is a party or of which any of their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal year 1997, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

OFFICERS OF THE REGISTRANT

Name, Age, and Position	Experience During Past Five Years (2)
Robert L. McGeehan, 60 (1) President Chief Executive Officer Director	President and Director since 1989. Chief Executive Officer since October 1, 1991.
William R. Newlin, 56 (1) Chairman of the Board	Chairman of the Board since October 28, 1996. Director since 1982.
David B. Arnold, 58 (1) Vice President Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
James R. Breisinger, 47 Vice President Controller	Vice President since 1990. Renamed Controller in 1994. Managing Director of Europe from 1991 to 1994. Controller from 1983 to 1991.
David T. Cofer, 52 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Richard P. Gibson, 62 Assistant Treasurer Director of Taxes	Assistant Treasurer since 1985. Director of Taxes since 1980.
Derwin R. Gilbreath, 49 Vice President Director of Global Manufacturing	Vice President since January 1997. Director of Global Manufacturing since 1995. Director of North America Metalworking Manufacturing from 1994 to 1995. Vice President of Operations for DeZurik, a unit of General Signal, prior to joining the Company in 1994.
Richard C. Hendricks, 58 (1) Vice President Director of Corporate Business Development	Vice President since 1982. Director of Corporate Business Development since 1992.
Timothy D. Hudson, 51 Vice President Director of Human Resources	Vice President since 1994. Director of Human Resources since 1992. Corporate Manager of Human Resources from 1978 to 1992.
H. Patrick Mahanes, Jr., 54 (1) Vice President Chief Operating Officer	Vice President since 1987. Named Chief Operating Officer in 1995. Director of Operations from 1991 to 1995.
Richard V. Minns, 59 Vice President Director of Metalworking Sales, North America	Vice President since 1990. Director of Sales for the Metalworking Systems Division since 1985.
James E. Morrison, 46 Vice President Treasurer	Vice President since 1994. Treasurer since 1987.
Kevin G. Nowe, 45 Assistant Secretary Assistant General Counsel	Joined the company as Assistant General Counsel in 1992 and was elected Assistant Secretary in 1993. Previously was Senior Counsel and Corporate Secretary of Emro Marketing Company in Enon, Ohio.
Richard J. Orwig, 56 (1)	Vice President since 1987. Named Chief

Vice President Chief Financial and Administrative Officer	Financial and Administrative Officer in 1994. Director of Administration from 1991 to 1994.
Michael W. Ruprich, 41 (1) President, JLK Direct Distribution Inc. Vice President, Kennametal Inc.	Named President of JLK Direct Distribution Inc. in April 1997. Director of Global Marketing and Sales from 1996 to 1997. Vice President of Kennametal Inc. since 1994. President, J&L America, Inc. from 1994 to 1996. General Manager of J&L from 1993 to 1994. National Sales and Marketing Manager from 1992 to 1993. General Manager-East Coast Region from 1990 to 1992.
P. Mark Schiller, 49 Vice President Director of Kennametal Distribution Services	Vice President since 1992. Director of Kennametal Distribution Services since 1990.
Lawrence L. Shrum, 56 Vice President Director of Global Management Information Systems	Vice President since January 1997. Named Director of Global Management Information Systems in 1994. Manager of User Systems Support from 1992 to 1994.
A. David Tilstone, 43 (1) Vice President Director of Global Marketing	Vice President since July 1997. Named Director of Global Marketing in April 1997. Joined Kennametal in 1972 and held various marketing positions from 1980 through 1991, prior to his departure in 1991 to become the business manager of an architectural firm. Returned to Kennametal in 1994 as Manager of Business Development, Asia Pacific and served as Director of Asia Pacific Operations from 1995 to 1997.

Notes:
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(1) Executive officer of the Registrant.
(2) Each officer has been elected by the Board of Directors to serve until removed or until a successor is elected and qualified, and has served continuously as an officer since first elected.

PART II

The information required under Items 5 through 8 is included in the 1997 Annual Report to Shareholders and such information is incorporated herein by reference as indicated by the following table.

	Incorporated by Reference to Captions and Pages of the 1997 Annual Report
ITEM 5. Market for the Registrant's Capital Stock and Related Stockholder Matters	Quarterly Financial Information (Unaudited) on page 38.
ITEM 6. Selected Financial Data	Ten-Year Financial Highlights (information with respect to the years 1993 to 1997) on pages 40 and 41.
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion & Analysis on pages 21 to 24.
ITEM 8. Financial Statements and Supplementary Data	Item 14(a)1 herein and Quarterly Financial Information (Unaudited) on page 38.
ITEM 9. Changes in and Disagreements on Accounting and Financial Disclosure	Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information set forth in Part I under the caption "Officers of the Registrant" and the information set forth under the caption "Election of Directors" in the company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after June 30, 1997 ("1997 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference is the information set forth under the caption "Compensation of Executive Officers" and certain information regarding directors' fees under the caption "Board of Directors and Board Committees" in the 1997 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the information set forth under the caption "Ownership of Capital Stock by Directors, Nominees and Executive Officers" with respect to the directors' and officers' shareholdings and under the caption "Principal Holders of Voting Securities" with respect to other beneficial owners in the 1997 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the table under the caption "Election of Directors" and the information set forth in the section entitled "Certain Relationships and Related Transactions" in the 1997 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Form 10-K report.

1. Financial Statements

The consolidated balance sheets as of June 30, 1997 and 1996, the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1997, and the notes to consolidated financial statements, together with the report hereon of Arthur Andersen LLP dated July 21, 1997, presented in the company's 1997 Annual Report to Shareholders, are incorporated herein by reference.

2. Financial Statement Schedules

The financial statement schedule shown below should be read in conjunction with the financial statements contained in the 1997 Annual Report to Shareholders. Other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Separate financial statements of the company are omitted because the company is primarily an operating company, and all significant subsidiaries included in the consolidated financial statements are wholly owned, with the exception of Kennametal Hertel AG, in which the company has a 95 percent interest.

Financial Statement Schedule:

Report of Independent Public Accountants

Schedule II - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1997

3. Exhibits

(3)	Articles of Incorporation and Bylaws	
(3.1)	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.
(3.2)	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q (SEC file no. reference 1-5318; docket entry date - May 14, 1991) is incorporated herein by reference.
(4)	Instruments Defining the Rights of Security Holders, Including Indentures	
(4.1)	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 (SEC file no. reference 1-5318; docket entry date - November 1, 1990) is incorporated herein by reference.
(4.2)	Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 26, 1990) is incorporated herein by reference. NOTE: Copies of instruments with respect to long-term debt or capitalized lease obligations which do not exceed 10% of consolidated assets will be furnished to the Securities and Exchange Commission upon request.
(10)	Material Contracts	
(10.1)*	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of

the Board of Directors Committee on Executive Compensation" contained in the company's 1996 Proxy Statement is incorporated herein by reference.

(10.2)*	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 14, 1986) is incorporated herein by reference.
(10.3)*	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
(10.4)*	Officer employment agreements, as amended and restated	Exhibit 10.3 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.5)*	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.6)*	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.7)*	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.8)*	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.9)	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.10)	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.11)	Credit Agreement dated as of April 19, 1996 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.17 of the company's March 31,1996 Form 10-Q is incorporated herein by reference.
(10.12)*	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
(10.13)*	Stock Option and Incentive Plan of 1996	Exhibit 10.14 of the company's September 30, 1996 Form 10-Q is incorporated herein by reference.
(10.14)*	Stock Option and Incentive Plan of 1992, as amended	Exhibit 10.8 of the company's December 31, 1996 Form 10-Q is incorporated herein by reference.
(10.15)*	Form of Employment Agreement with certain officers	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(10.16)*	Supplemental Executive Retirement Plan	Exhibit 10.2 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(10.17)	Amendment to Credit Agreement dated April 19, 1996	Exhibit 10.3 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(13)	Annual Report to Shareholders	Portions of the 1997 Annual Report are filed herewith.
(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Public Accountants	Filed herewith.
(27)	Financial Data Schedule	Filed herewith.

* Denotes management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended June 30, 1997.

SIGNATURES

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

KENNAMETAL INC.

By /s/ RICHARD J. ORWIG

Richard J. Orwig
Vice President, Chief Financial and Administrative Officer

Date: September 18, 1997

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

Signature	Title	Date
/s/ WILLIAM R. NEWLIN William R. Newlin	Chairman of the Board	September 18, 1997
/s/ ROBERT L. MCGEEHAN Robert L. McGeehan	President, Chief Executive Officer and Director	September 18, 1997
/s/ JAMES R. BREISINGER James R. Breisinger	Vice President, Controller and Chief Accounting Officer	September 18, 1997
/s/ RICHARD J. ORWIG Richard J. Orwig	Vice President, Chief Financial and Administrative Officer	September 18, 1997
/s/ RICHARD C. ALBERDING Richard C. Alberding	Director	September 18, 1997
/s/ PETER B. BARTLETT Peter B. Bartlett	Director	September 18, 1997
/s/ A. PETER HELD A. Peter Held	Director	September 18, 1997
/s/ WARREN H. HOLLINSHEAD Warren H. Hollinshead	Director	September 18, 1997
/s/ QUENTIN C. MCKENNA Quentin C. McKenna	Director	September 18, 1997
/s/ ALOYSIUS T. MCLAUGHLIN Aloysius T. McLaughlin, Jr.	Director	September 18, 1997
/s/ LARRY YOST Larry Yost	Director	September 18, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders of
Kennametal Inc.

