FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002

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)	(I.R.S. Employer Identification No.)

WORLD HEADQUARTERS
1600 TECHNOLOGY WAY
P.O. BOX 231
LATROBE, PENNSYLVANIA 15650-0231
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (724) 539-5000

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). YES [X] NO [ ]

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

Title Of Each Class	Outstanding at January 31, 2003
Capital Stock, par value $1.25 per share	35,208,346

KENNAMETAL INC.
FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Six Months Ended December 31, 2002	Six Months Ended December 31, 2001
OPERATIONS				
Net sales	$ 431,731	$ 380,338	$ 835,949	$ 786,992
Cost of goods sold	294,248	263,873	567,497	540,688
Gross profit	137,483	116,465	268,452	246,304
Operating expense	115,677	93,139	220,512	193,016
Restructuring and asset impairment charge	8,561	17,128	8,380	18,706
Amortization of intangibles	1,300	689	2,114	1,379
Operating income	11,945	5,509	37,446	33,203
Interest expense	9,594	8,290	18,079	17,655
Other (income)				

expense, net
(1,721) 105
(1,127)
(165) ------
---- -------
--- --------
-- ---------
- Income
(loss)
before
provision
for income
taxes and
minority
interest
4,072
(2,886)
20,494
15,713
Provision
for income
taxes 893
(923) 6,148
5,029
Minority
interest 709
497 1,047
701 --------
-- ---------
- ----------

Income
(loss)
before
cumulative
effect of
change in
accounting
principle
2,470
(2,460)
13,299 9,983
Cumulative
effect of
change in
accounting
principle,
net of tax
of $2,389 --
-- --
(250,406) --
-------- ---
------- ----
------ -----
----- Net
income
(loss) $
2,470 $
(2,460) $
13,299 $
(240,423)
==========
==========
==========
==========
PER SHARE
DATA Basic
earnings
(loss) per
share before
cumulative
effect of
change in
accounting
principle $
0.07 $
(0.08) $
0.38 $ 0.32
Cumulative
effect of
change in

accounting
principle
per share --
-- -- (8.09)
---------- -
--------- --
-------- ---

Basic
earnings
(loss) per
share $ 0.07
$ (0.08) $
0.38 $
(7.77)
==========
==========
==========
==========
Diluted
earnings
(loss) per
share before
cumulative
effect of
change in
accounting
principle $
0.07 $
(0.08) $
0.38 $ 0.32
Cumulative
effect of
change in
accounting
principle
per share --
-- -- (7.98)
---------- -
--------- --
-------- ---

Diluted
earnings
(loss) per
share $ 0.07
$ (0.08) $
0.38 $
(7.66)
==========
==========
==========
==========
Dividends
per share $
0.17 $ 0.17
$ 0.34 $
0.34
==========
==========
==========
==========
Basic
weighted
average
shares
outstanding
35,126
30,926
35,086
30,958
==========
==========
==========
==========
Diluted
weighted
average
shares
outstanding
35,414

30,926
35,379
31,405
==========
==========
==========
==========

The accompanying notes are an integral part of these
condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31, 2002	June 30, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and equivalents	$ 18,155	$ 10,385
Marketable equity securities available-for-sale	8,232	10,728
Accounts receivable, less allowance for doubtful accounts of $24,714 and $12,671	199,261	179,101
Inventories	403,530	345,076
Deferred income taxes	80,204	71,375
Other current assets	45,636	20,719
Total current assets	755,018	637,384
Property, plant and equipment:		
Land and buildings	245,635	227,539
Machinery and equipment	917,491	847,196
Less accumulated depreciation	(683,060)	(639,619)
Net property, plant and equipment	480,066	

435,116 ---- -------- --- ---------
Other assets: Investments in affiliated companies 12,276 11,681
Intangible assets, less accumulated amortization of $77,689 and $75,390 478,060 367,992
Other 92,661 71,438 ----- ------- ---- --------
Total other assets 582,997 451,111 ---- -------- --- ---------
Total assets $ 1,818,081 $ 1,523,611 ============ ============
LIABILITIES
Current liabilities: Current maturities of long-term debt and capital leases $ 2,816 $ 16,554
Notes payable to banks 14,775 6,926
Accounts payable 92,114 101,586
Accrued income taxes 12,356 4,066
Accrued vacation pay 31,118 28,190
Accrued payroll 28,594 22,696
Other current liabilities 99,658 82,082 ----- ------- ---- --------
Total current liabilities 281,431 262,100 ---- -------- --- ---------
Long-term debt and capital leases, less current

maturities
599,425
387,887
Deferred
income taxes
46,801
52,570
Pension and
other post-
employment
benefits
124,909
87,027 Other
liabilities
10,192 9,394

Total
liabilities
1,062,758
798,978 ----
-------- ---

Minority
interest in
consolidated
subsidiaries
17,594
10,671 -----
------- ----

SHAREOWNERS'
EQUITY
Preferred
stock, no
par value;
5,000 shares
authorized;
none issued
-- --
Capital
stock, $1.25
par value;
70,000
shares
authorized;
37,458 and
37,383
shares
issued
46,822
46,729
Additional
paid-in
capital
499,672
491,263
Retained
earnings
308,441
307,631
Treasury
shares, at
cost; 2,302
and 2,573
shares held
(68,922)
(72,026)
Unearned
compensation
(9,487)
(4,856)
Accumulated
other
comprehensive
loss
(38,797)
(54,779) ---
--------- --

Total

shareowners'
equity
737,729
713,962 ----
-------- ---

Total
liabilities
and
shareowners'
equity $
1,818,081 $
1,523,611
============
============

The accompanying notes are an integral part of these
condensed consolidated financial statements.

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended December 31,	
	2002	2001
OPERATING ACTIVITIES		
Net income (loss)	$ 13,299	$ (240,423)
Adjustments for non-cash items:		
Depreciation	37,866	35,924
Amortization	2,114	1,379
Restructuring and asset impairment charges	(181)	12,526
Cumulative effect of change in accounting principle, net of tax	--	250,406
Stock-based compensation expense	4,189	6,057
Other	2,328	(362)
Changes in certain assets and liabilities (excluding acquisitions)		
Accounts receivable	26,811	57,511
Accounts receivable securitization	4,100	(12,200)
Inventories	13,500	7,913
Accounts payable and accrued liabilities	(33,680)	(25,866)
Other	5,065	(21,884)
Net cash flow provided by operating activities	75,411	70,981
INVESTING ACTIVITIES		

Purchases of property, plant and equipment (22,011) (20,114) Disposals of property, plant and equipment 843 3,525 Acquisition, net of cash (184,936) -- Purchase of subsidiary stock (6,426) -- Other 865 (6,356) ---------- ---------- Net cash flow used for investing activities (211,665) (22,945) ---------- ---------- FINANCING ACTIVITIES Net decrease in notes payable (10,318) (19,134) Net decrease in revolver and other lines of credit (21,700) (16,122) Term debt borrowings 186,807 81 Term debt repayments (3,053) (585) Purchase of treasury stock -- (12,417) Dividend reinvestment and employee benefit and stock plans 2,530 9,237 Cash dividends paid to shareowners (12,489) (10,814) Other (514) (665) ---------- ---------- Net cash flow provided (used) for financing activities 141,263 (50,419) ---------- ---------- Effect of exchange rate changes on cash and equivalents 2,761 (143) ---------- ---

------- CASH AND EQUIVALENTS Net increase (decrease) in cash and equivalents 7,770 (2,526) Cash and equivalents, beginning of year 10,385 12,940 ---------- ---------- Cash and equivalents, end of period $ 18,155 $ 10,414 ========== ========== SUPPLEMENTAL DISCLOSURES Interest paid $ 16,499 $ 17,300 Income taxes (refunded) paid (1,831) 22,572 Increase in fair value of interest rate swap 18,822 -- Businesses acquired: Fair value of assets acquired 283,403 -- Liabilities assumed 112,059 --

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943 and maintains its world headquarters in Latrobe, Pennsylvania. Kennametal Inc. and its subsidiaries (collectively, "Kennametal") is a leading global manufacturer, marketer and distributor of a broad range of cutting tools, tooling systems, supplies and technical services, as well as wear-resistant parts. We believe that our reputation for manufacturing excellence and technological expertise and innovation in our principal products has helped us achieve a leading market presence in our primary markets. We believe we are the second largest global provider of metalcutting tools and tooling systems. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool and farm machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with the Notes to Consolidated Financial Statements included in our 2002 Annual Report. The condensed consolidated balance sheet as of June 30, 2002 was derived from the audited balance sheet included in our 2002 Annual Report. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair presentation were made and all adjustments are normal, recurring adjustments. The results for the six months ended December 31, 2002 and 2001 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. When used in this Form 10-Q, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries. We reclassified certain amounts in the prior years' consolidated financial statements to conform with the current year presentation.

