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, 1996

[ ] 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 30, 1996, 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 $671,100,000. 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 30, 1996, there were 26,747,827 shares of Capital Stock outstanding.

Documents Incorporated by Reference

Portions of the 1996 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the 1996 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.

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 1996 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 1996 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, which 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.

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 $19 million, thereby increasing the company's ownership interest to 94 percent at June 30, 1996.

International Operations

The company's principal international operations are conducted in western Europe and Canada. In addition, the company has joint ventures in India, Italy and Russia, 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 1996 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 1996 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 U.S. 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 $20.6 million, $18.7 million and $15.2 million in 1996, 1995 and 1994, 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.

Employees

The company employed approximately 7,300 persons at June 30, 1996, of which 4,500 were located in the United States and 2,800 in other parts of the world, principally Europe and Canada. Approximately 1,100 employees were represented by labor unions, of which 130 were hourly-rated employees located at plants in the Latrobe, Pennsylvania, area. The remaining 970 employees represented by labor unions were employed at eight 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.

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* Trademark owned by Kennametal Inc. or Kennametal Hertel AG

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:		
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):		
Port Coquitlam, Canada (b)	Owned	Metallurgical Powders
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
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 announced plans to build a $20-million facility in Shanghai, China, to manufacture cemented carbide metalcutting tools. Operations are planned to begin in 1998.

(b) During the fourth quarter of 1996, the company decided to close this facility. The manufacture of products produced at this location will be continued from other company locations.

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 corporate 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 Hertel, under German law, the company is required to offer to minority shareholders to purchase their shares for a reasonable compensation and to guarantee dividends during the term of the Domination Contract (ending June 30, 1996, subject to annual renewals) and to pay to Hertel any net cumulative losses it sustains during the term of the contract and has liability to Hertel creditors as if Hertel 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 Hertel 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 1996, 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, 59 (1) President Chief Executive Officer Director	President and Director since 1989. Chief Executive Officer since October 1, 1991.
David B. Arnold, 57 (1) Vice President Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
James R. Breisinger, 46 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, 51 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Richard P. Gibson, 61 Assistant Treasurer Director of Taxes	Assistant Treasurer since 1985. Director of Taxes since 1980.
James W. Heaton, 64 Senior Vice President Director of Customer Satisfaction	Vice President since 1984. Senior Vice President and Director of Customer Satisfaction since 1990.
Richard C. Hendricks, 57 (1) Vice President Director of Corporate Business Development	Vice President since 1982. Director of Corporate Business Development since 1992. General Manager of the Mining and Metallurgical Division from 1990 to 1992.
Timothy D. Hudson, 50 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., 53 (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, 58 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, 45 Vice President Treasurer	Vice President since 1994. Treasurer since 1987.
Kevin G. Nowe, 44 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, 55 (1) Vice President Chief Financial and Administrative Officer	Vice President since 1987. Named Chief Financial and Administrative Officer in 1994. Director of Administration from 1991 to 1994.
Alan G. Ringler, 46 (1) Vice President Director of Metalworking Systems Division	Vice President since 1989. Director of Metalworking Systems Division since 1992. Director of Metalworking, North America, from 1991 to 1992.
Michael W. Ruprich, 40 (1) Vice President, Kennametal Inc. President, J&L America Inc. Director of Global Marketing and Sales	Named Director of Global Marketing and Sales in 1996. Vice President of Kennametal Inc. and President, J&L America Inc. since 1994. 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, 48 Vice President Director of Kennametal Distribution Services	Vice President since 1992. Director of Kennametal Distribution Services since 1990.

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 1996 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 1996 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 1992 to 1996) 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, 1996 ("1996 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 1996 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 1996 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" in the 1996 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, 1996 and 1995, the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1996, and the notes to consolidated financial statements, together with the report thereon of Arthur Andersen LLP dated July 22, 1996, presented in the company's 1996 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 1996 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 94 percent interest.

Financial Statement Schedule:

Report of Independent Public Accountants

Schedule II - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1996

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)*	Form of Employment Agreement with certain executive officers	Exhibit 10.8 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.
(10.8)*	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.
(10.9)*	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.10)	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.11)	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.12)	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.
(10.13)*	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
(13)	Annuual Report to Shareholders	Portions of the 1996 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.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended June 30, 1996.

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* Denotes management contract or compensatory plan or arrangement.

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, 1996

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/ QUENTIN C. MCKENNA Quentin C. McKenna	Chairman of the Board	September 18, 1996
/s/ ROBERT L. MCGEEHAN Robert L. McGeehan	President, Chief Executive Officer and Director	September 18, 1996
/s/ JAMES R. BREISINGER James R. Breisinger	Vice President, Controller and Chief Accounting Officer	September 18, 1996
/s/ RICHARD J. ORWIG Richard J. Orwig	Vice President, Chief Financial and Administrative Officer	September 18, 1996
/s/ RICHARD C. ALBERDING Richard C. Alberding	Director	September 18, 1996
/s/ PETER B. BARTLETT Peter B. Bartlett	Director	September 18, 1996
/s/ A. PETER HELD A. Peter Held	Director	September 18, 1996
/s/ WARREN H. HOLLINSHEAD Warren H. Hollinshead	Director	September 18, 1996
/s/ ALOYSIUS T. MCLAUGHLIN, JR. Aloysius T. McLaughlin, Jr.	Director	September 18, 1996
/s/ WILLIAM R. NEWLIN		

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William R. Newlin	Director	September 18, 1996
/s/ LARRY YOST		
Larry Yost	Director	September 18, 1996

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 22, 1996. 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 22, 1996

KENNAMETAL INC. SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED JUNE 30, 1996

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Recoveries	Additions: Other Adjustments	Deductions from Reserves (c)	Balance at End of Year
1996						
Allowance for doubtful accounts	$12,106	$1,810	$213	$ (871) (a)	$3,962	$ 9,296
1995						
Allowance for doubtful accounts	$ 9,328	$1,477	$237	$2,131 (a)	$1,067	$12,106
1994						
Allowance for doubtful accounts	$ 2,062	$ 608	$334	$6,682 (b)	$ 358	$ 9,328

(a) Represents foreign currency translation adjustment.
(b) Represents the allowance recognized in connection with the purchase of an 81 percent interest in Hertel AG.
(c) Represents uncollected accounts charged against the allowance.