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Kennametal Inc.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated July 21, 1997. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index in Item 14(a) 2 of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
July 21, 1997

KENNAMETAL INC. SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

FOR THE THREE YEARS ENDED JUNE 30, 1997

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Recoveries	Additions: Other Adjustments(a)	Deductions from Reserves (b)	Balance at End of Year
1997						
Allowance for doubtful accounts	$ 9,296	$1,979	$136	$ (546)	$3,540	$ 7,325
1996						
Allowance for doubtful accounts	$12,106	$1,810	$213	$ (871)	$3,962	$ 9,296
1995						
Allowance for doubtful accounts	$ 9,328	$1,477	$237	$2,131	$1,067	$12,106

(a) Represents foreign currency translation adjustment.

(b) Represents uncollected accounts charged against the allowance.

(a)

EXHIBIT INDEX

Exhibit No.		Reference
3.1	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.
3.2	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q (SEC file no. reference 1-5318; docket entry date - May 14, 1991) is incorporated herein by reference.
4.1	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 (SEC file no. reference 1-5318; docket entry date - November 1, 1990) is incorporated herein by reference.
4.2	Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 26, 1990) is incorporated herein by reference.
10.1	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1996 Proxy Statement is incorporated herein by reference.
10.2	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 14, 1986) is incorporated herein by reference.
10.3	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
10.4	Officer employment agreements, as amended and restated	Exhibit 10.3 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
10.5	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
10.6	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
10.7	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.8	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.9	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.10	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.11	Credit Agreement dated as of April 19, 1996 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.17 of the company's March 31, 1996 Form 10-Q is incorporated herein by reference.
10.12	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
10.13	Stock Option and Incentive Plan of 1996	Exhibit 10.14 of the company's September 30, 1996 Form 10-Q is incorporated herein by reference.
10.14	Stock Option and Incentive Plan of 1992, as amended	Exhibit 10.8 of the company's December 31, 1996 Form 10-Q is incorporated herein by reference.
10.15	Form of Employment Agreement with certain executive officers	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
10.16	Supplemental Executive Retirement Plan	Exhibit 10.2 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
10.17	Amendment to Credit Agreement	Exhibit 10.3 of the company's March 31, 1997

	dated April 19, 1996	Form 10-Q is incorporated herein by reference.
13	Annual Report to Shareholders	Portions of the 1997 Annual Report are filed herewith.
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Independent Public Accountants	Filed herewith.
27	Financial Data Schedule	Filed herewith.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The following discussion should be read in connection with the consolidated financial statements of Kennametal (the company) and the related footnotes.

Comparison of Fiscal 1997 and Fiscal 1996

OVERVIEW. Net income for 1997 was $72.0 million, compared to $69.7 million last year. While revenues and earnings rose to records, earnings were affected by weakness in the European market, primarily in Germany, and from negative effects of foreign currency translations due to the strength of the U.S. dollar. Earnings for 1997 also were affected by additional costs related to the J&L Industrial Supply (J&L) showroom expansion program, integration of new client-server information systems and relocation and related costs associated with the construction of a new world headquarters in Latrobe, Pa. Earnings in 1997 benefited from slightly higher sales of metalworking products in North America and from higher sales of metalworking products and industrial supplies sold to the Industrial Supply market through mail order and Full Service Supply programs.

SALES AND MARKETS. Sales for the year ended June 30, 1997, were $1.2 billion, up 7 percent from $1.1 billion last year. Sales primarily increased in 1997 because of higher sales of metalworking products and industrial supplies sold to the Industrial Supply market through J&L and through Full Service Supply programs. The increase in sales was offset in part by lower sales of metalworking products in Europe due to weak economic conditions, especially the German market, and from negative foreign currency translation effects.

Sales in the North America Metalworking market increased 3 percent over 1996, despite the transfer of small customer accounts to J&L, as a result of improved economic conditions in the United States and from the continued emphasis on milling and drilling products. Sales in Canada rose 15 percent because of increased sales of metalworking products to aerospace and automotive companies. Additionally, sales of traditional metalworking products sold through all sales channels in North America, including sales through the Industrial Supply market, increased 7 percent.

Sales in the Europe Metalworking market decreased 7 percent. Demand for metalworking products continued to be slow due to weak economic conditions in Europe, primarily in the German market. Demand in Europe was weak for most of 1997 but began to show improvement during the fourth quarter of fiscal 1997. Despite the economic situation in Europe, sales continued to post gains in the United Kingdom and France. In the Asia Pacific Metalworking market, sales rose 16 percent as a result of increased demand in China, Japan and Taiwan, although sales were affected by soft economic conditions in Korea and Thailand. Excluding foreign currency translation effects, sales in the Europe Metalworking market decreased 2 percent, while sales in the Asia Pacific Metalworking market increased 21 percent.

The Industrial Supply market was the major contributor to the overall sales increase because of the continual growth of mail order and Full Service Supply programs. Sales rose 28 percent primarily because of the expanded product offering of over 20,000 new stock keeping units (SKUs) in the J&L 1997 master catalog, from the addition of five new showrooms and from innovative marketing programs. Full Service Supply programs increased, to a lesser extent, from the

SALES BY MARKET AND GEOGRAPHIC AREA

Year ended June 30	1997			1996			1995	
(in thousands)	Percent of Total	Amount	Percent Change	Percent of Total	Amount	Percent Change	Percent of Total	Amount
BY MARKET								
Metalworking:								
North America	33%	$ 378,679	3%	34%	$ 368,481	--%	37%	$367,807
Europe	22	251,304	(7)	25	271,004	7	26	254,037
Asia Pacific	4	41,425	16	3	35,854	46	3	24,579
Industrial Supply	28	328,531	28	24	256,703	28	20	201,152
Mining and Construction	13	156,404	6	14	147,921	9	14	136,298
Net sales	100%	$1,156,343	7%	100%	$1,079,963	10%	100%	$983,873
BY GEOGRAPHIC AREA								
Within the United States	65%	$ 752,268	13%	62%	$ 665,510	10%	62%	$606,623
International	35	404,075	(3)	38	414,453	10	38	377,250
Net sales	100%	$1,156,343	7%	100%	$1,079,963	10%	100%	$983,873

continued ramp-up of existing Full Service Supply programs. Also contributing to the sales increase was the acquisition of two industrial supply companies during the fourth quarter of 1997. The acquired companies had annual sales of

$36 million in their latest fiscal year and will provide four additional showroom locations in the Midwest. Excluding these acquisitions, the Industrial Supply market sales increased 26 percent. At June 30, 1997, the company now operates a total of 28 showrooms, including six distribution centers in the United States and one in the United Kingdom, and provides Full Service Supply programs to around 60 customers covering about 120 different facilities.

Sales in the Mining and Construction market increased 6 percent from 1996 as a result of increased domestic and international demand for mining tools. Highway construction tool sales were flat in the United States, while international sales declined slightly as a result of weak economic conditions in Europe.

COSTS AND EXPENSES. As a percentage of sales, gross profit margin for the year ended June 30, 1997, was 42.2 percent, compared to 42.1 percent last year. The gross profit margin improved slightly as a result of the positive effects of productivity improvements related to the Focused Factory initiative. These benefits were partially offset by a less favorable sales mix coupled with unfavorable foreign currency translation effects.

Operating expenses as a percentage of sales were 31.0 percent, compared to 30.4 percent last year, excluding the effects of the one-time restructuring charge in fiscal 1996. Operating expenses increased primarily because of higher costs related to the J&L showroom expansion program, including higher direct mail costs and increased direct marketing in new territories in the United States and in Europe. Operating expenses also increased from higher costs to support new and existing Full Service Supply programs, from the integration of new client-server information systems, from higher research and development costs and from relocation and related costs of $4.7 million associated with the construction of a new world headquarters.

Interest expense decreased 8 percent because of lower average borrowings coupled with slightly lower interest rates. The effective tax rate was 38.4 percent in 1997, compared to 38.6 percent in 1996. The decrease in the effective tax rate resulted from additional tax benefits derived from international operations.

Comparison of Fiscal 1996 and Fiscal 1995
- ---
OVERVIEW. Net income for 1996 was $69.7 million, up 2 percent from $68.3 million in 1995. The 1996 results included a restructuring charge totaling $2.7 million ($0.06 per share) for the relocation of the North America Metalworking Headquarters and for the closure of a manufacturing facility in Canada. Excluding the restructuring charge, net income for 1996 was up 5 percent.

Earnings for 1996 increased because of the rapid growth in industrial supply sales, primarily through mail order and Full Service Supply programs and from slightly higher sales of metalcutting products in each of the three metalworking markets. Earnings were affected by a less favorable sales mix and lower production levels. Further, costs associated with the implementation of new client-server information systems and Focused Factory programs reduced pretax earnings by $10.4 million during 1996.

SALES AND MARKETS. Sales for the year ended June 30, 1996, were $1.1 billion, up 10 percent from $984 million in 1995. Sales increased in each of the five markets over 1995. Sales increased in 1996 because of slightly higher sales volumes and modest price increases.

Sales in the North America Metalworking market were flat compared to the prior year. Sales of metalcutting inserts and toolholding devices in the United States were flat, as sales growth was affected by weak economic conditions. Sales of metalworking products in Canada increased 11 percent because of increased demand.