3. ACQUISITIONS

On August 30, 2002, we purchased the Widia Group (Widia) in Europe and India from Milacron Inc. for EUR188 million ($185.3 million) subject to a purchase price adjustment based on the change in net assets of Widia from December 31, 2001 to the closing date. The total purchase price of $186.1 million includes the actual purchase price of $185.3 million plus $5.1 million of direct acquisition costs ($1.2 million paid in fiscal year 2002 and $3.9 million paid during the six month period ended December 31, 2002) less $4.3 million of acquired cash. We financed the acquisition with funds borrowed under our new three-year, multi-currency, revolving credit facility which we entered into on June 27, 2002 with a group of financial institutions. The acquisition of Widia improves our global competitiveness, strengthens our European position and represents a strong platform for increased penetration in Asia. Widia's operating results have been included in our consolidated results for the second quarter and first half of fiscal 2003 since the acquisition date of August 30, 2002. As further discussed in Note 12, Kennametal has signed a settlement agreement with respect to the calculation of the post-closing purchase price adjustment.

In accordance with SFAS No. 141, "Business Combinations", we accounted for the acquisition using the purchase method of accounting. Accordingly, the preliminary purchase price allocations have been made based upon an estimated fair value of net assets acquired resulting in the initial recognition of approximately $62 million of goodwill and $36 million of other intangibles. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" the goodwill will not be amortized but will instead be subject to an annual impairment test. The preliminary purchase price allocations are subject to adjustment and may be modified within one year from the acquisition when additional information concerning asset and liability valuations are obtained. Subsequent changes are not expected to have a material effect on our consolidated financial position.

The unaudited pro forma consolidated financial data presented below gives effect to the Widia acquisition as if it had occurred as of the beginning of each period presented. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable, including additional interest expense and amortization that resulted from the transaction, net of any applicable income tax effects. The unaudited pro forma consolidated financial data is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated on the date indicated, nor are they indicative of future operating results. Except for actions actually taken as of and since the close of the transaction and for which any related impact would be included in the actual results through the period end, anticipated cost savings have not been reflected in this pro forma presentation. The unaudited pro forma consolidated financial data should be read in conjunction with the historical consolidated financial statements and accompanying notes.

Pro Forma Consolidated Financial Data	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Six Months Ended December 31, 2002	Six Months Ended December 31, 2001
Net sales	$ 431,731	$ 439,350	$ 871,343	$ 901,526
Income (loss) before cumulative effect of change in accounting principle	2,470	(5,571)	8,658	6,243
Net income (loss)	2,470	(5,571)	8,658	(244,163)
Basic earnings (loss) per share before cumulative effect of change in accounting				

principle 0.07 (0.18) 0.25 0.20
Basic earnings (loss) per share 0.07 (0.18) 0.25 (7.89)
Diluted earnings (loss) per share before cumulative effect of change in accounting principle 0.07 (0.18) 0.24 0.20
Diluted earnings (loss) per share 0.07 (0.18) 0.24 (7.77)

Additionally, during the first quarter of the current year, we acquired the remaining nine percent minority interest of our subsidiary in Poland for total consideration of $0.2 million. This subsidiary is now wholly-owned by Kennametal. During the second quarter of the current year, we acquired an additional one percent ownership interest from minority shareowners of our subsidiary in Germany bringing our ownership to 99.2 percent for a total consideration of $3.9 million. An additional payment of $2.3 million was made during the second quarter related to minority shareowners that sold their shares in the prior year. Total goodwill resulting from these transactions is $5.2 million.

4. INVENTORIES

Inventories are stated at the lower of cost or market. We use the last-in, first-out (LIFO) method for determining the cost of a significant portion of our U.S. inventories. The cost for the remainder of our inventories is determined under the first-in, first-out (FIFO) or average cost methods. We used the LIFO method of valuing inventories for approximately 42 and 49 percent of total inventories at December 31, 2002 and June 30, 2002, respectively. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

Inventories as of the balance sheet dates consisted of the following (in thousands):

	December 31, 2002	June 30, 2002
Finished goods	$ 295,777	$ 260,783
Work in process and powder blends	105,544	91,871
Raw materials and supplies	34,771	34,452
Inventory at current cost	436,092	387,106
Less: LIFO valuation	(32,562)	(42,030)
Total inventories	$ 403,530	$ 345,076

5. ENVIRONMENTAL MATTERS

We are involved in various environmental cleanup and remediation activities at several of our manufacturing facilities. In addition, we are currently named as a potentially responsible party (PRP) at the Li Tungsten Superfund site in Glen Cove, New York. In December 1999, we recorded a remediation reserve of $3.0 million with respect to our involvement in these matters, which was recorded as a component of operating expense. This represents our best estimate of the undiscounted future obligation based on our evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. We recorded this liability because certain events occurred, including the identification of other PRPs, an assessment of potential remediation solutions and direction from the government for the remedial action plan that clarified our level of involvement in these matters and our relationship to other PRPs. This led us to conclude that it was probable a liability had been incurred. At December 31, 2002, we have an accrual of $2.8 million remaining relative to this environmental issue. No cash payments have been made nor additional charges incurred against this reserve during the current quarter and six months ended December 31, 2002.

In addition to the amount currently reserved, we may be subject to loss contingencies related to these matters estimated to be up to an additional $3.0 million. We believe that such undiscounted unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities for all environmental concerns could change substantially in the near term due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by government agencies on these matters.

Additionally, we also maintain reserves for other potential environmental issues associated with our Greenfield operations and a location operated by our German subsidiary. At December 31, 2002, the total of these accruals was $1.5 million and represents anticipated costs associated with the remediation of these issues. No cash payments have been made against this reserve during the quarter.

We maintain 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, we have established an EH&S administrator at all our global manufacturing facilities. Our 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 basis, we establish or adjust financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standard (SFAS) No. 5, "Accounting for Contingencies."

6. EARNINGS PER SHARE

Basic earnings per share is computed using the weighted average number of shares outstanding during the period, while diluted earnings per share is calculated to reflect the potential dilution that occurs related to issuance of capital stock under stock option grants. The difference between basic and diluted earnings per share relates solely to the effect of capital stock options.

For purposes of determining the number of diluted shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised stock options by 287,701 for the three months ended December 31, 2002 and 292,918 and 446,791 for the six months ended December 31, 2002 and 2001, respectively. For the three months ended December 31, 2001, the effect of unexercised stock options is anti-dilutive and accordingly is excluded from the diluted loss per share calculation. Unexercised stock options to purchase our capital stock of 1.7 million and 1.2 million shares for the three months ended December 31, 2002 and 2001, respectively, and 1.7 million and 1.1 million for the six months ended December 31, 2002 and 2001, respectively, are not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price for the respective period.

7. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) for the three and six months ended December 31, 2002 and 2001 is as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Income (loss) before cumulative effect of change in accounting principle	$ 2,470	$ (2,460)	$ 13,299	$ 9,983
Cumulative effect of change in accounting principle, net of tax	--	--	--	(250,406)
Unrealized gain (loss) on derivatives designated and qualified as cash flow hedges, net of tax	(2,122)	1,044	(680)	(489)
Reclassification of unrealized gain (loss) on matured				

derivatives,
net of tax
1,267 (414)
1,345 (1,050)
Unrealized loss
on marketable
equity
securities
available-for-
sale, net of
tax (654) (341)
(1,243) (2,626)
Minimum pension
liability
adjustment, net
of tax (161)
127 (151) (154)
Foreign
currency
translation
adjustments
19,219 (1,417)
16,711 3,835 --
-------- ------
---- ----------

Comprehensive
income (loss) $
20,019 $
(3,461) $
29,281 $
(240,907)
==========
==========
==========
==========

The components of accumulated other comprehensive after-tax loss consist of the following (in thousands):

December 31, 2002	Pre-tax	Tax	After-Tax
Unrealized loss on marketable equity securities available-for-sale	$ (2,795)	$ (1,062)	$ (1,733)
Unrealized loss on derivatives designated and qualified as cash flow hedges	(8,276)	(3,145)	(5,131)
Minimum pension liability adjustment	(7,439)	(2,823)	(4,616)
Foreign currency translation adjustments	(35,192)	(7,875)	(27,317)
Total	$ (53,702)	$ (14,905)	$ (38,797)

June 30, 2002	Pre-tax	Tax	After-Tax

Unrealized loss on marketable equity securities available-for-sale	$ (791)	$ (301)	$ (490)
Unrealized loss on derivatives designated and qualified as cash flow hedges	(9,339)	(3,543)	(5,796)
Minimum pension liability adjustment	(7,195)	(2,730)	(4,465)
Foreign currency translation adjustments	(47,520)	(3,492)	(44,028)
Total	$ (64,845)	$ (10,066)	$ (54,779)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill attributable to each segment at December 31, 2002 and June 30, 2002 is as follows (in thousands):

	December 31, 2002	June 30, 2002
MSSG	$ 221,058	$ 147,157
AMSG	166,592	167,542
J&L Industrial Supply	39,649	39,649
Full Service Supply	4,707	4,707
Total	$ 432,006	$ 359,055

The increase in the goodwill carried by the Metalworking Solutions and Services Group (MSSG) is associated with the acquisition of Widia and the acquisition of outstanding minority interests of our subsidiaries in Germany and Poland.

Material amounts of recorded goodwill attributable to each of our reporting units were tested for impairment during 2002 by comparing the fair value of each reporting unit with its carrying value. This testing resulted in a 2002 non-cash, net of tax, charge of $250.4 million, specific to the electronics (Advanced Materials Solutions Group (AMSG) segment - $82.1 million) and the industrial product group (MSSG segment - $168.3 million) businesses, which were acquired in 1998 as part of the acquisition of Greenfield Industries. The initial phase of the impairment tests were performed within six months of adoption of SFAS No. 142, or June 30, 2002, and are required at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the June quarter of each fiscal year, in connection with our annual budgeting process.

The components of our other intangible assets are as follows (in thousands), the remaining lives of which range from one to fifteen years.

	December 31, 2002		June 30, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract based prior to the acquisition date	$ 12,149	$ (10,585)	$ 11,910	$ (9,488)
Estimated intangibles associated with Widia	38,816	(840)	--	--
Technology based and other	3,374	(2,606)	3,374	(2,423)
Intangible pension asset	5,746	--	5,564	--
Total	$ 60,085	$ (14,031)	$ 20,848	$ (11,911)

9. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

2003 WORKFORCE RESTRUCTURING PROGRAM In October 2002, we announced a global salaried workforce reduction of five percent. The reduction is expected to cost between $9 million and $10 million. The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

Accrual
Accrual at

	at June 30, 2002	Expense	Cash Expenditures	December 31, 2002
Employee severance	$ --	$ 6,413	$ (1,756)	$ 4,657
Total	$ --	$ 6,413	$ (1,756)	$ 4,657

The restructuring accrual at December 31, 2002 represents expected future cash payments for these obligations.

WIDIA INTEGRATION In connection with the integration of Widia, we have implemented two integration programs (Kennametal Integration Restructuring Program and Widia Integration) which together are expected to result in a global headcount reduction of between 650 and 700 positions, approximately 80% of which is expected to be completed in 2003. We will also close four manufacturing facilities and two warehouses.

KENNAMETAL INTEGRATION RESTRUCTURING PROGRAM In connection with the integration of Widia, we have implemented an integration restructuring program. This program will include both employee severance and facility rationalization costs associated with existing Kennametal facilities.

The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Cash Expenditures	Accrual at December 31, 2002
Employee severance	$ --	$ 2,133	$ (45)	$ 2,088
Total	$ --	$ 2,133	$ (45)	$ 2,088

The restructuring accrual at December 31, 2002 represents future cash payments for these obligations.

WIDIA INTEGRATION PLAN In connection with the acquisition, we have established a Widia integration plan that will consolidate certain Widia and Kennametal operations and functions. This integration plan is to establish centers of excellence in functional areas and enable long-term growth and competitive advantages. Certain costs that are incurred under this plan will be accounted for under EITF 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination." As a result, certain costs associated with the Widia Integration Plan will be recorded under purchase accounting. During the second quarter we recorded a liability of $2.7 million and made cash payments of $1.9 million.

WIDIA RESTRUCTURING In connection with our acquisition of Widia, we assumed $2.4 million of restructuring accruals related to restructuring programs initiated by Widia prior to the acquisition date. These programs, initiated in December 2001, relate to the severance of 156 European employees in both production and administration. The accrual balance at December 31, 2002 of $1.5 million represents a decrease of $0.9 million related to cash payments made during the quarter.

2002 AMSG AND MSSG RESTRUCTURING In November 2001, we announced a restructuring program whereby we expected to recognize special charges of $15 to $20 million, including period costs, for the closure of three manufacturing locations and the relocation of the production of a certain product line to another plant, and associated workforce reductions. This was done in response to continued steep declines in the end market demand in the electronics and industrial products groups businesses. Additionally, we implemented other worldwide workforce reductions and facility closures in these segments in reaction to the declines in our end markets. All initiatives under this program have been implemented and all charges have been taken. Total restructuring and asset impairment charges of $17.3 million were recognized in 2002 and $2.5 million were recognized as a component of cost of goods sold in 2002.

We implemented the measures associated with the closing and consolidation of the AMSG electronics facility in Chicago, IL, and MSSG industrial product group's Pine Bluff, AR, and Monticello, IN locations, the production of a particular line of products in Rogers, AR and several customer service centers. The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Expense Adjustment	Cash Expenditures	Accrual at December 31, 2002
Facility rationalizations	$ 2,977	$ 15	$ (110)	$ (1,519)	$ 1,363
Employee severance	1,220	110	--	(980)	350
Total	$ 4,197	$ 125	$ (110)	$ (2,499)	$ 1,713

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The restructuring accrual at December 31, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next two quarters.

2002 AND 2001 J&L AND FSS BUSINESS IMPROVEMENT PROGRAM In the J&L segment for the September 2001 quarter, we recorded a restructuring and asset impairment charge of $1.6 million, including $1.1 million for severance of 20 individuals, $0.3 million for facility closures and $0.2 million for closure of the German operations. In the Full Service Supply (FSS) segment for the first quarter of 2001, we recorded a nominal restructuring charge for severance related to five individuals. Total restructuring and asset impairment charges of $2.5 million and $0.6 million were recognized in 2001 for J&L and FSS, respectively.

In 2002, we continued our J&L and FSS business improvement programs initiated in 2001. In the J&L segment during 2002, we recorded restructuring and asset impairment charges of $5.3 million related to the write-down of a portion of the value of a business system, $2.5 million for severance for 81 individuals and $1.7 million related to the closure of 10 satellites and two call centers. In the FSS segment for 2002, we recorded restructuring charges of $0.7 million for severance related to 34 individuals.

All initiatives under this business improvement program have been implemented and all charges have been taken. There were no charges related to this program during the current quarter. The components of the restructuring accrual at December 31, 2002, for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Cash Expenditures	Accrual at December 31, 2002
J&L business improvement program:				
Employment severance	$ 366	$ --	$ (366)	$ --
Facility closures	794	--	(740)	54
FSS business improvement program:	228	--	(147)	81
Total	$ 1,388	$ --	$ (1,253)	$ 135

The restructuring accrual at December 31, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next quarter.

2001 CORE-BUSINESS RESIZE PROGRAM In 2001, we took actions to reduce our salaried workforce in response to the weakened U.S. manufacturing sector. As a result of implementing this core-business resize program, we recorded a restructuring charge of $4.6 million, related to severance for 209 individuals. All initiatives under these programs have been implemented. The restructuring accrual at December 31, 2002 of $0.2 million represents projected payments, the majority of which are expected to occur over the next two quarters.

2000 RESTRUCTURING PROGRAM In 2000, we announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated workforce reductions as part of our overall plan to increase asset utilization and financial performance, and to reposition ourselves to become the premier tooling solutions supplier. The components of the charges were $4.8 million for asset impairment charges, $7.4 million for employee severance, $6.3 million for facility rationalizations and $0.1 million for product rationalization. As of December 31, 2002, $0.1 million remains accrued for facility rationalizations and is expected to be paid within the next two quarters.