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.
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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	Form of Employment Agreement with certain executive officers	Exhibit 10.8 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.
10.8	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.
10.9	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.10	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.11	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.12	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.

10.13	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
13	Annual Report to Shareholders	Portions of the 1996 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 the company and the related footnotes.

COMPARISON OF FISCAL 1996 AND FISCAL 1995

OVERVIEW. Net income for 1996 was $69.7 million, up 2 percent from $68.3 million last year. The 1996 results include 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.

In order to provide more meaningful information and to better reflect the strategic direction of the company, during 1996 Kennametal began to report sales by five markets: Metalworking North America, Metalworking Europe, Metalworking Asia-Pacific, Industrial Supply, and Mining and Construction. This is a revision to the three product sales classes used formerly, which were: Metalworking, Mining and Construction, and Metallurgical Powders. Since a growing portion of sales is being derived from industrial supplies, the company is reporting these sales separately. Sales of Metallurgical Powders will be combined with Mining and Construction. Prior year amounts have been reclassified to conform to the new presentation.

SALES AND MARKETS. Sales for the year ended June 30, 1996, were $1.1 billion, up 10 percent from $984 million last year. 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.

[SALES BY MARKET AND GEOGRAPHIC AREA]

Year ended June 30	1996			1995			1994	
(in thousands)	Percent of Total	Amount	Percent Change	Percent of Total	Amount	Percent Change	Percent of Total	Amount
BY MARKET:								
Metalworking:								
North America	34%	$ 368,481	--%	37%	$367,807	15%	40%	$318,734
Europe	25	271,004	7	26	254,037	35	23	188,791
Asia-Pacific	3	35,854	46	3	24,579	22	2	20,102
Industrial Supply	24	256,703	28	20	201,152	28	20	157,694
Mining and Construction	14	147,921	9	14	136,298	16	15	117,192
Net Sales	100%	$1,079,963	10%	100%	$983,873	23%	100%	$802,513

BY GEOGRAPHIC AREA:									
Within the United States	62%	$ 665,510	10%	62%	$606,623	17%	65%	$517,856
International	38	414,453	10	38	377,250	33	35	284,657
Net Sales	100%	$1,079,963	10%	100%	$983,873	23%	100%	$802,513

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 expansion program at J&L Industrial Supply and new and existing full service supply programs with large customers. During fiscal 1996, J&L opened seven locations and now operates a total of 18 locations 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 with an estimated sales value of $20 million from the North America Metalworking market to J&L Industrial Supply to provide added customer service and to further leverage J&L's full complement of metalcutting supplies. These sales will be included in the Industrial Supply market on a prospective basis.

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, the gross profit margin for the year ended June 30, 1996, was 42.1 percent, compared to 43.0 percent last year. 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 last year. 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 branch expansion programs at J&L Industrial Supply. Results of operations also include 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 is being made to globalize key functions and to provide a more efficient corporate structure. The action will affect approximately 300 employees in Raleigh, N.C., all of whom have been offered the opportunity to move to Latrobe, Pa. 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 will construct a new headquarters building at an estimated cost of $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 have not been included in the one-time charge and will be included in operating expenses as incurred. The costs related to these items are estimated to be $9 million pretax and will be incurred during the next two years.

COMPARISON OF FISCAL 1995 AND FISCAL 1994

OVERVIEW. Net income for 1995 was $68.3 million, up from $31.3 million (before the restructuring charge and accounting changes) in 1994. Earnings increased in 1995 primarily because of higher sales volume, a more favorable sales mix and improved operating efficiency. The acquisition of Hertel reduced earnings by $2.6 million in 1994. However, earnings in 1995 increased substantially as the result of improved economic conditions and the successful turnaround and integration of Hertel in Europe. The results of operations for 1994 included the results of Hertel AG and its subsidiaries for 11 months.

SALES AND MARKETS. Sales for the year ended June 30, 1995, were $984 million, up 23 percent from $803 million in 1994. Sales in 1995 rose primarily because of higher sales volume, favorable foreign currency translation effects and modest price increases.

Sales in the North America Metalworking market increased 15 percent on higher sales volumes and modest price increases. Sales of metalcutting inserts and toolholding devices in the United States increased 16 percent because of increased demand for products.

Sales in the Europe Metalworking market rose 35 percent because of higher sales volumes and favorable foreign currency translation effects. Demand was particularly strong in Germany, while demand in the United Kingdom and France also grew, but at a slower pace than Germany. In the Asia-Pacific Metalworking market, sales rose 22 percent due to increased demand in the Pacific Rim.

In the Industrial Supply market, sales rose 28 percent because of the addition of five new locations at J&L Industrial Supply and additional full service supply programs.

Sales in the Mining and Construction market rose 16 percent because of increased demand for mining and highway construction tools in the United States and strong demand for carbide intermediate and diamond matrix powders.

COSTS AND EXPENSES. As a percentage of sales, the gross profit margin for 1995 was 43.0 percent, compared to 41.1 percent in 1994. The improvement in 1995 resulted from a better sales mix, favorable effects of foreign currency impacts of international sales manufactured in the United States and improved manufacturing efficiency. In addition, higher raw material costs generally were offset by increased selling prices.

Operating expenses increased 12 percent in 1995 primarily because of costs necessary to support the higher sales volume and increased spending on research and development and marketing activities. As a percentage of sales, operating expenses declined to 29.9 percent in 1995 as compared to 32.8 percent in 1994 because of higher sales volumes and improved operating efficiency, particularly in Europe.

In connection with the acquisition of Hertel AG, the company incurred a restructuring charge of $24.7 million ($20.4 million after taxes) in 1994 for costs associated with the closing of its manufacturing facility in Neunkirchen, Germany, and other integration activities. The restructuring was substantially complete in 1995.