In the Europe Metalworking market, sales increased 7 percent because of higher sales volumes. Demand for metalworking products was slow in Germany, while sales grew at a faster pace in the United Kingdom and France. Demand in Europe was stronger in the first half of the fiscal year but slowed as the year progressed. In the Asia Pacific Metalworking market, sales rose 11 percent as a result of increased demand. Sales also increased because, effective July 1, 1995, Kennametal began to consolidate its majority-owned subsidiaries in China and Japan. Excluding foreign currency translation effects, sales in the Europe and Asia Pacific Metalworking markets increased 6 and 7 percent, respectively.

The Industrial Supply market accounted for the largest percentage sales gain because of the rapid growth of mail order and Full Service Supply programs. Sales rose 28 percent as a result of aggressive marketing programs, the successful geographic showroom expansion program at J&L and new and existing Full Service Supply programs with large customers. During fiscal 1996, J&L opened seven showroom locations and at the end of fiscal 1996 operated a total of 18 showrooms in the United States and one location in the United Kingdom. Full Service Supply added 18 new contracts, bringing the total number to slightly more than 50 contracts covering more than 100 plant locations in 1996. Also, during June 1996, the company began transferring small customer accounts from the North America Metalworking market to J&L to provide added customer service and to further leverage J&L's full complement of metalcutting supplies.

Sales in the Mining and Construction market increased 9 percent over 1995 as a result of strong domestic demand for both mining and highway construction tools. International sales rose only slightly because of increased competition.

COSTS AND EXPENSES. As a percentage of sales, gross profit margin for the year ended June 30, 1996, was 42.1 percent, compared to 43.0 percent in 1995. The gross profit margin benefited from higher sales volumes and modest price increases. These benefits were offset by a less favorable sales mix, slightly higher raw material costs, costs associated with the implementation of Focused Factory programs and reduced manufacturing efficiencies because of lower production levels.

Operating expenses as a percentage of sales were 30.4 percent, compared to 29.9 percent in 1995. Operating expenses increased 12 percent primarily because of costs related to the implementation of new client-server information systems, costs necessary to support the higher sales levels, and marketing and showroom expansion programs at J&L. Results of operations also included a restructuring charge related to the consolidation of the North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa., and the closure of a manufacturing facility in Canada. These pretax items were recorded during the fourth quarter of fiscal 1996 and amounted to $2.7 million.

Interest expense decreased 12 percent because of lower average borrowings and slightly lower interest rates. The effective tax rate was 38.6 percent in 1996, compared to 39.7 percent in 1995. The decrease in the effective tax rate resulted from additional tax benefits derived from international operations.

RESTRUCTURING CHARGE. During the fourth quarter of fiscal 1996, the company recorded a pretax charge of $2.7 million to relocate its North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa., and to close a manufacturing facility in Canada. The relocation was made to globalize key functions and to provide a more efficient corporate structure. As a result, a pretax charge of $2.7 million was recorded to cover the related one-time costs of employee separation arrangements and early retirements. In connection with the relocation, the company is constructing a new world headquarters building estimated to cost $20 million.

Certain costs resulting from the relocation of employees, hiring and training new employees, and other costs resulting from the temporary duplication of certain operations were not included in the one-time charge and will be included in operating expenses as incurred. The costs related to these items were estimated to be $9 million pretax and will be incurred during fiscal 1997 and 1998.

Liquidity and Capital Resources

Kennametal's cash flow from operations is a primary source of financing for capital expenditures and internal growth. Additionally, the company maintains global credit lines with commercial banks totaling $280 million, of which $160 million was unused at June 30, 1997. The company and its subsidiaries generally obtain local financing through credit lines with commercial banks.

During 1997, the company generated $99.9 million in cash from operations. Cash provided by operations increased from 1996 primarily because of lower working capital requirements and slightly higher net income. Capital expenditures, totaling $73.8 million, are being made to construct a new world headquarters in Latrobe, Pa., and a manufacturing facility in China, for new client-server information systems and to upgrade machinery and equipment. Additionally, the company paid $17.5 million of cash dividends and paid $19 million to acquire five small companies throughout 1997. The effects of the acquisitions were not significant to the company.

On January 31, 1997, the company initiated a stock repurchase program to repurchase from time to time up to a total of 1.6 million shares of its outstanding capital stock. During the year ended June 30, 1997, the company repurchased approximately 781,000 shares of its common stock at a total cost of approximately $28.7 million. The repurchases were made in the open market or in negotiated or other permissible transactions. The repurchase of common stock was financed principally by cash from operations and short-term borrowings.

On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of common stock at a price of $20 per share of JLK Direct Distribution Inc. (JLK), a newly formed subsidiary of the company, was consummated. JLK operates the industrial supply operations consisting of the company's wholly owned J&L subsidiary and its Full Service Supply programs. The net proceeds from the offering were approximately $90 million and represented approximately 20 percent of JLK's common stock. The net proceeds were used by JLK to repay $20 million of indebtedness related to a dividend to the company and $20 million related to intercompany obligations to the company. The company used these proceeds to repay short-term debt. In connection with the IPO, the remaining net proceeds were loaned to the company, under an intercompany debt/investment and cash management agreement at a fluctuating rate of interest equal to the company's short-term borrowing costs. The company will maintain unused lines of credit to enable it to repay any portion of the borrowed funds as the amounts are due on demand by JLK.

The company today owns approximately 80 percent of the outstanding common stock of JLK and intends to retain a majority of both the economic and voting interests of JLK.

During 1996, the company generated $85 million in cash from operations, which was used primarily to finance $58 million of capital expenditures and to pay $16 million of cash dividends. Capital expenditures were made to modernize facilities, to upgrade machinery and equipment, and to acquire new information systems. In January 1996, the company announced plans to build a $20 million facility in Shanghai, China, to manufacture cemented carbide metalcutting tools. Pilot production is planned to commence in October 1997 with full production beginning in calendar 1998.

During 1995, the company generated $57 million in cash from operations, which was used primarily to finance $43 million of capital expenditures and to pay $16 million of cash dividends. Capital expenditures were made to modernize facilities, to upgrade machinery and equipment, and to acquire new information systems.

Capital expenditures for fiscal 1998 are estimated to be $70-$80 million and will be used primarily to complete the construction of a new world headquarters in Latrobe, Pa., and a manufacturing facility in China, to acquire additional client-server information systems, to construct or acquire a new Midwest distribution center and to upgrade machinery and equipment.

Financial Condition

Kennametal's financial condition continues to remain strong. Total assets were $869 million in 1997, up 9 percent from $799 million in 1996. Net working capital was $176 million, down 19 percent from the previous year. The ratio of current assets to current liabilities was 1.6 in 1997, compared with 2.0 in 1996.

Accounts receivable increased 6 percent to $201 million because of increased sales and from the effects of acquisitions. Inventories rose slightly to $210 million due to the growth of sales to the Industrial Supply market, the effects of acquisitions, offset by the company's inventory reduction efforts of manufactured products. Inventory turnover was 3.2 in 1997 and 3.0 in 1996. The company will continue to focus on ways to improve inventory turnover and overall asset utilization.

Total debt (including capital lease obligations) increased 33 percent to $174 million in 1997. In 1997, total debt was increased principally by the stock repurchase program and from increased capital expenditures. The ratio of total debt to total invested capital was 27.5 percent in 1997 as compared with 23.0 percent in 1996. To maintain financial flexibility and to optimize the cost of capital, Kennametal's financial objective is to maintain a total debt-to-capital ratio of not more than 40 percent over the long term. Cash from operations and the company's debt capacity are expected to continue to be sufficient to fund capital expenditures, dividend payments, stock repurchases, acquisitions and operating requirements.

Environmental Matters

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at four Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flows of the company. See Note 14 to the consolidated financial statements.

New Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" and SFAS No. 129, "Disclosure of Information about Capital Structures." SFAS No. 128 was issued in February 1997 and is effective for periods ending after December 15, 1997. This statement, upon adoption, will require all prior year earnings per share (EPS) data to be restated to conform to the provisions of the statement. This statement's objective is to simplify the computations of EPS and to make the U.S. standard for EPS computations more compatible with that of the International Accounting Standards Committee. The company will adopt SFAS No. 128 in fiscal 1998 and does not anticipate that the statement will have a significant impact on its reported EPS.

SFAS No. 129 was issued in February 1997 and is effective for periods ending after December 15, 1997. This statement, upon adoption, will require all companies to provide specific disclosure regarding their capital structure. SFAS No. 129 will specify the disclosure for all companies, including descriptions of their capital structure and the contractual rights of the holders of such securities. The company will adopt SFAS No. 129 in fiscal 1998 and does not anticipate that the statement will have a significant impact on its disclosures.

Effective July 1, 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The adoption of SFAS No. 121 did not have an impact on the consolidated financial statements, as the statement is consistent with existing company policy.

Additionally on July 1, 1996, the company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation." Under the provisions of SFAS No. 123, companies may elect to account for stock-based compensation plans using a fair-value-based method or may continue measuring compensation expense for those plans using the intrinsic-value-based method. The company will continue to use the intrinsic-value-based method, which does not result in compensation cost. The company's stock compensation plans are discussed in Note 13.

Effects of Inflation

Despite modest inflation in recent years, rising costs continue to affect the company's operations throughout the world. Kennametal strives to minimize the effects of inflation through cost containment, productivity improvements and price increases under highly competitive conditions.

Outlook

In looking to fiscal 1998, management expects consolidated sales to increase from the $1.2 billion achieved this year. The outlook for the upcoming year will be based in part on continued stable economic conditions in the United States and from the recovery of the European economies. In addition, future results could be affected to the extent that the company would make acquisitions.