We continue to review our business strategies and pursue other cost-reduction activities in all business segments, some of which could result in future charges.

10. SEGMENT DATA

We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L Industrial Supply (J&L) and Full Service Supply (FSS), and corporate functional shared services. Our external sales, intersegment sales and operating income by segment for the three and six months ended December 31, 2002 and 2001 are as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
External sales:				
MSSG	$ 280,646	$ 218,078	$ 526,148	$ 441,035
AMSG	72,682	71,614	151,999	154,619
J&L	48,076	56,003	96,283	115,124
FSS	30,327	34,643	61,519	76,214
Total external sales	$ 431,731	$ 380,338	$ 835,949	$ 786,992
Intersegment sales:				
MSSG	$ 26,491	$ 25,876	$ 52,470	$ 57,609
AMSG	7,616	5,874	14,506	12,080
J&L	488	478	1,051	1,069

FSS 761 668
1,532 1,356

Total
intersegment
sales $
35,356 $
32,896 $
69,559 $
72,114
==========
==========
==========
==========
Total
sales: MSSG
$ 307,137 $
243,954 $
578,618 $
498,644
AMSG 80,298
77,488
166,505
166,699 J&L
48,564
56,481
97,334
116,193 FSS
31,088
35,311
63,051
77,570 ----
------ ----
------ ----
------ ----

Total sales
$ 467,087 $
413,234 $
905,508 $
859,106
==========
==========
==========
==========
Operating
income
(loss):
MSSG $
18,017 $
17,410 $
42,332 $
42,081 AMSG
5,716 (652)
16,396
9,711 J&L
1,722
(3,665)
3,886
(2,933) FSS
(332) 247
(351) 1,419
Corporate
and
eliminations
(13,178)
(7,831)
(24,817)
(17,075) --
-------- --
-------- --
-------- --

Total
operating
income $
11,945 $
5,509 $

37,446 $
33,203
==========
==========
==========
==========

11. NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. The adoption of this standard, effective July 1, 2002, had no material impact on the results of our operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this statement are effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of this standard effective July 1, 2002, had no material impact on the results of our operations or financial position.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued. This statement updates, clarifies and simplifies existing accounting pronouncements. While the technical corrections to existing pronouncements are not substantive in nature, in some instances they may change accounting practice. The provisions of this standard related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. Prospectively, as a result of the adoption of SFAS No. 145, debt extinguishment costs previously classified as extraordinary items will be reclassified as interest expense.

SFAS No. 146, "Accounting for Exit or Disposal Activities," was issued in July 2002. SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of SFAS No. 146 includes (1) costs to terminate contracts that are not capital leases; (2) costs to consolidate facilities or relocate employees; and (3) termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of this statement will be effective for disposal activities initiated after December 31, 2002, with early application encouraged. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies, relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In January 2003, SFAS No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure," was issued. This statement amends FASB Statement No. 123, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, the Statement amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. The amendments to APB Opinion No. 28 are effective for financial reports containing Condensed Financial Statements for interim periods beginning after December 15, 2002. We will adopt the amendments to APB Opinion No. 28 and disclosures provisions of SFAS No. 148 effective January 1, 2003.

12. SUBSEQUENT EVENT

On February 12, 2003, Milacron Inc. and Kennametal signed a settlement agreement with respect to the calculation of the post-closing purchase price adjustment for the Widia acquisition pursuant to which Milacron is to pay us approximately Euro 18.8 million ($20.2 million) in cash no later than February 24, 2003. The purchase price adjustment of $20.2 million has been reflected in these financial statements as a reduction to goodwill.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SALES

Sales for the December 2002 quarter were $431.7 million, an increase of 14 percent from $380.3 million in the year-ago quarter. Included in the current quarter were $56.4 million of sales contributed by the acquired Widia entities. Excluding the positive benefit of Widia and other acquisitions and divestitures of 14 percent and the favorable foreign currency effects of one percent, sales declined one percent from the prior year. Declining North American and European sales associated with continued weak industrial markets were partially offset by improved Asian sales.

Sales for the six months ended December 31, 2002 were $836.0 million compared to $787.0 million in the same period a year ago, an increase of six percent. Included in the six month period were $77.9 million of sales contributed by the acquired Widia entities. Excluding the positive benefits of Widia and other acquisition and divestitures of nine percent and the favorable foreign currency effects of one percent, sales declined four percent. Sales in North America contributed to the majority of this decline due to weak market conditions. In local currency and excluding the Widia acquisition, European sales also declined due to weak market conditions throughout Europe.

GROSS PROFIT MARGIN

The gross profit margin for the December 2002 quarter was 31.8 percent, a 120 basis point increase compared with 30.6 percent in the year-ago quarter. The increase is a result of favorable raw material prices, manufacturing efficiencies from the Kennametal Lean Enterprise initiatives and a benefit from foreign currency exchange offset, in part, by a combination of lower Widia margins, unfavorable product mix and $1.6 million in decreased pension income.

Consolidated gross profit margin was 32.1 percent for the six months ended December 31, 2002, compared with 31.3 percent in the same period a year ago. Gross profit margin was affected by the factors mentioned above.

OPERATING EXPENSE

Operating expense for the December 2002 quarter was $115.7 million compared to $93.1 million of a year ago. Approximately $17.1 million of this increase is associated with the acquired Widia units. Excluding the incremental expense for all acquisitions and divestitures of $15.9 million, unfavorable foreign exchange of $2.6 million, $1.3 million of Widia integration activities, and accounting for last year's temporary cost reduction actions including a week off without pay for salaried employees, operating expense remained flat. Additionally, increased insurance costs negatively pressured operating expense when compared to the prior year.

For the six months ended December 31, 2002, operating expense was $220.5 million, an increase of 14.2 percent, compared to the same period a year ago. Excluding $19.7 million of expense associated with all acquisitions and divestitures, unfavorable foreign exchange of $4.8 million and $1 million in decreased pension income, and accounting for last year's temporary cost reduction actions including a week off without pay for salaried employees, operating expense declined by a nominal amount.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGE

2003 WORKFORCE RESTRUCTURING PROGRAM In October 2002, we announced a global salaried workforce reduction of five percent. The reduction is expected to cost between $9 million and $10 million, and is anticipated to generate in excess of $10 million in cash savings during the remainder of fiscal 2003. The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Cash Expenditures	Accrual at December 31, 2002
Employee severance	$ --	$ 6,413	$ (1,756)	$ 4,657
Total	$ --	$ 6,413	$ (1,756)	$ 4,657

The restructuring accrual at December 31, 2002 represents expected future cash payments for these obligations.

WIDIA INTEGRATION In connection with the integration of Widia, we have implemented two integration programs (Kennametal Integration Restructuring Program and Widia Integration) which together are expected to result in a global headcount reduction of between 650 and 700 positions, approximately 80% of which is expected to be completed in 2003. We will also close four manufacturing facilities and two warehouses.

KENNAMETAL INTEGRATION RESTRUCTURING PROGRAM In connection with the integration of Widia, we have implemented an integration restructuring program. This program will include both employee severance and facility rationalization costs associated with existing Kennametal facilities.

The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Cash Expenditures	Accrual at December 31, 2002
Employee				

severance	$ --	$ 2,133	$ (45)	$ 2,088
Total	$ --	$ 2,133	$ (45)	$ 2,088

The restructuring accrual at December 31, 2002 represents future cash payments for these obligations.

WIDIA INTEGRATION PLAN In connection with the acquisition, we have established a Widia integration plan that will consolidate certain Widia and Kennametal operations and functions. This integration plan is to establish centers of excellence in functional areas and enable long-term growth and competitive advantages. Certain costs that are incurred under this plan will be accounted for under EITF 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination." As a result, certain costs associated with the Widia Integration Plan will be recorded under purchase accounting. During the second quarter, we recorded a liability of $2.7 million and made cash payments of $1.9 million.

WIDIA RESTRUCTURING In connection with our acquisition of Widia, we assumed $2.4 million of restructuring accruals related to restructuring programs initiated by Widia prior to the acquisition date. These programs, initiated in December 2001, relate to the severance of 156 European employees in both production and administration. The accrual balance at December 31, 2002 of $1.5 million represents a decrease of $0.9 million related to cash payments made during the quarter.