Interest expense decreased slightly because of lower average borrowings and interest rates. The effective tax rate was 39.7 percent in 1995, compared to 58.7 percent in 1994. Excluding the effects of the Hertel restructuring charge, the effective tax rate was 39.1 percent in 1994.

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 $230 million, of which $172 million was unused at June 30, 1996. The company and its subsidiaries generally obtain local financing through credit lines with commercial banks.

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 primarily for new client-server information systems, to modernize facilities and to upgrade machinery and equipment.

In January 1996, the company announced plans to build a $20-million facility in Shanghai, China, to manufacture cemented carbide metalcutting tools. Manufacturing is planned to commence early 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.

During 1994, the company generated $30 million in cash from operations. Also, during 1994, the company acquired 81 percent of the shares of Hertel AG, a manufacturer of metalcutting tools and tooling systems based in Fuerth, Germany. The results of operations for 1994 included the results of Hertel AG and its subsidiaries for 11 months. The fair values of the assets acquired and liabilities assumed were $241 million and $194 million, respectively.

Also, during 1994, the company issued approximately 4 million shares of capital stock for net proceeds of $73.6 million. The proceeds were used to repay a bridge loan ($38.7 million) and certain borrowings under revolving credit agreements ($34.9 million) related to the acquisition of Hertel AG. Capital expenditures totaling $27 million were made to upgrade machinery and equipment and to modernize facilities.

Capital expenditures for fiscal 1997 are estimated to be $70-$80 million and will be used primarily to construct a new corporate headquarters and a manufacturing facility in China, to acquire additional client-server information systems and to upgrade machinery and equipment.

FINANCIAL CONDITION

Kennametal's financial condition continues to remain strong. Total assets were $799 million in 1996, up 2 percent from $782 million in 1995. Net working capital was $218 million, up 18 percent from the previous year. The ratio of current assets to current liabilities was 2.0 in 1996 as compared with 1.8 in 1995.

Accounts receivable increased 8 percent to $190 million because of increased sales. Inventories rose 2 percent to $205 million to support increased product demand and due to the growth of the Industrial Supply market. Inventory turnover was 3.0 in 1996 and 3.1 in 1995. Kennametal will continue to focus on ways to improve inventory turnover and overall asset utilization.

Total debt (including capital lease obligations) decreased 12 percent to $131 million in 1996. The ratio of total debt to total invested capital was 23.0 percent in 1996 as compared with 27.6 percent in 1995. In order to maintain financial flexibility and to optimize the cost of capital, Kennametal's financial objective is to maintain a debt-to-capital ratio of not more than 40 percent.

In 1995, Kennametal completed the restructuring and integration activities related to the acquisition of Hertel AG in 1994. Cash payments and other charges applied to the restructuring reserves totaled $26.1 million in 1995.

NEW ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The company's required adoption date is July 1, 1996. SFAS No. 121 standardizes the accounting practices for the recognition and measurement of impairment losses on certain long-lived assets. The adoption of SFAS No. 121 will not have an impact on the financial statements, as the statement is consistent with existing company policy.

In October 1995, the FASB issued 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.

Companies electing to continue using the intrinsic-value-based method must provide pro forma disclosures of net income and earnings per share as if the fair-value-based method had been applied. Management intends to continue to account for stock-based compensation using the intrinsic-value-based method and, as such, SFAS No. 123 will not have an impact on the company's results of operations or financial position.

In 1994, the company changed its method of accounting for postretirement health care and life insurance benefits (SFAS No. 106) and income taxes (SFAS No. 109). The net cumulative effect of these accounting changes resulted in a reduction in net income of $15 million. While these accounting changes did not affect cash flows in 1994, they significantly increased deferred tax assets and other noncurrent liabilities.

EFFECTS OF INFLATION

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

OUTLOOK

In looking to fiscal 1997, management expects consolidated sales to increase from the $1.1 billion achieved this year. However, the outlook for the upcoming year will be based in part on the recoveries of the U.S. and 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 slowly improving economic conditions in the United States and from increased sales through the marketing alliance with W.W. Grainger. Sales in the Europe Metalworking market are not expected to improve before early calendar 1997. 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 additional J&L Industrial Supply locations, from the transfer of customer accounts from the North America Metalworking operations, from growth in catalog sales and from additional full service supply programs. Further, if any slowdown is foreseen in other markets, investments into the Industrial Supply business could be accelerated. In addition, 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 9-18 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.

[CONSOLIDATED STATEMENTS OF INCOME]

Year ended June 30 (in thousands, except per share data)	1996	1995	1994
OPERATIONS			
Net sales	$1,079,963	$983,873	$802,513
Cost of goods sold	625,473	560,867	472,533
Gross profit	454,490	423,006	329,980
Research and development expenses	20,585	18,744	15,201
Selling, marketing and distribution expenses	242,375	219,271	189,487
General and administrative expenses	65,417	55,853	58,612
Restructuring charge	2,666	--	24,749
Amortization of intangibles	1,596	2,165	3,996
Operating income	121,851	126,973	37,935
Interest expense	11,296	12,793	13,811
Other income (expense)	3,077	(886)	2,291
Income before taxes and cumulative effect of accounting changes	113,632	113,294	26,415
Provision for income taxes	43,900	45,000	15,500
Income before cumulative effect of accounting changes	69,732	68,294	10,915
Cumulative effect of accounting changes, net of income taxes:			
Postretirement benefits	--	--	(20,060)
Income taxes	--	--	5,057
Net income (loss)	$ 69,732	$ 68,294	$ (4,088)
Per Share Data			
Earnings before cumulative effect of accounting changes	$ 2.62	$ 2.58	$ 0.45
Cumulative effect of accounting changes:			
Postretirement benefits	--	--	(0.83)
Income taxes	--	--	0.21
Earnings (loss) per share	$ 2.62	$ 2.58	$ (0.17)
Dividends per share	$ 0.60	$ 0.60	$ 0.58
Weighted average shares outstanding	26,635	26,486	24,304

The accompanying notes are an integral part of these statements.