Sales in the North America Metalworking market should benefit from stable economic conditions in the United States. Sales in the Europe Metalworking market are also expected to benefit from improved economic conditions in Europe, primarily in Germany. Sales in the Asia Pacific Metalworking market should improve as a result of increased demand in the Pacific Rim.

Sales in the Industrial Supply market should continue to benefit from the expansion of new showroom locations, from the expanded product offering in the new J&L Industrial Supply master catalog, from recent acquisitions and from new and existing Full Service Supply programs. In addition, the formation of JLK should provide additional benefits from more focused leadership and entrepreneurial incentives to that portion of our business. Lastly, sales of mining and highway construction tools should continue to increase in existing and developing markets.

This annual report, including the letter to shareholders, the business discussion on pages 9-19 and the foregoing paragraphs of Outlook, contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results can differ from those in the forward-looking statements to the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific change from the company's expectations.

(PAGE 25)

Financial graphs contained on Page 25 are not included. All graph data is contained in the financial highlights on Pages 40 and 41.

(PAGE 26)

CONSOLIDATED STATEMENTS OF INCOME

Year ended June 30	1997	1996	1995
(in thousands, except per share data)			
OPERATIONS			
Net sales	$1,156,343	$1,079,963	$983,873
Cost of goods sold	668,415	625,473	560,867
Gross profit	487,928	454,490	423,006
Research and development expenses	24,105	20,585	18,744
Selling, marketing and distribution expenses	263,980	242,375	219,271
General and administrative expenses	69,911	65,417	55,853
Restructuring charge	--	2,666	--
Amortization of intangibles	2,907	1,596	2,165
Operating income	127,025	121,851	126,973
Interest expense	10,393	11,296	12,793
Other income (expense)	300	3,077	(886)
Income before income taxes	116,932	113,632	113,294
Provision for income taxes	44,900	43,900	45,000
Net income	$ 72,032	$ 69,732	$ 68,294
PER SHARE DATA			
Earnings per share	$ 2.71	$ 2.62	$ 2.58
Dividends per share	$ 0.66	$ 0.60	$ 0.60
Weighted average shares outstanding	26,575	26,635	26,486

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As of June 30 (in thousands)	1997	1996
ASSETS		
Current assets:		
Cash and equivalents	$ 21,869	$ 17,090
Accounts receivable, less allowance for doubtful accounts of $7,325 and $9,296	200,515	189,820
Inventories	210,111	204,934
Deferred income taxes	25,384	24,620
Total current assets	457,879	436,464
Property, plant and equipment:		
Land and buildings	156,292	156,064
Machinery and equipment	473,850	415,443
Less accumulated depreciation	(329,756)	(304,400)
Net property, plant and equipment	300,386	267,107
Other assets:		
Investments in affiliated companies	11,736	8,742
Intangible assets, less accumulated amortization of $23,960 and $20,795	49,915	33,756
Deferred income taxes	34,307	41,757
Other	15,086	11,665
Total other assets	111,044	95,920
Total assets	$ 869,309	$ 799,491
LIABILITIES		
Current liabilities:		
Current maturities of term debt and capital leases	$ 13,853	$ 17,543
Notes payable to banks	120,166	57,549
Accounts payable	60,322	64,663
Accrued vacation pay	18,176	19,228
Other	69,485	59,830
Total current liabilities	282,002	218,813
Term debt and capital leases, less current maturities	40,445	56,059
Deferred income taxes	21,055	20,611
Other liabilities	57,060	52,559
Total liabilities	400,562	348,042
Minority interest in consolidated subsidiaries	9,139	12,500
SHAREHOLDERS' EQUITY		
Preferred stock, 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 29,370 shares issued	36,712	36,712
Additional paid-in capital	91,049	87,417
Retained earnings	406,083	351,594
Treasury shares, at cost; 3,263 and 2,667 shares held	(62,400)	(35,734)
Cumulative translation adjustments	(11,836)	(1,040)
Total shareholders' equity	459,608	438,949
Total liabilities and shareholders' equity	$ 869,309	$ 799,491

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30 (in thousands)	1997	1996	1995
OPERATING ACTIVITIES			
Net income	$ 72,032	$ 69,732	$ 68,294
Adjustments for noncash items:			
Depreciation and amortization	41,399	40,240	39,315
Other	5,356	9,000	11,953
Changes in certain assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(8,032)	(20,359)	(23,815)
Inventories	1,379	(9,758)	(34,389)
Accounts payable and accrued liabilities	(600)	(1,342)	(9,340)
Other	(11,684)	(2,034)	4,615
Net cash flow from operating activities	99,850	85,479	56,633
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(73,779)	(57,556)	(43,371)
Disposals of property, plant and equipment	1,063	6,348	3,725
Acquisitions, net of cash	(18,995)	(1,441)	(1,948)
Other	907	2,614	(3,320)
Net cash flow used for investing activities	(90,804)	(50,035)	(44,914)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	55,689	5,019	(5,721)
Increase in term debt	943	7,780	8,163
Reduction in term debt	(19,359)	(28,278)	(9,721)
Purchase of treasury stock	(28,657)	--	--
Dividend reinvestment and employee stock plans	5,623	2,652	4,439
Cash dividends paid to shareholders	(17,543)	(15,976)	(15,884)
Net cash flow used for financing activities	(3,304)	(28,803)	(18,724)
Effect of exchange rate changes on cash	(963)	(378)	642
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	4,779	6,263	(6,363)
Cash and equivalents, beginning	17,090	10,827	17,190
Cash and equivalents, ending	$ 21,869	$ 17,090	$ 10,827
SUPPLEMENTAL DISCLOSURES			
Interest paid	$ 10,563	$ 11,436	$ 12,569
Income taxes paid	45,307	39,521	23,125

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Year ended June 30 (in thousands)	1997	1996	1995
CAPITAL STOCK			
Balance at beginning of year	$ 36,712	$ 36,712	$ 36,712
Balance at end of year	36,712	36,712	36,712
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	87,417	85,768	83,839
Dividend reinvestment and stock purchase plan	1,132	882	1,015
Employee stock plans	2,500	767	914
Balance at end of year	91,049	87,417	85,768
RETAINED EARNINGS			
Balance at beginning of year	351,594	297,838	245,428
Net income	72,032	69,732	68,294
Cash dividends	(17,543)	(15,976)	(15,884)
Balance at end of year	406,083	351,594	297,838
TREASURY SHARES			
Balance at beginning of year	(35,734)	(36,737)	(39,247)
Purchase of treasury stock	(28,657)	--	--
Dividend reinvestment and stock purchase plan	708	537	938
Employee stock plans	1,283	466	1,572
Balance at end of year	(62,400)	(35,734)	(36,737)
CUMULATIVE TRANSLATION ADJUSTMENTS			
Balance at beginning of year	(1,040)	8,304	(3,360)
Current year translation adjustments	(10,796)	(9,344)	11,664
Balance at end of year	(11,836)	(1,040)	8,304
PENSION LIABILITY ADJUSTMENT			
Balance at beginning of year	--	--	(536)
Minimum pension liability adjustment	--	--	536
Balance at end of year	--	--	--
Total shareholders' equity, June 30	$459,608	$438,949	$391,885

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

Nature of Operations

The company is a global enterprise engaged in the manufacture, purchase and distribution of a broad range of tools, tooling systems, supplies and services for the metalworking, mining and highway construction industries.

NOTE 2

Summary of Significant Accounting Policies

The summary of significant accounting policies is presented below to assist in evaluating the company's consolidated financial statements.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS. Temporary cash investments having original maturities of three months or less are considered cash equivalents. Cash equivalents consist principally of investments in money market funds and certificates of deposit.

ACCOUNTS RECEIVABLE included $12.8 million and $16.6 million of receivables from affiliates at June 30, 1997 and 1996, respectively.

INVENTORIES are carried at the lower of cost or market. The company uses the last-in, first-out (LIFO) method for determining the cost of a significant portion of its U.S. inventories. The remainder of inventories is determined under the first-in, first-out (FIFO) or average cost methods.

PROPERTY, PLANT AND EQUIPMENT are carried at cost. Major improvements are capitalized, while maintenance and repairs are generally expensed as incurred. Retirements and disposals are removed from cost and accumulated depreciation accounts, with the gain or loss reflected in income. Interest is capitalized during the construction of major facilities. Capitalized interest is included in the cost of the constructed asset and is amortized over its estimated useful life.

Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Leased property and equipment under capital leases are amortized using the straight-line method over the terms of the related leases.

INTANGIBLE ASSETS, which include the excess of cost over net assets of acquired companies, are amortized using the straight-line method over periods ranging from 3 to 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired entities.

RESEARCH AND DEVELOPMENT COSTS are expensed as incurred.

INCOME TAXES. Deferred income taxes are recognized based on the future income tax effects (using enacted tax laws and rates) of differences in the carrying amounts of assets and liabilities for financial reporting and tax purposes. A valuation allowance is recognized if it is "more likely than not" that some or all of a deferred tax asset will not be realized.

FOREIGN CURRENCY TRANSLATION. For the most part, assets and liabilities of international operations are translated into U.S. dollars using year-end exchange rates, while revenues and expenses are translated at average exchange rates throughout the year. The resulting net translation adjustments are recorded as a separate component of shareholders' equity.

PENSION PLANS cover substantially all employees. Pension benefits are based on years of service and, for certain plans, on average compensation immediately preceding retirement. Pension costs are determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions." The company funds pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) for U.S. plans and in accordance with local regulations or customs for non-U.S. plans.

EARNINGS PER SHARE is computed using the weighted average number of shares outstanding during the year.