2002 AMSG AND MSSG RESTRUCTURING In November 2001, we announced a restructuring program whereby we expected to recognize special charges of $15 to $20 million, including period costs, for the closure of three manufacturing locations and the relocation of the production of a certain product line to another plant, and associated workforce reductions. This was done in response to continued steep declines in the end market demand in the electronics and industrial products groups businesses. Additionally, we implemented other worldwide workforce reductions and facility closures in these segments in reaction to the declines in our end markets. All initiatives under this program have been implemented and all charges have been taken. Total restructuring and asset impairment charges of $17.3 million were recognized in 2002 and $2.5 million were recognized as a component of cost of goods sold in 2002.

We implemented the measures associated with the closing and consolidation of the AMSG electronics facility in Chicago, IL, and MSSG industrial product group's Pine Bluff, AR, and Monticello, IN locations, the production of a particular line of products in Rogers, AR and several customer service centers. The components of the restructuring accrual at December 31, 2002 for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Expense Adjustment	Cash Expenditures	Accrual at December 31, 2002
Facility rationalizations	$ 2,977	$ 15	$ (110)	$ (1,519)	$ 1,363
Employee severance	1,220	110	--	(980)	350
Total	$ 4,197	$ 125	$ (110)	$ (2,499)	$ 1,713

The restructuring accrual at December 31, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next two quarters.

2002 AND 2001 J&L AND FSS BUSINESS IMPROVEMENT PROGRAM In the J&L segment for the September 2001 quarter, we recorded a restructuring and asset impairment charge of $1.6 million, including $1.1 million for severance of 20 individuals, $0.3 million for facility closures and $0.2 million for closure of the German operations. In the Full Service Supply (FSS) segment for the first quarter of 2001, we recorded a nominal restructuring charge for severance related to five individuals. Total restructuring and asset impairment charges of $2.5 million and $0.6 million were recognized in 2001 for J&L and FSS, respectively.

In 2002, we continued our J&L and FSS business improvement programs initiated in 2001. In the J&L segment during 2002, we recorded restructuring and asset impairment charges of $5.3 million related to the write-down of a portion of the value of a business system, $2.5 million for severance for 81 individuals and $1.7 million related to the closure of 10 satellites and two call centers. In the FSS segment for 2002, we recorded restructuring charges of $0.7 million for severance related to 34 individuals.

All initiatives under this business improvement program have been implemented and all charges have been taken. There were no charges related to this program during the current quarter. The components of the restructuring accrual at December 31, 2002, for this program are as follows (in thousands):

	Accrual at June 30, 2002	Expense	Cash Expenditures	Accrual at December 31, 2002
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FSS business improvement program:	228	--	(147)	81
Total	$ 1,388	$ --	$ (1,253)	$ 135

The restructuring accrual at December 31, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next two quarters.

2001 CORE-BUSINESS RESIZE PROGRAM In 2001, we took actions to reduce our salaried workforce in response to the weakened U.S. manufacturing sector. As a result of implementing this core-business resize program, we recorded a restructuring charge of $4.6 million, related to severance for 209 individuals. All initiatives under these programs have been implemented. The restructuring accrual at December 31, 2002 of $0.2 million represents projected payments, the majority of which are expected to occur over the next quarter.

2000 RESTRUCTURING PROGRAM In 2000, we announced plans to close, consolidate or downsize several plants, warehouses and offices, and associated workforce reductions as part of our overall plan to increase asset utilization and financial performance, and to reposition ourselves to become the premier tooling solutions supplier. The components of the charges were $4.8 million for asset impairment charges, $7.4 million for employee severance, $6.3 million for facility rationalizations and $0.1 million for product rationalization. As of December 31, 2002, $0.1 million remains accrued for facility rationalizations and is expected to be paid within the next two quarters.

We continue to review our business strategies and pursue other cost-reduction activities in all business segments, some of which could result in future charges.

INTEREST EXPENSE

Interest expense for the December 2002 quarter increased 15.7 percent to $9.6 million from $8.3 million a year ago. This increase was primarily due to the greater average level of borrowings during the current quarter due to the additional borrowings of $185.3 million incurred to fund the Widia acquisition. For the six months ended December 31, 2002, interest expense increased approximately 2.4 percent to $18.1 million for the same reasons. Our average U.S. borrowing rate for the quarter and six month period was 5.47 and 5.52 percent, respectively, compared to 5.02 and 5.28 percent for the three month and six month periods of a year ago. The increase is due primarily to the ten-year note issue, partially offset by lower short-term interest rates.

OTHER (INCOME) EXPENSE, NET

For the three months ended December 31, 2002 and 2001, other income was $1.7 million versus other expense of $0.1 million, respectively. Included in this line item were fees of $0.5 million and $0.6 million, respectively, incurred in connection with the accounts receivable securitization program. The decline in these fees is due to lower interest rates in the commercial paper market. The remainder of the increase is due to increased interest income of $0.6 million, as a result of an increase in cash and marketable securities, and foreign exchange gains of $1.3 million.

For the six months ended December 31, 2002 and 2001, other income, net was $1.1 million and $0.2 million, respectively. Fees associated with the accounts receivable securitization program declined $0.4 million to $1.1 million in 2003 due to the factor mentioned above. The other significant components of the increase was due to higher foreign exchange gains of $0.7 million and an increase in interest income of $0.9 million.

INCOME TAXES

The effective tax rate for the three and six months ended December 31, 2002 was 21.9 percent and 30.0 percent, respectively, compared to an effective rate of 32.0 percent for the three and six month period ended December 31, 2001. Management has updated the tax provision to reflect the impact of the Widia acquisition on our effective tax rate.

CHANGE IN ACCOUNTING PRINCIPLE

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective July 1, 2001, which establishes new accounting and reporting requirements for goodwill and other intangible assets, including new measurement techniques for evaluating the recoverability of such assets. Under SFAS No. 142, all goodwill amortization ceased effective July 1, 2001. Material amounts of recorded goodwill attributable to each of our reporting units, including those affected by the restructuring program announced in November 2001, were tested for impairment by comparing the fair value of each reporting unit with its carrying value. As a result of the adoption of this rule, we recorded a non-cash, net of tax charge of $250.4 million, or $7.98 per diluted share specific to the electronics (AMSG segment - $82.1 million) and the industrial product group (MSSG segment - $168.3 million) businesses, which were acquired in 1998 as part of the acquisition of Greenfield Industries. The fair values of these reporting units were determined using a combination of discounted cash flow analysis and market multiples based upon historical and projected financial information. Under SFAS No. 142, the impairment adjustment recognized at adoption of this standard was reflected as a cumulative effect of a change in accounting principle, effective July 1, 2001.

NET INCOME

Net income for the quarter ended December 31, 2002 was $2.5 million, or $0.07 per diluted share, compared to a net loss of $2.5 million, or $0.08 per diluted share, in the same quarter last year. Excluding special charges in each period, net income was $9.4 million, or $0.27 per diluted share, in the December 2002 quarter, compared to net income of $10.0 million, or $0.32 per diluted share, in the December 2001 quarter. The decline in earnings is attributable to the dilutive effect of the Widia acquisition, partially offset by improved margins.

Net income for the six months ended December 31, 2002 was $13.3 million, or $0.38 per diluted share, compared to a net loss of $240.4 million, or $7.66 per diluted share, in the same period last year. Excluding special charges in each period, net income was $20.6 million, or $0.58 per diluted share, in the six months ended December 31, 2002 compared to net income of $23.5 million, or $0.75 per diluted share, in the six months ended December 31, 2001. The decline in earnings is attributable to the factors mentioned above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following table provides a comparison of our reported results, and the results excluding special charges for 2003 and 2002. The results for the current quarter and six months ended December 31, 2002 include the results of the acquired Widia entities subsequent to the acquisition date of August 30, 2002.