[CONSOLIDATED BALANCE SHEETS]

As of June 30 (in thousands)	1996	1995
ASSETS		

Current assets:		
Cash and equivalents	$ 17,090	$ 10,827
Accounts receivable, less allowance for doubtful accounts of $9,296 and $12,106	189,820	175,405
Inventories	204,934	200,680
Deferred income taxes	24,620	22,362
Total current assets	436,464	409,274
Property, plant and equipment:		
Land and buildings	156,064	151,905
Machinery and equipment	415,443	365,275
Less accumulated depreciation	(304,400)	(256,838)
Net property, plant and equipment	267,107	260,342
Other assets:		
Investments in affiliated companies	8,742	6,873
Intangible assets, less accumulated amortization of $20,795 and $19,009	33,756	32,253
Deferred income taxes	41,757	56,629
Other	11,665	16,238
Total other assets	95,920	111,993
Total assets	$799,491	$781,609
LIABILITIES		
Current liabilities:		
Current maturities of term debt and capital leases	$ 17,543	$ 17,475
Notes payable to banks	57,549	53,555
Accounts payable	64,663	60,211
Accrued vacation pay	19,228	18,424
Other	59,830	75,537
Total current liabilities	218,813	225,202
Term debt and capital leases, less current maturities	56,059	78,700
Deferred income taxes	20,611	20,998
Other liabilities	52,559	51,615
Total liabilities	348,042	376,515
Minority interest in consolidated subsidiaries	12,500	13,209
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	87,417	85,768
Retained earnings	351,594	297,838
Treasury shares, at cost; 2,667 and 2,793 shares held	(35,734)	(36,737)
Cumulative translation adjustments	(1,040)	8,304
Total shareholders' equity	438,949	391,885
Total liabilities and shareholders' equity	$799,491	$781,609

The accompanying notes are an integral part of these statements.

[CONSOLIDATED STATEMENTS OF CASH FLOWS]

Year ended June 30 (in thousands)	1996	1995	1994
OPERATING ACTIVITIES			
Net income (loss)	$69,732	$68,294	$(4,088)
Adjustments for noncash items:			
Depreciation and amortization	40,240	39,315	43,232
Other	9,000	11,953	14,984
Changes in certain assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(20,359)	(23,815)	(11,352)
Inventories	(9,758)	(34,389)	9,638
Accounts payable and accrued liabilities	(1,342)	(9,340)	(18,007)
Other	(2,034)	4,615	(4,158)
Net cash flow from operating activities	85,479	56,633	30,249

INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(57,556)	(43,371)	(27,313)
Disposals of property, plant and equipment	6,348	3,725	6,716
Acquisition of Hertel AG, net of cash	--	--	(19,595)
Other	1,173	(5,268)	(2,344)
Net cash flow used for investing activities	(50,035)	(44,914)	(42,536)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	5,019	(5,721)	11,246
Increase in term debt	7,780	8,163	5,715
Reduction in term debt	(28,278)	(9,721)	(64,098)
Net proceeds from issuance of capital stock	--	--	73,594
Dividend reinvestment and employee stock plans	2,652	4,439	8,658
Cash dividends paid to shareholders	(15,976)	(15,884)	(14,015)
Other	--	--	2,731
Net cash flow from (used for) financing activities	(28,803)	(18,724)	23,831
Effect of exchange rate changes on cash	(378)	642	1,497
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	6,263	(6,363)	13,041
Cash and equivalents, beginning	10,827	17,190	4,149
Cash and equivalents, ending	$17,090	$10,827	$17,190
SUPPLEMENTAL DISCLOSURES			
Interest paid	$11,436	$12,569	$12,403
Income taxes paid	39,521	23,125	16,296

The accompanying notes are an integral part of these statements.

[CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY]

Year ended June 30 (in thousands)	1996	1995	1994
CAPITAL STOCK			
Balance at beginning of year	$ 36,712	$ 36,712	$ 15,891
Issuance of capital stock	--	--	2,465
Stock split (2-for-1)	--	--	18,356
Balance at end of year	36,712	36,712	36,712
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	85,768	83,839	28,135
Dividend reinvestment and stock purchase plan	882	1,015	424
Employee stock plans	767	914	2,507
Issuance of capital stock	--	--	71,129
Stock split (2-for-1)	--	--	(18,356)
Balance at end of year	87,417	85,768	83,839
RETAINED EARNINGS			
Balance at beginning of year	297,838	245,428	263,531
Net income (loss)	69,732	68,294	(4,088)
Cash dividends	(15,976)	(15,884)	(14,015)
Balance at end of year	351,594	297,838	245,428
TREASURY SHARES			
Balance at beginning of year	(36,737)	(39,247)	(44,974)
Dividend reinvestment and stock purchase plan	537	938	590
Employee stock plans	466	1,572	5,137
Balance at end of year	(35,734)	(36,737)	(39,247)
CUMULATIVE TRANSLATION ADJUSTMENTS			
Balance at beginning of year	8,304	(3,360)	(7,442)
Current year translation adjustments	(9,344)	11,664	4,082
Balance at end of year	(1,040)	8,304	(3,360)
PENSION LIABILITY ADJUSTMENT			
Balance at beginning of year	--	(536)	--
Minimum pension liability adjustment	--	536	(536)
Balance at end of year	--	--	(536)

Total shareholders' equity, June 30	$438,949	$391,885	$322,836
	========	========	========

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 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 $16.6 million and $16.4 million of receivables from affiliates at June 30, 1996 and 1995, 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.

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 shipment to the customer.

NEW ACCOUNTING STANDARDS. In March 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The company's required adoption date is July 1, 1996. SFAS No. 121 standardizes the accounting practices for the recognition and measurement of impairment losses on certain long-lived assets. The adoption of SFAS No. 121 will not have an impact on the financial statements, as the statement is consistent with existing company policy.

In October 1995, the FASB issued 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.