REVENUE RECOGNITION. The company recognizes revenue from product sales upon transfer of title to the customer.

NEW ACCOUNTING STANDARDS. Effective July 1, 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The adoption of SFAS No. 121 did not have an impact on the consolidated financial statements, as the statement is consistent with existing company policy.

Additionally on July 1, 1996, the company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." Under the provisions of SFAS No. 123, companies may elect to account for stock-based compensation plans using a fair-value-based method or may continue measuring compensation expense for those plans using the intrinsic-value-based method. The company will continue to use the intrinsic-value-based method, which does not result in compensation cost. The company's stock compensation plans are discussed in Note 13.

The Financial Accounting Standards Board recently issued SFAS No. 128, "Earnings Per Share" and SFAS No. 129, "Disclosure of Information about Capital Structures." SFAS No. 128 was issued in February 1997 and is effective for periods ending after December 15, 1997. This statement, upon adoption, will require all prior ending earnings per share (EPS) data to be restated to conform to the provisions of the statement. This statement's objective is to simplify the computations of EPS and to make the U.S. standard for EPS computations more compatible with that of the International Accounting Standards Committee. The company will adopt SFAS No. 128 in fiscal 1998 and does not anticipate that the statement will have a significant impact on its reported EPS.

SFAS No. 129 was issued in February 1997 and is effective for periods ending after December 15, 1997. This statement, upon adoption, will require all companies to provide specific disclosure regarding their capital structure. SFAS No. 129 will specify the disclosure for all companies, including descriptions of their capital structure and the contractual rights of the holders of such securities. The company will adopt SFAS No. 129 in fiscal 1998 and does not anticipate that the statement will have a significant impact on its disclosures.

RECLASSIFICATIONS. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

NOTE 3

Issuance of Subsidiary Stock

On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of common stock at a price of $20 per share of JLK Direct Distribution Inc. (JLK), a newly formed subsidiary of the company, was consummated. JLK operates the industrial supply operations consisting of the company's wholly owned J&L Industrial Supply (J&L) subsidiary and its Full Service Supply programs. The net proceeds from the offering were approximately $90 million and represented approximately 20 percent of JLK's common stock. The net proceeds were used by JLK to repay $20 million of indebtedness related to a dividend to the company and $20 million related to intercompany obligations to the company. The company used these proceeds to repay short-term debt. In connection with the IPO, the remaining net proceeds were loaned to the company, under an intercompany debt/investment and cash management agreement at a fluctuating rate of interest equal to the company's short-term borrowing costs. The company will maintain unused lines of credit to enable it to repay any portion of the borrowed funds as the amounts are due on demand by JLK.

The company today owns approximately 80 percent of the outstanding common stock of JLK and intends to retain a majority of both the economic and voting interests of JLK.

NOTE 4

Inventories

Inventories consisted of the following:

(in thousands)	1997	1996
Finished goods	$183,961	$169,108
Work in process and powder blends	50,351	59,326
Raw materials and supplies	16,494	16,514
Inventories at current cost	250,806	244,948
Less LIFO valuation	(40,695)	(40,014)
Total inventories	$210,111	$204,934

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of U.S. inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 56 and 55 percent of total inventories at June 30, 1997 and 1996, respectively. The company uses the LIFO method for valuing the majority of its inventories in order to more closely match current costs with current revenues, thereby reducing the effects of inflation on earnings.

NOTE 5

Other Current Liabilities

Other current liabilities consisted of the following:

(in thousands)	1997	1996
Federal and state income taxes	$17,563	$16,898
Accrued compensation	8,522	7,259
Accrued benefits	6,894	3,613
Payroll, state and local taxes	6,098	7,910
Accrued product warranty costs	4,621	5,119

Accrued advertising expenses	1,363	906
Accrued professional fees	1,284	1,013
Accrued interest expense	766	996
Accrued restructuring charge	--	2,666
Other accrued expenses	22,374	13,450
Total other current liabilities	$69,485	$59,830

NOTE 6

Term Debt and Capital Leases

Term debt and capital lease obligations consisted of the following:

(in thousands)	1997	1996
Senior notes, 9.64%, due in installments through 2000	$ 30,000	$ 40,000
Borrowings outside the U.S., varying from 6.60% to 10.25% in 1997 and 1996, due in installments through 2003	6,750	13,472
Lease of office facilities with terms expiring through 2011 at 6.75% to 7.55%	11,068	12,654
Other	6,480	7,476
Total term debt and capital leases	54,298	73,602
Less current maturities:		
Term debt	(12,287)	(16,016)
Capital leases	(1,566)	(1,527)
Total current maturities	(13,853)	(17,543)
Long-term debt and capital leases	$ 40,445	$ 56,059

Future principal maturities of term debt are $12.3 million, $12.2 million, $12.1 million, $1.1 million and $1.1 million, respectively, in fiscal years 1998 through 2002.

Certain of the term debt agreements contain various restrictions relating to, among other things, minimum net worth, maximum indebtedness, fixed charge coverage and debt guarantees.

Future minimum lease payments under capital leases for the next five years and in total are as follows:

(in thousands)	
Year ending June 30:	
1998	$ 1,566
1999	1,511
2000	1,355
2001	1,355
2002	1,355
After 2002	8,770
Total future minimum lease payments	15,912
Less amount representing interest	(4,844)
Present value of minimum lease payments	$11,068

Future minimum lease payments under operating leases with noncancelable terms beyond one year were not significant at June 30, 1997.

NOTE 7

Notes Payable and Lines of Credit

Notes payable to banks of $120.2 million and $57.5 million at June 30, 1997 and 1996, respectively, represent short-term borrowings under U.S. and international credit lines with commercial banks. These credit lines totaled approximately $280 million at June 30, 1997, of which $160 million was unused. The weighted average interest rate for short-term borrowings was 6.3 percent and 5.6 percent at June 30, 1997 and 1996, respectively.

The company has available U.S. credit lines totaling $175 million that are covered by a revolving credit agreement that amounts to $150 million and another agreement totaling $25 million. The revolving credit agreement allows the company to borrow up to $150 million at fixed or variable interest rates. This credit line expires during fiscal 2001 and requires the company to pay a facility fee on the total line. The company has the option to terminate this agreement in whole or in part at any time.

During 1997, the company's J&L subsidiary obtained a $25 million line of credit with a bank and borrowed $20 million under the line of credit to fund a dividend to the company. Interest payable under the line of credit was based on LIBOR plus 25 basis points. The company guaranteed repayment of the line of credit in the event of default by J&L. The line of credit was repaid and canceled in full during July 1997.

NOTE 8

Income Taxes

Income before income taxes and the provision for income taxes consisted of the following:

(in thousands)	1997	1996	1995
Income before income taxes:			
United States	$ 95,029	$ 76,020	$ 83,401
International	21,903	37,612	29,893
Total income before income taxes	$116,932	$113,632	$113,294
Current income taxes:			
Federal	$ 30,600	$ 28,100	$ 26,500
State	6,000	5,500	6,100
International	4,400	1,800	4,000
Total	41,000	35,400	36,600
Deferred income taxes	3,900	8,500	8,400
Provision for income taxes	$ 44,900	$ 43,900	$ 45,000
Effective tax rate	38.4%	38.6%	39.7%

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes was as follows:

(in thousands)	1997	1996	1995
Income taxes at U.S. statutory rate	$40,926	$39,772	$39,653
State income taxes, net of federal tax benefits	3,917	3,575	3,981
Combined tax effects of international income	(1,990)	(2,942)	1,288
International losses with no related tax benefits	102	421	219
Other	1,945	3,074	(141)
Provision for income taxes	$44,900	$43,900	$45,000

Deferred tax assets and liabilities consisted of the following:

(in thousands)	1997	1996
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 27,160	$ 35,985
Other postretirement benefits	15,153	14,649
Inventory valuation and reserves	7,981	6,836
Accrued vacation compensation	4,316	3,965
Property and equipment	1,259	2,547
Other accruals	7,436	6,571
Pension benefits	(2,133)	(1,053)
Accumulated depreciation	(18,922)	(19,558)
Total	42,250	49,942
Less valuation allowance	(3,614)	(4,176)
Net deferred tax assets	$ 38,636	$ 45,766

Deferred income taxes have not been provided on cumulative undistributed earnings of international subsidiaries and affiliates. Any U.S. income taxes on such earnings, if distributed, would generally be offset by available foreign tax credits. In addition, there were no significant undistributed earnings of unconsolidated affiliates at June 30, 1997.

Included in deferred tax assets at June 30, 1997, are unrealized tax benefits totaling $27.2 million related to net operating loss carryforwards. The realization of these tax benefits is contingent on future taxable income in certain international operations. Of this amount, approximately $23.6 million relates to net operating loss carryforwards in Germany, which can be carried forward indefinitely. The company's operations in Germany are profitable.

The remaining unrealized tax benefits relate to net operating loss carryforwards in certain other international operations, which expire at various dates through 2002. The company established a valuation allowance of $3.6 million to offset the deferred tax benefits that may not be realized before the expiration of the carryforward periods.