QUARTER ENDED DECEMBER 31, (in thousands)	Gross Profit	Operating Income	Net Income / (Loss)	Diluted Earnings/(Loss) Per Share
2002 Reported Results	$ 137,483	$ 11,945	$ 2,470	$ 0.07
MSSG Restructuring	--	4,849	3,394	0.10
AMSG Restructuring	--	2,259	1,577	0.04
Corporate Restructuring	--	958	670	0.02
Widia Integration Costs	54	1,364	970	0.03
J&L Restructuring	--	466	327	0.01
FSS Restructuring	--	29	20	--
2002 Results Excluding Special Items	$ 137,537	$ 21,870	$ 9,428	$ 0.27
2001 Reported Results	$ 116,465	$ 5,509	$ (2,460)	$ (0.08)
MSSG Restructuring	--	6,247	4,248	0.14
AMSG Restructuring	750	5,954	4,049	0.13
Corporate Restructuring	--	157	107	--
J&L Restructuring	399	5,853	3,980	0.13
FSS Restructuring	--	66	44	--

-- ---------- -
--------- 2001
Results
Excluding
Special Items $
117,614 $
23,786 $ 9,968
$ 0.32
==========
==========
==========
==========

SIX MONTHS
ENDED DECEMBER
31, Diluted
Gross Operating
Net Income
Earnings/(Loss)
(in thousands)
Profit Income /
(Loss) Per
Share ---------
- ---------- --
-------- ------
--------- 2002
Reported
Results $
268,452 $
37,446 $ 13,299
$ 0.38 MSSG
Restructuring -
- 4,849 3,394
0.10 AMSG
Restructuring -
- 2,078 1,454
0.04 Corporate
Restructuring -
- 958 670 0.02
Widia
Integration
Costs 54 2,075
1,453 0.03 J&L
Restructuring -
- 466 327 0.01
FSS
Restructuring -
- 29 20 -- ----
------ --------
-- ---------- -
--------- 2002
Results
Excluding
Special Items $
268,506 $
47,901 $ 20,617
$ 0.58
==========
==========
==========
========== 2001
Reported
Results $
246,304 $
33,203 $
(240,423) $
(7.66) MSSG
Restructuring -
- 6,237 4,241
0.14 AMSG
Restructuring
750 5,954 4,049
0.13 Corporate
Restructuring -
- 157 107 --
MSSG (Adoption
of SFAS 142) --
-- 168,314 5.37
AMSG (Adoption

of SFAS 142) --
-- 82,092 2.61
J&L
Restructuring
399 7,471 5,079
0.16 FSS
Restructuring -
- 36 25 -- ----
------ --------
-- ---------- -
--------- 2001
Results
Excluding
Special Items $
247,453 $
53,058 $ 23,484
$ 0.75
==========
==========
==========
==========

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

BUSINESS SEGMENT REVIEW

We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L Industrial Supply (J&L) and Full Service Supply (FSS), and corporate functional shared services.

METALWORKING SOLUTIONS & SERVICES GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
External sales	$ 280,646	$ 218,078	$ 526,148	$ 441,035
Intersegment sales	26,491	25,876	52,470	57,609
Operating income	18,017	17,410	42,332	42,081

MSSG sales grew 29 percent compared to the December 2001 quarter due primarily to the acquisition of Widia. Widia sales contributed $56.4 million in the December quarter. Favorable foreign exchange effects accounted for three percent of the gain due to a weaker U.S. dollar. Excluding Widia and foreign exchange, North America sales were flat, while in Europe, sales were down six percent. This was offset by Asia (also excluding Widia) that was up 12 percent, in local currency. Automotive in North America was strong but showed signs of easing late in the quarter while aerospace remained weak. Light and heavy engineering, machine tool builders and tool and die makers have had modest improvements over the quarter. European markets were similar to North America. Product pricing realization continues to be an issue with increased pressure experienced in both the North American and European markets.

Operating income of $24.2 million increased compared to $23.7 million last year excluding restructuring charges of $4.8 million and $6.2 million in 2002 and 2001, respectively, and integration costs of $1.4 million in 2002. Operating income increased due primarily to Kennametal Lean Enterprise initiatives, lower raw material prices, restructuring benefits, and on-going cost controls offset in part by unfavorable product mix.

For the six months ended December 31, 2002, MSSG sales increased 16 percent compared to the same period last year, excluding favorable foreign exchange effects of three percent due to the weaker U.S. dollar. Most of this increase was associated with the Widia acquisition which contributed $77.9 million in net sales during the six month period. Excluding the Widia acquisition and favorable foreign exchange effects, sales in North America and Europe were down five percent and six percent, respectively, all in local currency. This was offset by increases in sales (excluding Widia) in South America of 73 percent and Asia of 13 percent, all in local currency.

Operating income was $49.3 million compared to $48.3 million last year, excluding restructuring charges of $4.8 million and $6.2 million in 2002 and 2001, respectively, and integration cost of $2.1 million in 2002. The increase in operating income is due to the factors mentioned above.

ADVANCED MATERIALS SOLUTIONS GROUP

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
External sales	$ 72,682	$ 71,614	$ 151,199	$ 154,619
Intersegment sales	7,616	5,874	14,506	12,080
Operating income	5,716	(652)	16,396	9,711

AMSG sales, excluding the Carmet acquisition, and favorable foreign exchange effects of one percent, declined by three percent from the December 2001 quarter. Lower demand for products used for oil and gas exploration and mining contributed to the decline. Improved year-over-year sales in the engineered products markets partially mitigated this decrease, on a local currency basis.

Despite the lower sales, operating income was $8.0 million compared to $5.3 million last year, excluding restructuring costs of $2.3 million and $6 million in 2002 and 2001, respectively. Aggressive cost-cutting measures, including improved manufacturing efficiencies, lower raw material costs, and the benefits derived from the previously-implemented restructuring efforts contributed to the increase in operating income.

Compared to the same period last year, AMSG sales declined six percent in the six months ended December 31, 2002, excluding foreign exchange effects, and excluding the Carmet acquisition. The decline is predominately attributable to weak market conditions in the energy business. Operating income was $18.5 million compared to $15.7 million last year, excluding restructuring costs of $2.1 million and $6.0 million in 2002 and 2001, respectively. The increase is due to the factors mentioned above.

J&L INDUSTRIAL SUPPLY

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
External sales	$ 48,076	$ 56,003	$ 96,283	$ 115,124
Intersegment sales	488	478	1,051	1,069
Operating income	1,722	(3,665)	3,886	(2,933)

J&L sales were flat compared to last year excluding the effects of the Strong Tool divestiture of $8.3 million. Sales for this segment related primarily to automotive and aerospace customers. Operating income was $2.2 million in the December 2002 and 2001 quarters, excluding special charges in both periods. Operating income remained flat due to the continued sales volume and pricing pressures. J&L operating income for the three months ended December 31, 2002 and 2001 was reduced by $0.5 million and $5.9 million related to restructuring charges, respectively.

For the six months ended December 31, 2002, J&L sales declined three percent compared to last year, excluding the effects of the Strong Tool divestiture of $16.4 million, due to slower sales in automotive and aerospace during the first quarter of 2003, although some positive activity was experienced in the automotive market towards the end of the first quarter of 2003 and into the second quarter of 2003. Operating income was $4.4 million for the six months ended December 31, 2002, compared to $4.5 million in the prior year, excluding special charges in each period. J&L operating income for the six months ended December 31, 2002 and 2001 was reduced by $0.5 million and $7.5 million, respectively, related to restructuring and asset impairment charges.

FULL SERVICE SUPPLY

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
External sales	$ 30,327	$ 34,643	$ 61,519	$ 76,214
Intersegment sales	761	668	1,532	1,356
Operating income	(332)	247	(351)	1,419

FSS sales decreased 12 percent compared to last year due to the loss of sales associated with the discontinuance of certain customer relationships. Operating income is lower year-over-year due to the inability of the margins contributed by the reduced volume to cover fixed costs. This issue is being remedied through right-sizing efforts under the 2002 and 2001 FSS Business Improvement Program, as described in Note 9 - Restructuring and Asset Impairment Charges, as well as through a continuous program to reduce operating expense. Additionally, new marketing and business development programs are underway to replace the lost sales.

Compared to the same period last year, FSS sales declined 19 percent for the six months ended December 31, 2002. For the six month period, FSS had an operating loss of $0.4 million, a decline of $1.8 million compared to the same period last year. These declines are due to the same factors as mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flow from operations is the primary source of financing for capital expenditures and internal growth. During the six months ended December 31, 2002, we generated $75.4 million in cash flow from operations, an increase of $4.4 million compared to the year-ago period. The increase resulted primarily from cash generated by a federal income tax refund of $15.0 million offset by an increase in working capital levels.

Net cash used for investing activities was $211.7 million, an increase of $188.7 million compared to the six months ended December 31, 2001. The increase is almost entirely due to the net cost paid for Widia of $184.9 million. Additionally, capital expenditures of $22 million were incurred during the current period. We have projected our capital expenditures for 2003 to be in the range of $50 to $60 million, including Widia, and will be primarily used to support new strategic initiatives, new products and to upgrade machinery and equipment. We believe this level of capital spending is sufficient to maintain competitiveness and improve productivity.