Companies electing to continue using the intrinsic-value-based method must provide pro forma disclosures of net income and earnings per share as if the fair-value-based method had been applied. Management intends to continue to account for stock-based compensation using the intrinsic-value-based method and, as such, SFAS No. 123 will not have an impact on the company's results of operations or financial position.

NOTE 3:

HERTEL ACQUISITION AND RESTRUCTURING

On August 4, 1993, the company acquired 81 percent of the outstanding shares of Hertel AG (Hertel) for $43 million in cash and assumed $55 million in debt. Hertel is a manufacturer of metalcutting tools and tooling systems based in Fuerth, Germany. Since January 1, 1994, the company purchased additional shares of Hertel for $19 million, thereby increasing the company's ownership interest to 94 percent at June 30, 1996.

The acquisition of Hertel was accounted for under the purchase method, and accordingly, the results of operations of Hertel have been included in the accompanying consolidated financial statements since August 1993. The purchase price was allocated to assets acquired and liabilities assumed based on fair market values at the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired was recognized as goodwill and is being amortized over 20 years. The fair values of assets acquired and liabilities assumed are summarized as follows:

(in thousands)	1994
Current assets	$114,800
Property, plant and equipment	70,200
Intangible assets (goodwill)	5,300
Deferred tax assets (see Note 8)	40,600
Other noncurrent assets	10,500
Current liabilities	104,100
Long-term liabilities	89,400

In connection with the acquisition of Hertel, Kennametal recognized a restructuring charge in 1994 of approximately $24.7 million ($20.4 million after taxes) related to closing its manufacturing facility in Neunkirchen, Germany, and other integration activities. Cash payments and other costs applied to the restructuring reserve were $6.2 million in 1995 and $18.5 million in 1994. The restructuring was substantially complete in 1995.

NOTE 4:

INVENTORIES

Inventories consisted of the following:

(in thousands)	1996	1995
Finished goods	$169,108	$147,231
Work in process and powder blends	59,326	65,231
Raw materials and supplies	16,514	24,629
Inventories at current cost	244,948	237,091
Less LIFO valuation	(40,014)	(36,411)

Total inventories	$204,934	$200,680

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 55 percent of total inventories at June 30, 1996 and 1995. 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)	1996	1995
Federal and state income taxes	$16,898	$19,060
Accrued compensation	7,259	14,139
Payroll, state and local taxes	7,910	8,406
Accrued product warranty costs	5,119	4,779
Accrued benefits	3,613	4,089
Accrued restructuring charge (see Note 11)	2,666	--
Accrued professional fees	1,013	2,456
Accrued interest expense	996	1,005
Other accrued expenses	14,356	21,603
Total other current liabilities	$59,830	$75,537

NOTE 6:

TERM DEBT AND CAPITAL LEASES

Term debt and capital lease obligations consisted of the following:

(in thousands)	1996	1995
Senior notes, 9.64%, due in installments through 2000	$40,000	$50,000
Borrowings outside the U.S., varying from 6.60% to 10.25% (1996) and 5.75% to 10.25% (1995), due in installments through 2003	13,472	21,070
Lease of office facilities with terms expiring through 2011 at 6.75% to 7.55%	12,654	14,547
Other	7,476	10,558
Total term debt and capital leases	73,602	96,175
Less current maturities:		
Term debt	(16,016)	(15,782)
Capital leases	(1,527)	(1,693)
Total current maturities	(17,543)	(17,475)
Long-term debt and capital leases	$56,059	$78,700

Future principal maturities of term debt are $16.0 million, $11.4 million, $11.3 million, $15.0 million and $1.3 million, respectively, in fiscal years 1997 through 2001.

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:	
1997	$ 1,527
1998	1,527
1999	1,527
2000	1,527
2001	1,527
After 2001	11,286

Total future minimum lease payments	18,921
Less amount representing interest	(6,267)
Present value of minimum lease payments	$12,654

Future minimum lease payments under operating leases with noncancelable terms beyond one year were not significant at June 30, 1996.

NOTE 7:

NOTES PAYABLE AND LINES OF CREDIT

Notes payable to banks of $57.5 million and $53.6 million at June 30, 1996 and 1995, respectively, represent short-term borrowings under U.S. and international credit lines with commercial banks. These credit lines totaled approximately $230 million at June 30, 1996, of which $172 million was unused. The weighted average interest rate for short-term borrowings was 5.6 percent and 6.1 percent at June 30, 1996 and 1995, respectively.

The company has available U.S. credit lines totaling $115 million that are covered by two revolving credit agreements. The primary revolving credit agreement allows the company to borrow up to $90 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.

NOTE 8:

INCOME TAXES

Effective July 1, 1993, the company adopted SFAS No. 109, "Accounting for Income Taxes," which resulted in the recognition of net deferred tax liabilities of $5.6 million for temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes and net operating loss carryforwards in certain international operations. In connection with the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the company recognized additional deferred tax assets at July 1, 1993, of $13.9 million. The net effect of these accounting changes resulted in the recognition of net deferred tax assets of $8.3 million and an increase in net income of $5.1 million in 1994.

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

(in thousands)	1996	1995	1994
Income before taxes:			
United States	$ 76,020	$ 83,401	$ 39,095
International	37,612	29,893	(12,680)
Total income before taxes	$113,632	$113,294	$ 26,415
Current income taxes:			
Federal	$ 28,100	$ 26,500	$ 15,000
State	5,500	6,100	3,100
International	1,800	4,000	(900)
Total	35,400	36,600	17,200
Deferred income taxes	8,500	8,400	(1,700)
Provision for income taxes	$ 43,900	$ 45,000	$ 15,500
Effective tax rate	38.6%	39.7%	58.7%

Note: Excluding the effects of the restructuring charge, the effective tax rate was 39.1 percent in 1994.