NOTE 9

Pension Benefits

The components of net pension credit for the company's U.S. defined benefit pension plans were as follows:

(in thousands)	1997	1996	1995
Service cost	$ 7,728	$ 6,722	$ 5,906
Interest cost	14,569	13,688	13,016
Return on plan assets	(46,845)	(45,888)	(37,746)
Net amortization and deferral	22,457	24,682	17,628
Net pension credit	$ (2,091)	$ (796)	$ (1,196)

The funded status of the plans and amounts recognized in the consolidated balance sheets were as follows:

(in thousands)	1997	1996
Plan assets, at fair value	$318,229	$269,380
Present value of accumulated benefit obligations:		
Vested benefits	161,160	151,209
Nonvested benefits	2,271	2,144
Accumulated benefit obligations	163,431	153,353
Effect of future salary increases	48,054	44,369
Projected benefit obligations	211,485	197,722
Plan assets in excess of projected benefit obligations	106,744	71,658
Amounts not recognized in the financial statements:		
Unrecognized net assets from July 1, 1986	(12,329)	(14,509)
Unrecognized prior service costs	672	826
Unrecognized net gains	(87,118)	(52,312)
Prepaid pension costs	$ 7,969	$ 5,663

Prepaid pension costs are included in other noncurrent assets.

Plan assets consist principally of common stocks, corporate bonds and U.S. government securities. The significant actuarial assumptions used to determine the present value of pension benefit obligations were as follows:

	1997	1996
Discount rate	7.50%	7.50%
Rate of future salary increases	4.50%	4.50%
Rate of return on plan assets	9.00%	9.00%

Pension plans of international subsidiaries are not required to report to U.S. government agencies pursuant to ERISA. The components of net pension cost for the company's significant international defined benefit pension plans were as follows:

(in thousands)	1997	1996	1995
Service cost	$ 877	$ 735	$ 231
Interest cost	1,480	1,573	967
Return on plan assets	(709)	(661)	--
Net amortization and deferral	(45)	(45)	--
Net pension cost	$1,603	$1,602	$1,198

The return on plan assets and the net amortization and deferral in 1995 were not significant.

The funded status of the international plans and amounts recognized in the consolidated balance sheets were as follows:

(in thousands)	June 30, 1997		June 30, 1996	
	Assets Exceed ABO	ABO Exceed Assets	Assets Exceed ABO	ABO Exceed Assets
Plan assets, at fair value	$ 9,417	$ --	$8,274	$ --
Present value of accumulated benefit obligations (ABO):				
Vested benefits	5,643	11,863	5,602	10,922
Nonvested benefits	13	1,465	13	2,618
Accumulated benefit obligations	5,656	13,328	5,615	13,540
Effect of future salary increases	1,393	210	1,383	584
Projected benefit obligations	7,049	13,538	6,998	14,124
Plan assets greater (less) than projected benefit obligations	2,368	(13,538)	1,276	(14,124)
Amounts not recognized in the financial statements:				
Unrecognized net assets	(850)	--	(905)	--
Unrecognized net gains	(1,550)	--	(413)	--
Net pension liability	$ (32)	$(13,538)	$ (42)	$(14,124)

Accrued pension costs are included in other noncurrent liabilities. Plan assets consist principally of common stocks, corporate bonds and government securities.

The significant actuarial assumptions used to determine the present value of pension benefit obligations for international plans were as follows:

	1997	1996

Discount rate	8.00%-7.00%	8.00%-7.50%
Rate of future salary increases	5.50%-4.00%	5.50%-4.50%
Rate of return on plan assets	9.00%	9.00%

Total pension cost for U.S. and international plans amounted to $0.6 million, $2.1 million and $0.8 million in 1997, 1996 and 1995, respectively.

NOTE 10

Other Postretirement and Postemployment Benefits

The company presently provides varying levels of postretirement health care and life insurance benefits to most U.S. employees. Postretirement health care benefits are available to employees and their spouses retiring at or after age 65 with five or more years of service after age 40. Employees (and their spouses) retiring under age 65 before January 1, 1998, with 20 or more years of service after age 40 also are eligible to receive postretirement health care benefits. Beginning with retirements on or after January 1, 1998, Kennametal's portion of the costs of postretirement health care benefits will be capped at 1996 levels.

The components of other postretirement benefit costs for the company's U.S. plans were as follows:

(in thousands)	1997	1996	1995
Service cost	$1,220	$1,100	$ 959
Interest cost	2,427	2,661	2,626
Net amortization and deferral	(70)	--	(32)
Other postretirement benefit costs	$3,577	$3,761	$3,553

Accumulated postretirement benefit obligations and amounts recognized in the consolidated balance sheets were as follows:

(in thousands)	1997	1996
Present value of accumulated benefit obligations:		
Retirees	$17,446	$21,333
Fully eligible active participants	2,742	6,862
Other active participants	14,392	9,321
Accumulated benefit obligations	34,580	37,516
Plan assets, at fair value	--	--
Accumulated benefit obligations in excess of plan assets	34,580	37,516
Unrecognized net gains	4,340	626
Accrued postretirement benefits	$38,920	$38,142

Included in other noncurrent liabilities were accrued postretirement benefits of $36.0 million and $35.1 million at June 30, 1997 and 1996, respectively.

The significant actuarial assumptions used to determine the present value of accumulated postretirement benefit obligations were as follows:

	1997	1996
Discount rate	7.50%	7.50%
Rate of increase in health care costs:		
Initial rate	8.00%	8.50%
Ultimate rate in 2003 and after	5.00%	5.00%

A 1 percent increase in the health care cost trend rate would have increased other postretirement benefit costs by $0.1 million in 1997 and the accumulated benefit obligation by $1.0 million at June 30, 1997.

The company provides for postemployment benefits pursuant to SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The company accrues the cost of separation and other benefits provided to former or inactive employees after employment but before retirement. Postemployment benefit costs were not significant in 1997, 1996 and 1995, respectively.

NOTE 11

Restructuring Charge

On April 29, 1996, the Board of Directors approved the company's plan (the Plan) to relocate its North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa. In connection with the Plan, the company is constructing a new world headquarters at an estimated cost of $20 million. The relocation was made to globalize key functions and to provide a more efficient corporate structure. The action affected approximately 300 employees in Raleigh, N.C., all of whom were offered the opportunity to move to Latrobe, Pa. As a result, a pretax charge of $2.0 million was recorded in the fourth quarter of fiscal 1996. The charge was taken to cover the one-time costs of employee separation arrangements and early retirement costs.

The costs resulting from the relocation of employees, hiring and training new employees, and other costs resulting from the temporary duplication of certain operations were not included in the one-time charge and will be included in operating expenses as incurred. The costs related to these items were estimated to be approximately $9 million pretax, $4.7 million that was recorded in fiscal 1997 and the remainder that will be incurred in fiscal 1998.

During the fourth quarter of fiscal 1996, the company also recorded a one-time pretax charge of $0.7 million related to the closure of a manufacturing facility in Canada. The supply of products produced at this location will be continued from other company locations. The restructuring was substantially complete in 1997.

NOTE 12

Financial Instruments

FAIR VALUE. The company had $21.9 million in cash and equivalents at June 30, 1997, which approximates fair value because of the short maturity of these investments.

The estimated fair value of term debt was $44.9 million at June 30, 1997. Fair value was determined using discounted cash flow analysis and the company's incremental borrowing rates for similar types of arrangements.

OFF-BALANCE-SHEET RISK. The company uses forward foreign exchange contracts in the normal course of business to hedge foreign currency exposures of underlying receivables and payables. These financial instruments involve credit risk in excess of the amount recognized in the financial statements. The company controls credit risk through credit evaluations, limits and monitoring procedures. There were no financial instruments with significant off-balance-sheet risk at June 30, 1997.

CONCENTRATIONS OF CREDIT RISK. Financial instruments that potentially subject the company to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. By policy, the company makes temporary cash investments with high credit quality financial institutions. With respect to trade receivables, concentrations of credit risk are significantly reduced because the company serves numerous customers in many industries and geographic areas. As of June 30, 1997, the company had no significant concentrations of credit risk.

NOTE 13

Stock Options

Under stock option plans approved by shareholders in 1996, 1992 and 1988, stock options generally are granted to eligible employees at fair market value at the date of grant. Options are exercisable under specified conditions for up to 10 years from the date of grant. No options may be granted under the 1988 plan after October 1998, no options may be granted under the 1992 plan after October 2002 and no options may be granted under the 1996 plan after October 2006. No charges to income have resulted from the operation of the plans.

Under provisions of the plans, participants may deliver Kennametal stock in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. Shares valued at $0.5 million (11,684 shares), $0.9 million (22,740 shares) and $0.4 million (13,728 shares) were delivered in 1997, 1996 and 1995, respectively.

Under the 1996, 1992 and 1988 plans, shares may be awarded to eligible employees without payment. The respective plans specify such shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. Such awards were not significant in 1997, 1996 and 1995.