On February 12, 2003, Milacron Inc. and Kennametal signed a settlement agreement with respect to the calculation of the post-closing purchase price adjustment for the Widia acquisition pursuant to which Milacron is to pay us approximately Euro 18.8 million ($20.2 million) in cash no later than February 24, 2003. The purchase price adjustment of $20.2 million has been reflected in these financial statements as a reduction to goodwill.

During the remainder of fiscal 2003, we also expect to incur $50 to $60 million of cash restructuring charges on a pre-tax basis associated with the integration of Widia and with the 2003 salary workforce reduction efforts announced in October 2002. We anticipate that cash provided from operating activities will exceed capital expenditures and cash restructuring charges, and debt will be further reduced throughout fiscal 2003.

Net cash provided from financing activities was $141.3 million, an increase of $191.7 million compared to the same period last year. This increase is due to the incremental borrowings required to finance the Widia acquisition of $184.9 million, partially offset by debt repayments.

In September 2001, we continued our program to repurchase, from time to time, our outstanding capital stock for investment or other general corporate purposes. During the first quarter of the prior fiscal year, we purchased 375,000 shares of our capital stock at a total cost of $12.4 million. No shares were repurchased during the current quarter or the six month period ending December 31, 2002. As a result of last year's repurchases, we had completed our repurchase program announced January 31, 1997 of 1,600,000 shares and brought the total purchased under the authority of the second repurchase program announced in October 2000 to approximately 200,000 shares, of a total 2,000,000 authorized. The repurchases were financed principally by cash from operations and short-term borrowings. Cumulatively, we have repurchased 1,755,900 shares under the authority of these programs. Repurchases may be made from time to time in the open market, in negotiated or other permissible transactions.

FINANCIAL CONDITION

Total assets were $1,818.1 million at December 31, 2002, compared to $1,523.6 million at June 30, 2002. Net working capital was $473.6 million, up 26.2 percent from $375.3 million at June 30, 2002. The increase in total assets (including goodwill) and net working capital is primarily related to the Widia acquisition which increased total assets by $283.4 million and working capital by $63.5 million. The Widia acquisition also was the primary reason for increases in accounts receivable, the allowance for doubtful accounts, inventories, net property, plant and equipment, long-term debt and pension and other post-employment benefits.

Primary working capital as a percentage of sales (PWC%) at December 31, 2002 was 27.5 percent, down from 27.9 percent reported at June 30, 2002 and down slightly from 27.7 percent at December 31, 2001. Inventory turnover increased to 3.0 at December 31, 2002, compared to 2.9 at June 30, 2002 and 3.0 at December 31, 2001, due to continued initiatives aimed at maintaining favorable inventory turns. The total debt-to-total capital ratio increased to 44.9 percent at December 31, 2002 from 36.2 percent at June 30, 2002, primarily due to the borrowings to fund the Widia acquisition.

NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. The adoption of this standard, effective July 1, 2002, had no material impact on the results of our operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this statement are effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of this standard effective July 1, 2002, had no material impact on the results of our operations or financial position.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued. This statement updates, clarifies and simplifies existing accounting pronouncements. While the technical corrections to existing pronouncements are not substantive in nature, in some instances they may change accounting practice. The provisions of this standard related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. Prospectively, as a result of the adoption of SFAS No. 145, debt extinguishment costs previously classified as extraordinary items will be reclassified as interest expense.

SFAS No. 146, "Accounting for Exit or Disposal Activities," was issued in July 2002. SFAS No. 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of SFAS No. 146 includes (1) costs to terminate contracts that are not capital leases; (2) costs to consolidate facilities or relocate employees; and (3) termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of this statement will be effective for disposal activities initiated after December 31, 2002, with early application encouraged. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies, relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In January 2003, SFAS No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure," was issued. This statement amends FASB Statement No. 123, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects of reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, the Statement amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. The amendments to APB Opinion No. 28 are effective for financial reports containing Condensed Financial Statements for interim periods beginning after December 15, 2002. We will adopt the amendments to APB Opinion No. 28 and disclosures provisions of SFAS No. 148 effective January 1, 2003.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the fact they use words such as "should," "anticipate," "estimate," "approximate," "expect," "may," "will," "project," "intend," "plan," "believe" and other words of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements are likely to relate to, among other things, our goals, plans and projections regarding our financial position, results of operations, cash flows, market position and product development, which are based on current expectations that involve inherent risks and uncertainties, including factors that could delay, divert or change any of them in the next several years. Although it is not possible to predict or identify all factors, they may include the following: global economic conditions; risks associated with integrating and divesting businesses and achieving the expected savings and synergies; demands on management resources; risks associated with international markets such as currency exchange rates, and social and political environments; competition; labor relations; commodity prices; demand for and market acceptance of new and existing products, and risks associated with the implementation of restructuring plans and environmental remediation matters. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have experienced certain changes in our exposure to market risk from June 30, 2002.

During the quarter and six months ended December 31, 2002, we recognized a non-cash decrease of $0.6 million and an increase of $18.8 million, respectively, in our long-term debt associated with our fixed-to-floating interest rate swap agreements. In accordance with the accounting mandated by SFAS No. 133, the decline that has occurred in the variable interest rate market over the last six months has necessitated this favorable mark-to-market adjustment of our interest rate swap.

Additionally, as a result of the recent acquisition of Widia, we now have an increased exposure to fluctuations in the value of the Euro. As a result of the acquisition, management believes that there now exists a more balanced distribution of investment in the North American and European markets which is subject to both favorable or unfavorable foreign currency fluctuation.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days before filing this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported in accordance with the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

PART II. OTHER INFORMATION

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

The information set forth in Part II, Item 4 of the Company's September 30, 2002 Form 10-Q is incorporated by reference herein.

ITEM 5. OTHER INFORMATION

During the six-month period ended December 31, 2002, the Audit Committee approved new or recurring engagements of PricewaterhouseCoopers LLP for the following non-audit services: (1) tax compliance and planning; and (2) services related to the Widia acquisition.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Form 10-Q

(10) Material Contracts

(10.1) Purchase Price Adjustment Settlement Agreement and Unconditional Mutual Release dated February 12, 2003 between and among Milacron Inc., Milacron B.V. and Kennametal Inc.

(99) Additional Exhibits

(99.1) Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 executed by Markos I. Tambakeras, Chief Executive Officer of Kennametal Inc. and F. Nicholas Grasberger III, Chief Financial Officer of Kennametal Inc.

(b) Reports on Form 8-K

The following were filed during the quarter ended December 31, 2002.

Form 8-K for the event dated January 28, 2003, reporting under Item 5. Other events and Regulation FD Disclosure regarding the election of Larry Stranghoener to the Board of Directors.

Form 8-K dated January 29, 2003, reported under Item 9. Regulation FD Disclosure regarding the press release announcing second quarter fiscal 2003 financial results.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENNAMETAL INC.

Date: February 14, 2003   By: /s/ TIMOTHY A. HIBBARD

Timothy A. Hibbard
Corporate Controller and
Chief Accounting Officer

CERTIFICATIONS

I, Markos I. Tambakeras, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ MARKOS I. TAMBAKERAS

Markos I. Tambakeras
Chairman, President and
Chief Executive Officer

I, F. Nicholas Grasberger III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ F. NICHOLAS GRASBERGER III

F. Nicholas Grasberger III
Vice President and Chief Financial Officer

EXHIBIT 10.1

Execution Copy

PURCHASE PRICE ADJUSTMENT SETTLEMENT AGREEMENT AND UNCONDITIONAL MUTUAL RELEASE

This Purchase Price Adjustment Settlement Agreement and Unconditional Mutual Release (this "Agreement") is entered as of February 12, 2003 by and among MILACRON INC., a Delaware corporation ("Parent"), Milacron B.V., a company organized under the laws of the Netherlands ("Milacron B.V." and together with Parent, "Seller") and Kennametal Inc., a Pennsylvania corporation ("Purchaser"). Terms used but not defined herein shall have the meanings assigned to them in the Stock Purchase Agreement dated as of May 3, 2002 between Seller and Purchaser (the "Stock Purchase Agreement").