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)	1996	1995	1994
Income taxes at U.S. statutory rate	$39,772	$39,653	$ 9,245
State income taxes, net of federal tax benefits	3,575	3,981	2,018
Combined tax effects of international income	(2,942)	1,288	2,883
International losses with no related tax benefits	421	219	2,325
Other	3,074	(141)	(971)

Provision for income taxes	$43,900	$45,000	$15,500

Deferred tax assets and liabilities consisted of the following:

(in thousands)	1996	1995
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$35,985	$52,923
Other postretirement benefits	14,649	14,122
Inventory valuation and reserves	6,836	6,643
Accrued vacation compensation	3,965	3,680
Property and equipment	2,547	2,866
Other accruals	6,571	4,463
Accumulated depreciation	(20,611)	(20,998)
Total	49,942	63,699
Less valuation allowance	(4,176)	(5,706)
Net deferred tax assets	$45,766	$57,993

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, 1996.

Included in deferred tax assets at June 30, 1996, are unrealized tax benefits totaling $36.0 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 $31.8 million relates to net operating loss carryforwards in Germany, which can be carried forward indefinitely. The company's operations in Germany are currently 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 $4.2 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)	1996	1995	1994
Service cost	$ 6,722	$ 5,906	$ 5,777
Interest cost	13,688	13,016	12,345
Return on plan assets	(45,888)	(37,746)	(8,885)
Net amortization and deferral	24,682	17,628	(11,099)
Net pension credit	$ (796)	$(1,196)	$(1,862)

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

(in thousands)	1996	1995
Plan assets, at fair value	$269,380	$231,007
Present value of accumulated benefit obligations:		
Vested benefits	151,209	131,552
Nonvested benefits	2,144	2,933
Accumulated benefit obligations	153,353	134,485
Effect of future salary increases	44,369	40,550
Projected benefit obligations	197,722	175,035
Plan assets in excess of projected benefit obligations	71,658	55,972
Amounts not recognized in the financial statements:		
Unrecognized net assets from July 1, 1986	(14,509)	(16,689)
Unrecognized prior service costs	826	909
Unrecognized net gains	(52,312)	(36,037)

Prepaid pension costs	$ 5,663	$ 4,155

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:

	1996	1995
Discount rate	7.50%	8.00%
Rate of future salary increases	4.50%	5.00%
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)	1996	1995	1994
Service cost	$ 735	$ 231	$143
Interest cost	1,573	967	833
Net pension cost	$2,308	$1,198	$976

The return on plan assets and the net amortization and deferral in 1996 were $661 and $45, respectively. Similar amounts for 1995 and 1994 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, 1996		June 30, 1995	
	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets
Plan assets, at fair value	$8,274	$ --	$7,456	$ --
Present value of accumulated benefit obligations:				
Vested benefits	5,602	10,922	5,213	11,314
Nonvested benefits	13	2,618	12	2,555
Accumulated benefit obligations	5,615	13,540	5,225	13,869
Effect of future salary increases	1,383	584	1,287	143
Projected benefit obligations	6,998	14,124	6,512	14,012
Plan assets greater (less than) projected benefit obligations	1,276	(14,124)	944	(14,012)
Amounts not recognized in the financial statements:				
Unrecognized net assets	(905)	--	(944)	--
Unrecognized net gains	(413)	--	--	--
Net pension liability	$ (42)	$(14,124)	$ --	$(14,012)

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

In connection with the acquisition of Hertel, the company assumed the unfunded vested benefit obligations of Hertel.

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

	1996	1995

Discount rate	8.00%-7.50%	8.00%-7.75%
Rate of future salary increases	5.50%-4.50%	5.50%-5.00%
Rate of return on plan assets	9.00%	9.00%

Total pension cost (credit) for U.S. and international plans amounted to $2.1 million, $0.8 million and $(1.2) million in 1996, 1995 and 1994, 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 are also 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.

Effective July 1, 1993, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under the new standard, the expected cost of providing such benefits must be accrued during the periods in which employees render the necessary service. The company previously expensed these costs as incurred. The cumulative effect of the change in accounting method resulted in a one-time charge to earnings of $34 million ($20.1 million after taxes) in 1994.

The components of other postretirement benefit costs for the company's U.S. plans were as follows (excluding the one-time charge in 1994):

(in thousands)	1996	1995	1994
Service cost	$1,100	$ 959	$1,080
Interest cost	2,661	2,626	2,820
Net amortization and deferral	--	(32)	--
Other postretirement benefit costs	$3,761	$3,553	$3,900

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

(in thousands)	1996	1995
Present value of accumulated benefit obligations:		
Retirees	$21,333	$19,692
Fully eligible active participants	6,862	6,335
Other active participants	9,321	8,604
Accumulated benefit obligations	37,516	34,631
Plan assets, at fair value	--	--
Accumulated benefit obligations in excess of plan assets	37,516	34,631
Unrecognized net gains	626	2,231
Accrued postretirement benefits	$38,142	$36,862

Included in other noncurrent liabilities were accrued postretirement benefits of $35.1 million and $33.5 million at June 30, 1996 and 1995, respectively.

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

	1996	1995
Discount rate	7.50%	8.00%
Rate of increase in health care costs:		
Initial rate	8.50%	9.00%
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 $0.2 million in 1996 and the accumulated benefit obligation by $1.7 million at June 30, 1996.

In 1995, the company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under this standard, employers must accrue the cost of separation and other benefits provided to former or inactive employees after employment but before retirement. The company's previous practice was to generally accrue these costs as they arose. The adoption of this standard did not have a material effect on the results of operations or financial position of the company. Postemployment benefit costs were not significant in 1996 and 1995.

NOTE 11:
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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 will construct a new headquarters at an estimated cost of $20 million. The relocation is being made to globalize key functions and to provide a more efficient corporate structure. The action will affect approximately 300 employees in Raleigh, N.C., all of whom have been 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 have not been included in the one-time charge and will be included in operating expenses as incurred. The costs related to these items are estimated to be approximately $9 million pretax and will be incurred during the next two years.

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.

NOTE 12:
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FINANCIAL INSTRUMENTS

FAIR VALUE. The company had $17.1 million in cash and equivalents at June 30, 1996, which approximates fair value because of the short maturity of these investments.