The company adopted the disclosure requirements of SFAS No. 123 effective with the 1997 consolidated financial statements, but elected to continue to measure compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense for stock options has been recognized in the accompanying consolidated financial statements. If compensation expense had been determined based on the estimated fair value of options granted in 1997 and 1996, consistent with the methodology in SFAS No. 123, the effect on the company's 1997 and 1996 net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands)	1997	1996
Net income:		
As reported	$72,032	$69,732
Pro forma	70,140	65,610
Earnings per share:		
As reported	$ 2.71	$ 2.62
Pro forma	2.64	2.46

The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	1997	1996
Risk-free interest rate	6.64%	6.28%
Expected life (years)	5	5
Expected volatility	27.9%	30.2%
Expected dividend yield	2.0%	1.9%

NOTE 13 (CONTINUED)

Stock option activity for 1997, 1996 and 1995 is set forth below:

Number of Shares	1997 Options	1997 Weighted Average Exercise Price	1996 Options	1996 Weighted Average Exercise Price	1995 Options	1995 Weighted Average Exercise Price
Options outstanding, beginning of year	994,244	$30.41	521,148	$20.55	475,650	$20.53
Granted	327,000	31.42	580,500	36.86	204,950	24.75
Exercised	(116,877)	22.65	(105,904)	17.16	(157,452)	16.94
Lapsed and forfeited	(35,000)	36.45	(1,500)	37.06	(2,000)	16.94
Options outstanding, end of year	1,169,367	$30.85	994,244	$30.41	521,148	$20.55
Options exercisable, end of year	1,132,111	$31.16	960,970	$30.88	281,482	$24.75
Weighted average fair value of options granted during the year		$ 9.48		$11.56		N/A

Stock options outstanding at June 30, 1997:

Range of Exercise Prices	Options Outstanding: Options	Options Outstanding: Weighted Average Remaining Contractual Life (years)	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Options	Options Exercisable: Weighted Average Exercise Price
$14.06-$16.34	6,463	1.94	$15.73	6,463	$15.73
16.94	102,000	2.59	16.94	74,744	16.94
20.53	100,000	6.35	20.53	100,000	20.53
24.75	163,904	7.15	24.75	163,904	24.75
30.81	260,000	9.08	30.81	250,000	30.81
31.06	20,000	8.33	31.06	20,000	31.06
34.06	61,000	9.33	34.06	61,000	34.06
37.06	456,000	8.08	37.06	456,000	37.06
	1,169,367	7.62	$30.85	1,132,111	$31.16

NOTE 14

Environmental Matters

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at four Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flows of the company.

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department as well as an EH&S Policy Committee to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, the company has established an EH&S administrator at each of its domestic manufacturing facilities. The company's financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly and annual basis, management establishes or adjusts financial provisions and reserves for environmental contingencies in accordance with SFAS No. 5, "Accounting for Contingencies."

NOTE 15

Shareholder Rights Plan

Pursuant to the company's Shareholder Rights Plan, one-half of a right is associated with each share of capital stock. Each right entitles a shareholder to buy 1/100th of a share of a new series of preferred stock at a price of $105 (subject to adjustment).

The rights will be exercisable only if a person or group of persons acquires or intends to make a tender offer for 20 percent or more of the company's capital stock. If any person acquires 20 percent of the capital stock, each right will entitle the shareholder to receive that number of shares of capital stock having a market value of two times the exercise price. If the company is acquired in a merger or other business combination, each right will entitle the shareholder to purchase at the exercise price that number of shares of the acquiring company having a market value of two times the exercise price. The rights will expire on November 2, 2000, and are subject to redemption by the company at $0.01 per right.

NOTE 16

Acquisitions

During fiscal 1997, the company acquired five companies with annual sales totaling approximately $16 million for a total consideration of approximately $19 million. The acquisitions were accounted for using the purchase method of accounting. The consolidated financial statements include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not significant.

NOTE 17

Segment Data

The company operates predominantly as a tooling supplier specializing in powder metallurgy, which represents a single business segment. The following table presents the company's operations by geographic area:

(in thousands)	1997	1996	1995
Sales:			
United States	$ 867,321	$ 784,295	$ 726,977
Europe	306,065	328,732	311,178
Other international	125,856	114,432	91,269
Total	1,299,242	1,227,459	1,129,424
Intersegment transfers:			
United States	100,000	97,343	92,939
Europe	33,629	38,452	41,252
Other international	9,270	11,701	11,360
Total	142,899	147,496	145,551
Net sales	$1,156,343	$1,079,963	$ 983,873
Operating income:			
United States	$ 90,421	$ 79,517	$ 95,228
Europe	18,876	27,614	22,977
Other international	15,949	15,247	13,792
Eliminations	1,779	(527)	(5,024)
Total operating income	127,025	121,851	126,973
Interest expense	(10,393)	(11,296)	(12,793)
Other income (expense)	300	3,077	(886)
Income before income taxes	$ 116,932	$ 113,632	$ 113,294
Identifiable assets:			
United States	$ 560,631	$ 495,452	$ 462,812
Europe	210,711	239,594	284,378
Other international	79,477	83,130	64,233
Eliminations	(10,390)	(37,884)	(43,419)
Corporate	28,880	19,199	13,605
Total assets	$ 869,309	$ 799,491	$ 781,609

Intersegment transfers are accounted for at arm's-length prices, reflecting prevailing market conditions within the various geographic areas. Such sales and associated costs are eliminated in the consolidated financial statements.

Identifiable assets are those assets that are identified with the operations in each geographic area. Corporate assets consist mainly of cash and cash equivalents, investments in affiliated companies and other assets.

Sales to a single customer did not aggregate 10 percent or more of total sales. Export sales from U.S. operations to unaffiliated customers were $15.1 million, $21.4 million and $27.4 million in 1997, 1996 and 1995, respectively.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected Quarterly Financial Data

	Quarter Ended			
(in thousands, except per share)	Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1997:				
Net sales	$275,203	$273,435	$295,365	$312,340
Gross profit	114,710	113,346	126,566	133,306
Net income	15,203	14,567	19,928	22,334
Earnings per share	0.57	0.54	0.75	0.85
Fiscal 1996:				
Net sales	$254,903	$259,174	$286,095	$ 79,791
Gross profit	106,442	107,804	123,966	116,278
Net income	13,639	13,876	23,364	18,853
Earnings per share	0.51	0.52	0.88	0.71

During the fourth quarter of 1996, the company recorded a restructuring charge of $2.7 million ($1.6 million after taxes) related to the relocation of the North America Metalworking Headquarters and for the closure of a manufacturing facility in Canada.

Stock Price Ranges and Dividends Paid

The company's capital stock is traded on the New York Stock Exchange (symbol KMT). The number of shareholders of record as of August 8, 1997, was 2,857. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended			
	Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1997:				
High	$34 3/8	$39	$43 1/8	$44 1/8
Low	28 7/8	32 3/4	34 7/8	33 1/8
Dividends	0.15	0.17	0.17	0.17
FISCAL 1996:				
High	$41 1/8	$36 1/4	$37 1/4	$38 1/4
Low	34 5/8	28 3/4	27 3/4	33 5/8
Dividends	0.15	0.15	0.15	0.15

REPORT OF MANAGEMENT

To the Shareholders of Kennametal Inc.

The management of Kennametal Inc. is responsible for the integrity of all information contained in this report. The financial statements and related information were prepared by management in accordance with generally accepted accounting principles and, as such, contain amounts that are based on management's best judgment and estimates.

Management maintains a system of policies, procedures and controls designed to provide reasonable, but not absolute, assurance that the financial data and records are reliable in all material respects and that assets are safeguarded from improper or unauthorized use. The company maintains an active internal audit department that monitors compliance with this system.

The Board of Directors, acting through its Audit Committee, is ultimately responsible for determining that management fulfills its responsibilities in the preparation of the financial statements. The Audit Committee meets periodically with management, the internal auditors and the independent public accountants to discuss auditing and financial reporting matters. The internal auditors and independent public accountants have full access to the Audit Committee without the presence of management.

Kennametal has always placed the utmost importance on conducting its business activities in accordance with the spirit and letter of the law and the highest ethical standards. This philosophy is embodied in a code of business ethics and conduct that is distributed to all employees.

/s/ ROBERT L. MCGEEHAN

Robert L. McGeehan
President and Chief Executive Officer
Shareholder

/s/ RICHARD J. ORWIG

Richard J. Orwig
Vice President
Chief Financial and Administrative Officer
Shareholder

REPORT OF AUDIT COMMITTEE

To the Shareholders of Kennametal Inc.

The Audit Committee of the Board of Directors, composed of three independent directors, met four times during fiscal year 1997.

The Audit Committee monitors the company's financial reporting process for accuracy, completeness and timeliness. In fulfilling its responsibility, the committee recommended to the Board of Directors the reappointment of Arthur Andersen LLP as the company's independent public accountants. The Audit Committee reviewed with management, the internal auditors and the independent public accountants the overall scope and specific plans for their respective audits. The committee evaluated with management Kennametal's annual and quarterly reporting process and the adequacy of the company's internal controls. The committee met with the internal auditors and independent public accountants, with and without management present, to review the results of their examinations, their evaluations of the company's internal controls and the overall quality of Kennametal's financial reporting.

The Audit Committee participates in a self-assessment program whereby the composition, activities and interactions of the committee are periodically evaluated by the committee. The purpose of the program is to provide guidance with regard to the continual fulfillment of the committee's responsibilities.

/s/ RICHARD C. ALBERDING

Richard C. Alberding
Chairman, Audit Committee
Shareholder

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Kennametal Inc.