WHEREAS, Parent, Milacron B.V. and Purchaser are parties to the Stock Purchase Agreement pursuant to which Purchaser purchased all the outstanding ordinary shares of Milacron Metalworking Technologies GmbH, Widia Netherland B.V., Milacron Iberica S.L., Milacron U.K. Ltd., Milacron France SAS and Widia Italia S.r.l., on August 30, 2002 (the "Closing Date") for the Purchase Price of E188,282,202;

WHEREAS, Section 1.04(c) of the Stock Purchase Agreement provides that the Purchase Price shall be increased by the amount by which Closing Net Assets exceed E126,865,000 (the "Reference Net Assets"), and the Purchase Price shall be decreased by the amount by which Closing Net Assets are less than the Reference Net Assets; and

WHEREAS, on October 29, 2002, pursuant to Section 1.04(a) of the Stock Purchase Agreement, Seller delivered to Purchaser the Statement setting forth Closing Net Assets; and on November 25, 2002, pursuant to Section 1.04(b) of the Stock Purchase Agreement, Purchaser delivered to Seller a Notice of Objection to Seller's computation of Closing Net Assets.

NOW, THEREFORE, for and in consideration of the mutual promises and undertakings set forth below, and intending to be legally bound hereby, Seller and Purchaser hereby agree as follows:

1. Purchase Price Adjustment.

(a) In full and final settlement of all Purchaser's objections set forth in Purchaser's Notice of Objections, Seller and Purchaser hereby agree that (i) Closing Net Assets are equal to E107,884,000 and that such determination is final and binding, (ii) the Reference Net Assets exceed the Closing Net Assets by the amount of E18,981,000 (the "Adjustment Amount") and (iii) the Adjusted Purchase Price shall be equal to E169,301,202 in accordance with Section 1.04(c) of the Stock Purchase Agreement. In accordance with the terms of the Stock Purchase Agreement, Seller is obligated to pay to Purchaser as a purchase price adjustment an amount equal to the Adjustment Amount together with E281,551.50, representing interest thereon at a rate equal 3% per annum, from the Closing Date to the Payment Date (as defined below).

The Adjustment Amount and interest thereon are sometimes hereinafter referred to as the "Purchase Price Adjustment Amount".

(b) Purchaser and Seller agree that Purchaser is obligated to pay to Seller an amount equal to E400,820 (the "Intercompany Receivables Amount"), representing the net amount of the obligations that Purchaser and Seller are obligated to settle pursuant to Section 5.20(b) of the Stock Purchase Agreement, the calculation of which is set forth on Exhibit A hereto.

(c) In satisfaction of the amounts owed by Seller and Purchaser set forth in paragraphs (a) and (b) of this Section, Seller shall pay to Purchaser an amount of E18,861,731.50 (the "Net Payment Amount"), equal to (i) the Purchase Price Adjustment Amount, minus (ii) the Intercompany Receivables Amount.

2. Payment to Purchaser. Seller shall pay to Purchaser the Net Payment Amount by wire transfer of immediately available funds to the following account:

Bene:	J.P. Morgan Europe Limited, London (CHASGB22)
Bank:	J.P. Morgan AG, Frankfurt
Swift:	CHASDEFX
Acct#:	6001600037
Ref:	Milacron payment to Kennametal Inc.

Seller shall pay the Net Payment Amount no later than February 24, 2003 (the date of such payment, the "Payment Date").

3. Mutual Release of Claims.

(a) Effective immediately upon payment of the Net Payment Amount, (i) Each of Seller and Purchaser agrees that payment of the Net Payment Amount by Seller shall constitute full and final satisfaction of all of Seller's and Purchaser's obligations under Section 1.04(c) of the Stock Purchase Agreement, and (ii) each of Seller and Purchaser agrees that neither Seller nor Purchaser shall have any further rights or obligations under Section 1.04(c) of the Stock Purchase Agreement. Purchaser and Seller expressly ratify and confirm the provisions of the final sentence of Section 1.04(b)(2) of the Stock Purchase Agreement, and Purchaser agrees that it will not make any claim against Seller in respect of any post-Closing Purchase Price adjustment.

(b) Effective immediately upon payment of the Net Payment Amount, (i) each of Seller and Purchaser agrees that payment of the Net Payment Amount by Seller shall constitute full and final satisfaction of all of Seller's and Purchaser's obligations under Section 5.20(b) of the Stock Purchase Agreement, and (ii) each of Seller and Purchaser agrees that neither Seller nor Purchaser shall have any further rights or obligations under Section 5.20(b) of the Stock Purchase Agreement.

(c) Effective immediately upon payment of the Net Payment Amount, Purchaser hereby unconditionally releases Seller and its affiliates, successors and assigns and each of their respective officers, directors, employees, stockholders, agents and representatives (collectively, the "Seller Parties") from all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, covenants, contracts, agreements, promises, damages, claims and demands whatsoever with respect to any matter that Purchaser raised in the Notice of Objection. Purchaser agrees that it will not assert or pursue any claim (including any claim under the Stock Purchase Agreement) against any Seller Party with respect to any matter that Purchaser raised in the Notice of Objection.

(d) Effective immediately upon payment of the Net Payment Amount, Seller acknowledges and agrees that payment of the Net Payment Amount to Purchaser under this Agreement does not result in any Loss to any Seller Indemnitee under the Stock Purchase Agreement.

4. Obligations to Jeff Barrett. Effective immediately upon payment of the Net Payment Amount, Purchaser agrees (a) that Seller shall have no liability for any obligation of any Seller Entity, Acquired Company or any subsidiary thereof (together, the "Preclosing Seller Entities") to Jeff Barrett arising under the employment letter dated December 5, 2000, between Jeff Barrett and Parent (the "Employment Letter") and (b) that Purchaser shall indemnify and hold harmless the Seller Parties for all liability for all obligations to Jeff Barrett arising under the Employment Letter, in each case other than obligations of Preclosing Seller Entities to Jeff Barrett for compensation earned prior to the Closing Date.

5. Purchaser's Representation and Warranty. Purchaser hereby represents and warrants to Seller that, except as set forth on Schedule 5, to Purchaser's Actual Knowledge there exist no facts, conditions or circumstances that, individually or in the aggregate, could reasonably be expected to form the basis of a claim against any Seller Party by any Purchaser Indemnitee under the Stock Purchase Agreement. For purposes of the previous sentence "Actual Knowledge" means the actual knowledge of Timothy A. Hibbard, Stanley B. Duzy, David W. Greenfield or Wayne Moser. Purchaser and Seller acknowledge and agree that the inclusion of any matter on Schedule 5 shall not constitute an agreement on the part of Seller that such matter does, or is of the type that could, give rise to a valid claim under the Stock Purchase Agreement or a waiver of the Seller's right to dispute any claim made in respect of such matter.

6. Entire Agreement. This Agreement, including the Exhibit hereto and the Schedule hereto, constitutes the entire agreement among the parties with respect to the subject matter hereof and thereof and supersedes any previous agreements and understandings between the parties with respect to such matters. Except as expressly set forth herein and therein, the Stock Purchase Agreement is hereby ratified and confirmed in all respects.

7. Section Headings. The descriptive headings of the several sections of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

8. Incorporation by Reference. The recitals to this Agreement are hereby incorporated by reference.

9. Governing Law. This Agreement and any disputes arising under or related thereto (whether for breach of contract, tortious conduct or otherwise) shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflicts of laws principles.

10. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered, in person or by telecopier, receipt acknowledged, to the other parties hereto.

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IN WITNESS WHEREOF, the parties, hereunto duly authorized and having all necessary power and capacity therefor, have executed this Agreement as of the date first above written.

MILACRON INC.

By: /s/ Ronald D. Brown

Name: Ronald R. Brown
Title: Chairman and Chief Executive Officer

MILACRON B.V.

By: /s/ Gerard van Deventer

Name: Gerard van Deventer
Title: Managing Director

KENNAMETAL INC.

By: /s/ David W. Greenfield

Name: David W. Greenfield
Title: Vice President, Secretary and General Counsel

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

/s/ MARKOS I. TAMBAKERAS
- ---
Markos I. Tambakeras
Chairman, President and Chief Executive Officer
Kennametal Inc.

February 14, 2003

/s/ F. NICHOLAS GRASBERGER III
- ---
F. Nicholas Grasberger III
Vice President and Chief Financial Officer
Kennametal Inc.

February 14, 2003

*This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.