The estimated fair value of term debt was $62.5 million at June 30, 1996. 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 currency forward 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, 1996.

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, 1996, the company had no significant concentrations of credit risk.

NOTE 13:
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STOCK ISSUANCE AND STOCK SPLIT

On August 1, 1994, the company's Board of Directors authorized a 2-for-1 stock split in the form of a 100 percent stock dividend payable to shareholders of record on August 10, 1994. The split resulted in the issuance in 1994 of approximately 14.7 million shares of capital stock from authorized and unissued shares. The stock split also resulted in the transfer of $18.4 million from additional paid-in capital to capital stock, representing the par value of the shares issued. All references to the number of shares and per share amounts were restated to reflect the split.

On December 23, 1993, the company issued approximately 4 million shares of capital stock for net proceeds of $73.6 million. The proceeds were used to repay a bridge loan and certain borrowings under revolving credit agreements.

NOTE 14:

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STOCK OPTIONS

Under stock option plans approved by shareholders in 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, and no options may be granted under the 1992 plan after October 2002. 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 $0.9 million (22,740 shares), $0.4 million (13,728 shares) and $1.2 million (62,934 shares) were delivered in 1996, 1995 and 1994, respectively.

Under the 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 1996, 1995 and 1994 (see also Note 2).

Transactions under the company's stock option plans were as follows:

Number of Shares	1996	1995	1994	1996 Option Prices Per Share
Options outstanding, beginning of year	521,148	475,650	914,616	$24.75-14.50
Granted	580,500	204,950	100,000	37.06
Exercised	(105,904)	(157,452)	(508,966)	24.75-14.50
Lapsed and forfeited	(1,500)	(2,000)	(30,000)	37.06
Options outstanding, end of year	994,244	521,148	475,650	$37.06-16.00
Exercisable at year-end	960,970	281,482	235,504	$37.06-16.00
Available for future grant	275,710	754,820	961,290	

NOTE 15:
- --------
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 16:
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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 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)	1996	1995	1994
Sales:			
United States	$ 784,295	$ 726,977	$610,320
International	430,962	390,358	296,702
Total	1,215,257	1,117,335	907,022
Intersegment transfers:			
United States	97,343	92,939	70,005
International	37,951	40,523	34,504
Total	135,294	133,462	104,509
Net sales	$1,079,963	$ 983,873	$802,513
Operating income:			
United States	$ 79,517	$ 95,228	$ 47,560
International	42,861	36,769	(8,263)
Eliminations	(527)	(5,024)	(1,362)
Total operating income	121,851	126,973	37,935
Interest expense	(11,296)	(12,793)	(13,811)
Other income (expense)	3,077	(886)	2,291
Income before taxes	$ 113,632	$ 113,294	$ 26,415
Identifiable assets:			
United States	$ 495,452	$ 462,812	$422,517
International	313,340	336,193	279,558
Eliminations	(28,500)	(31,001)	(26,455)
Corporate	19,199	13,605	21,912
Total assets	$ 799,491	$ 781,609	$697,532

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 $21.4 million, $27.4 million and $22.7 million in 1996, 1995 and 1994, 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 1996:				
Net sales	$254,903	$259,174	$286,095	$279,791
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
FISCAL 1995:				
Net sales	$218,838	$230,335	$268,064	$266,636
Gross profit	90,787	94,621	119,225	118,373

Net income	10,668	11,873	22,150	23,603
Earnings per share	0.40	0.45	0.84	0.89

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 9, 1996, was 2,863. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended			
(in thousands, except per share)	Sep. 30	Dec. 31	Mar. 31	Jun. 30
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
FISCAL 1995:				
High	$28	$29	$28 5/8	$35 3/4
Low	24 1/8	23 1/4	23	26 3/4
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, which is distributed annually to all employees.

/s/ ROBERT L. MCGEEHAN

Robert L. McGeehan
President and
Chief Executive Officer

/s/ RICHARD J. ORWIG

Richard J. Orwig
Vice President
Chief Financial and Administrative Officer

[REPORT OF AUDIT COMMITTEE]

TO THE SHAREHOLDERS OF KENNAMETAL INC.

The Audit Committee of the Board of Directors is composed of three independent directors and met six times during fiscal year 1996.

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

[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, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1996. 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, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

As discussed in Notes 8 and 10 to the consolidated financial statements, effective July 1, 1993, the company changed its methods of accounting for income taxes and postretirement benefits other than pensions.

/s/ ARTHUR ANDERSEN LLP
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Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 22, 1996

[TEN-YEAR FINANCIAL HIGHLIGHTS]

(dollars in thousands, except per share data)	Notes	10-YR CAGR	1996	1995	1994
OPERATING RESULTS					
Net sales		11.8%	$1,079,963	$983,873	$802,513
Cost of goods sold		11.1	625,473	560,867	472,533
Research and development expenses		5.7	20,585	18,744	15,201
Selling, marketing and distribution expenses		13.2	242,375	219,271	189,487
General and administrative expenses		8.4	65,417	55,853	58,612
Interest expense		3.9	11,296	12,793	13,811
Unusual or nonrecurring items	(1)	n.m.	2,666	--	24,749
Provision for income taxes		71.5	43,900	45,000	15,500
Accounting changes, net of tax	(2)	n.m.	--	--	15,003
Net income (loss)	(3)	61.7	69,732	68,294	(4,088)
FINANCIAL POSITION					
Net working capital		7.9%	$ 217,651	$184,072	$130,777
Inventories		9.0	204,934	200,680	158,179
Property, plant and equipment, net		7.7	267,107	260,342	243,098
Total assets		10.3	799,491	781,609	697,532
Long-term debt, including capital leases		(2.1)	56,059	78,700	90,178