We have audited the accompanying consolidated balance sheets of Kennametal Inc. and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial position of Kennametal Inc. and subsidiaries as of June 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 21, 1997

TEN-YEAR FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)	Notes	10-YR CAGR	1997	1996	1995
OPERATING RESULTS					
Net sales		12.6%	$1,156,343	$1,079,963	$983,873
Cost of goods sold		12.5	668,415	625,473	560,867
Research and development expenses		8.9	24,105	20,585	18,744
Selling, marketing and distribution expenses		13.8	263,980	242,375	219,271
General and administrative expenses		8.9	69,911	65,417	55,853
Interest expense		3.7	10,393	11,296	12,793
Unusual or nonrecurring items	(1)	n.m.	--	2,666	--
Income taxes		12.0	44,900	43,900	45,000
Accounting changes, net of tax	(2)	n.m.	--	--	--
Net income (loss)	(3)	15.4	72,032	69,732	68,294
FINANCIAL POSITION					
Net working capital		5.6%	$ 175,877	$ 217,651	$184,072
Inventories		8.6	210,111	204,934	200,680
Property, plant and equipment, net		7.9	300,386	267,107	260,342
Total assets		10.3	869,309	799,491	781,609
Long-term debt, including capital leases		(5.6)	40,445	56,059	78,700
Total debt, including capital leases		6.5	174,464	131,151	149,730
Total shareholders' equity	(4)	10.7	459,608	438,949	391,885
PER SHARE DATA					
Earnings (loss)	(3)	12.3%	$ 2.71	$ 2.62	$ 2.58
Dividends		3.1	0.66	0.60	0.60
Book value (at year-end)		8.0	17.61	16.44	14.75
Market price (at year-end)		10.8	43.00	34.00	34.50
OTHER DATA					
Capital expenditures		8.0%	$ 73,779	$ 57,556	$ 43,371
Number of employees (at year-end)		4.7	7,550	7,260	7,030
Average sales per employee		7.8	$ 159	$ 152	$ 146
Average shares outstanding (in thousands)	(4)	2.7	26,575	26,635	26,486
KEY RATIOS					
Sales growth			7.1%	9.8%	22.6%
Gross profit margin			42.2	42.1	43.0
Operating profit margin			11.2	11.7	13.1
Return on sales	(3)		6.2	6.5	6.9
Return on equity	(3)		15.8	17.0	19.3
Total debt to capital			27.5	23.0	27.6
Dividend payout	(5)		25.0	35.8	53.9
Inventory turnover			3.2x	3.0x	3.1x

n.m.--Not meaningful   CAGR--Compound annual growth rate

NOTES

1. Unusual charges (credits) reflect restructuring costs for the relocation of the North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa., and to close a manufacturing facility in 1996, restructuring and integration costs associated with the acquisition of Hertel AG in 1994, settlement and partial reversal of accrued patent litigation costs in 1993 and accrued patent litigation costs in 1991.
2. Accounting changes in 1994 reflect changes in the methods of accounting for postretirement health care and life insurance benefits (SFAS No. 106) and income taxes (SFAS No. 109).
3. Excluding unusual charges in 1996, net income was $71,369; earnings per share were $2.68; return on sales was 6.6 percent; and return on equity was 17.4 percent. Excluding unusual charges and accounting changes in 1994, net income was $31,330; earnings per share were $1.29; return on sales was 3.9 percent; and return on equity was 11.4 percent.
4. In 1994, the company issued approximately 4 million shares of capital stock for net proceeds of $73.6 million.
5. Uses a trailing three-year average earnings.

[TEN-YEAR FINANCIAL HIGHLIGHTS CONTINUED]

(dollars in thousands, except per share data)	1994	1993	1992	1991	1990	1989	1988
OPERATING RESULTS							
Net sales	$802,513	$598,496	$594,533	$617,833	$589,023	$472,200	$419,900
Cost of goods sold	472,533	352,773	362,967	358,529	342,434	274,929	244,026
Research and development expenses	15,201	14,714	13,656	14,750	13,325	11,969	9,757
Selling, marketing and distribution expenses	189,487	144,850	137,494	136,319	123,286	94,934	84,820
General and administrative expenses	58,612	41,348	45,842	49,219	42,648	31,443	29,497
Interest expense	13,811	9,549	10,083	11,832	10,538	8,960	8,601
Unusual or nonrecurring items	24,749	(1,738)	--	6,350	--	--	--
Income taxes	15,500	14,000	8,100	17,300	23,000	20,900	19,100
Accounting changes, net of tax	15,003	--	--	--	--	--	--
Net income (loss)	(4,088)	20,094	12,872	21,086	32,113	29,994	24,319

FINANCIAL POSITION							
Net working capital	$130,777	$120,877	$108,104	$ 88,431	$108,954	$ 91,032	$ 99,565
Inventories	158,179	115,230	118,248	119,767	114,593	105,033	96,473
Property, plant and equipment, net	243,098	192,305	200,502	193,830	175,523	166,390	161,788
Total assets	697,532	448,263	472,167	476,194	451,379	383,252	359,258
Long-term debt, including capital leases	90,178	87,891	95,271	73,113	81,314	57,127	74,405
Total debt, including capital leases	147,295	110,628	127,954	130,710	116,212	95,860	103,982
Total shareholders' equity	322,836	255,141	251,511	243,535	231,598	204,465	186,238
PER SHARE DATA							
Earnings (loss)	$ (0.17)	$ 0.93	$ 0.60	$ 1.00	$ 1.54	$ 1.45	$ 1.19
Dividends	0.58	0.58	0.58	0.58	0.58	0.56	0.52
Book value (at year-end)	12.25	11.64	11.64	11.42	11.02	9.84	9.04
Market price (at year-end)	24.63	16.75	17.13	17.81	17.25	15.88	18.38
OTHER DATA							
Capital expenditures	$ 27,313	$ 23,099	$ 36,555	$ 55,323	$ 35,998	$ 28,491	$ 46,336
Number of employees (at year-end)	6,600	4,850	4,980	5,360	5,580	5,420	4,990
Average sales per employee	$ 125	$ 122	$ 116	$ 113	$ 107	$ 94	$ 85
Average shares outstanding (in thousands)	24,304	21,712	21,452	21,094	20,872	20,696	20,526
KEY RATIOS							
Sales growth	34.1%	0.7%	(3.8)%	4.9%	24.7%	12.5%	18.5%
Gross profit margin	41.1	41.1	38.9	42.0	41.9	41.8	41.9
Operating profit margin	8.3	7.5	5.8	9.6	11.4	12.5	12.3
Return on sales	n.m.	3.4	2.2	3.4	5.5	6.4	5.8
Return on equity	n.m.	8.1	5.2	8.7	14.9	15.4	13.9
Total debt to capital	31.3	30.2	33.7	34.9	33.4	31.9	35.8
Dividend payout	127.9	68.8	55.4	43.6	41.6	48.1	75.4
Inventory turnover	3.1x	3.1x	3.0x	3.0x	3.1x	2.9x	2.4x

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
CONSOLIDATED SUBSIDIARIES	
Kennametal Australia Pty. Ltd.	Australia
Kennametal Foreign Sales Corporation	Barbados
Kennametal Ltd.	Canada
Kennametal (China) Limited	China
Kennametal (Shanghai) Ltd.	China
Shanxi-Kennametal Mining Cutting Systems Manufacturing Company Limited	China
Xuzhou-Kennametal Mining Cutting Systems Manufacturing Company Limited	China
Kennametal Hertel Limited	England
Kennametal Hertel AG	Germany
Kennametal Hardpoint H.K. Ltd.	Hong Kong
Kobe Kennametal K.K.	Japan
Kennametal Hertel (Malaysia) Sdn. Bhd.	Malaysia
Kennametal de Mexico, S.A. de C.V.	Mexico
Kennametal/Becker-Warkop Ltd.	Poland
Kennametal Hertel (Singapore) Pte. Ltd.	Singapore
Kennametal South Africa (Proprietary) Limited	South Africa
Kennametal Hardpoint (Taiwan) Inc.	Taiwan
Kennametal Hertel Co., Ltd.	Thailand
Circle Machine Company	California, United States
Kennametal Hardpoint, Inc.	Delaware, United States
Adaptive Technologies Corp.	Michigan, United States
JLK Direct Distribution Inc.	Pennsylvania, United States
CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG	
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel France S.A.	France
Materiels de Precision et de Production S.A.	France
Kennametal Hertel G.m.b.H.	Germany
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands
CONSOLIDATED SUBSIDIARIES OF JLK DIRECT DISTRIBUTION INC.	
J&L America, Inc.	Michigan, United States
CONSOLIDATED SUBSIDIARIES OF J&L AMERICA, INC.	
Mill & Abrasive Supply, Inc.	Michigan, United States
Strelinger Company	Michigan, United States

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included or incorporated by reference in this Form 10-K, into the Company's previously filed registration statements on Form S-8, Registration No. 2-80182, Form S-8, Registration No. 33-25331, Form S-8, Registration No. 33-55768, Form S-8, Registration No. 33-55766, Form S-3, Registration No. 33-61854, Form S-8, Registration No. 33-65023, Form S-8, Registration No. 333-18423, Form S-8, Registration No. 333-18429, and Form S-8, Registration No. 333-18437, including the prospectuses therein, relating to the Company's Stock Option Plan of 1982, Stock Option and Incentive Plan of 1988, Stock Option and Incentive Plan of 1992, Directors Stock Incentive Plan, Dividend Reinvestment and Stock Purchase Plan (as amended), Performance Bonus Stock Plan of 1995, Kennametal Thrift Plan, Kennametal Inc. Stock Option and Incentive Plan of 1992 (as amended), and the Kennametal Inc. Stock Option and Incentive Plan of 1996. It should be noted that we have not audited any financial statements of the Company subsequent to June 30, 1997 or performed any audit procedures subsequent to the date of our report.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
September 18, 1997

ARTICLE 5 FINANCIAL DATA SCHEDULE FOR 10-K

This schedule contains summary financial information extracted from the June 30, 1997 Consolidated Financial Statements and is qualified in its entirety by reference to such financial statements.

1,000

YEAR
JUN-30-1997
JUL-1-1996
JUN-30-1997
21,869
0
207,840
7,325
210,111
457,879
630,142
329,756
869,309
282,002
0
0
0
36,712
422,896
869,309
1,156,343
1,156,343
668,415
668,415
27,012
1,979
10,393
116,932
44,900
72,032
0
0
0
72,032
2.71
0