Total debt, including capital leases		5.1	131,151	149,730	147,295
Total shareholders' equity	(4)	11.1	438,949	391,885	322,836
PER SHARE DATA					
Earnings (loss)	(3)	56.4%	$ 2.62	$ 2.58	$ (0.17)
Dividends		3.4	0.60	0.60	0.58
Book value (at year-end)		8.0	16.44	14.75	12.25
Market price (at year-end)		11.4	34.00	34.50	24.63
OTHER DATA					
Capital expenditures		9.1%	$ 57,556	$ 43,371	$ 27,313
Number of employees (at year-end)		4.2	7,260	7,030	6,600
Average sales per employee		7.9	$ 152	$ 146	$ 125
Average shares outstanding (in thousands)	(4)	2.6	26,635	26,486	24,304
KEY RATIOS					
Sales growth			9.8%	22.6%	34.1%
Gross profit margin			42.1	43.0	41.1
Operating profit margin			11.7	13.1	8.3
Return on sales	(3)		6.5	6.9	n.m.
Return on equity	(3)		17.0	19.3	n.m.
Total debt to capital			23.0	27.6	31.3
Dividend payout	(5)		27.5	37.9	62.8
Inventory turnover			3.0x	3.1x	3.1x

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

Note
1. Unusual charges (credits) reflect restructuring charges 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 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 and excludes unusual charges (credits).

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[TEN-YEAR FINANCIAL HIGHLIGHTS CONTINUED]

(dollars in thousands, except per share data)	1993	1992	1991	1990	1989	1988	1987
OPERATING RESULTS							
Net sales	$598,496	$594,533	$617,833	$589,023	$472,200	$419,900	$354,450
Cost of goods sold	352,773	362,967	358,529	342,434	274,929	244,026	205,682
Research and development expenses	14,714	13,656	14,750	13,325	11,969	9,757	10,265
Selling, marketing and distribution expenses	144,850	137,494	136,319	123,286	94,934	84,820	72,400
General and administrative expenses	41,348	45,842	49,219	42,648	31,443	29,497	29,767
Interest expense	9,549	10,083	11,832	10,538	8,960	8,601	7,246
Unusual or nonrecurring items	(1,738)	--	6,350	--	--	--	--
Provision for income taxes	14,000	8,100	17,300	23,000	20,900	19,100	14,400
Accounting changes, net of tax	--	--	--	--	--	--	--
Net income (loss)	20,094	12,872	21,086	32,113	29,994	24,319	17,200
FINANCIAL POSITION							
Net working capital	$120,877	$108,104	$ 88,431	$108,954	$ 91,032	$ 99,565	$102,271
Inventories	115,230	118,248	119,767	114,593	105,033	96,473	92,232
Property, plant and equipment, net	192,305	200,502	193,830	175,523	166,390	161,788	139,815
Total assets	448,263	472,167	476,194	451,379	383,252	359,258	326,994
Long-term debt, including capital leases	87,891	95,271	73,113	81,314	57,127	74,405	72,085
Total debt, including capital leases	110,628	127,954	130,710	116,212	95,860	103,982	93,303
Total shareholders' equity	255,141	251,511	243,535	231,598	204,465	186,238	166,190
PER SHARE DATA							
Earnings (loss)	$ 0.93	$ 0.60	$ 1.00	$ 1.54	$ 1.45	$ 1.19	$ 0.85

Dividends	0.58	0.58	0.58	0.58	0.56	0.52	0.485
Book value (at year-end)	11.64	11.64	11.42	11.02	9.84	9.04	8.15
Market price (at year-end)	16.75	17.13	17.81	17.25	15.88	18.38	15.44
OTHER DATA							
Capital expenditures	$ 23,099	$ 36,555	$ 55,323	$ 35,998	$ 28,491	$ 46,336	$ 34,111
Number of employees (at year-end)	4,850	4,980	5,360	5,580	5,420	4,990	4,760
Average sales per employee	$ 122	$ 116	$ 113	$ 107	$ 94	$ 85	$ 75
Average shares outstanding (in thousands)	21,712	21,452	21,094	20,872	20,696	20,526	20,322
KEY RATIOS							
Sales growth	0.7%	(3.8)%	4.9%	24.7%	12.5%	18.5%	(0.3)%
Gross profit margin	41.1	38.9	42.0	41.9	41.8	41.9	42.0
Operating profit margin	7.5	5.8	9.6	11.4	12.5	12.3	10.3
Return on sales	3.4	2.2	3.4	5.5	6.4	5.8	4.9
Return on equity	8.1	5.2	8.7	14.9	15.4	13.9	10.9
Total debt to capital	30.2	33.7	34.9	33.4	31.9	35.8	36.0
Dividend payout	65.4	52.4	41.7	41.6	48.1	58.6	65.2
Inventory turnover	3.1x	3.0x	3.0x	3.1x	2.9x	2.4x	2.3x

EXHIBIT 21

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 AG	Germany
Kennametal Hardpoint H.K. Ltd.	Hong Kong
Kobe Kennametal K.K.	Japan
Kennametal de Mexico, S.A. de C.V.	Mexico
Kennametal Hertel (Singapore) Pte. Ltd.	Singapore
Kennametal Hardpoint (Taiwan) Inc.	Taiwan
Kennametal GTS Co., Ltd.	Thailand
Adaptive Technologies Corp.	Michigan, United States
J&L America Inc.	Michigan, United States
CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG	
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel France S.A.	France
Kennametal Hertel G.m.b.H.	Germany
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands

EXHIBIT 23

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 and Form S-8, Registration No. 33-65023, 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) and the Performance Bonus Stock Plan of 1995. It should be noted that we have not audited any financial statements of the Company subsequent to June 30, 1996 or performed any audit procedures subsequent to the date of our report.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
September 18, 1996

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This schedule contains summary financial information extracted from the
June 30, 1996 Consolidated Financial Statements and is qualified in its
entirety by reference to such financial statements.

1,000

YEAR
JUN-30-1996
JUL-1-1995
JUN-30-1996
17,090
0
199,116
9,296
204,934
436,464
571,507
304,400
799,491
218,813
0
0
0
36,712
402,237
799,491
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1,079,963
625,473
625,473
22,181
1,810
11,296
113,632
43,900
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0
69,732
2.62
0