FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE FISCAL YEAR ENDED JUNE 30, 1995

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

Commission File Number 1-5318

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

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

Route 981 at Westmoreland County Airport
P. O. Box 231
Latrobe, Pennsylvania 15650
(Address of principal executive offices)

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

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

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

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

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

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

As of August 31, 1995, the aggregate market value of the registrant's Capital Stock held by non-affiliates of the registrant, estimated solely for the purposes of this Form 10-K, was approximately $891,200,000. For purposes of the foregoing calculation only, all directors and executive officers of the registrant and each person who may be deemed to own beneficially more than 5% of the registrant's Capital Stock, have been deemed affiliates.

As of August 31, 1995, there were 26,606,068 shares of Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1995 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

Portions of the Proxy Statement for the 1995 Annual Meeting of Shareholders are incorporated by reference into Parts III and IV.

TABLE OF CONTENTS

PART III

PART IV

PART I

ITEM 1. BUSINESS

Overview

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

Business Segment and Product Classes

The company operates predominantly as a tooling supplier specializing in powder metallurgy, which represents a single business segment. While many of the company's products are similar in composition, sales are classified into three major categories: metalworking products, mining and construction products and metallurgical products. The company's sales by product class are presented on page 23 of the 1995 Annual Report to Shareholders, and such information is incorporated herein by reference. Additional information about the company's operations by geographic area is presented on page 31 of the 1995 Annual Report to Shareholders, and such information is incorporated herein by reference.

Metalworking Products

Kennametal markets, manufactures and distributes a full line of products and services for the metalworking industry. The company provides metalcutting tools, abrasives, precision measuring devices, power tools, hand tools and machine tool accessories to manufacturing companies in a wide range of industries.

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

Mining and Construction Products

Mining and construction cutting tools are fabricated from steel parts and tipped with cemented carbide. Mining tools, used primarily in the coal industry, include longwall shearer and continuous miner drums, blocks, bits, pinning rods, augers and a wide range of mining tool accessories. The company also supplies compacts for mining, quarrying, water well drilling and oil and gas exploration.

Construction cutting tools include carbide-tipped bits for ditching, trenching and road planing; grader blades for site preparation and routine roadbed control and snowplow blades and shoes for winter road plowing.

Metallurgical Products

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

Recent Acquisition

In August 1993, the company acquired an 81 percent interest in Hertel AG ("Hertel") for $43 million in cash and $55 million of assumed debt. Hertel, based in Fuerth, Germany, is a manufacturer and marketer of cemented carbide tools and tooling systems which are similar to the metalcutting tools and tooling systems produced by the company. The acquisition of Hertel has not materially changed the product lines offered by the company. While the company's primary market is the United States, Hertel's primary market is Germany and western Europe. The acquisition of Hertel significantly increased the company's market share in these markets. Hertel had consolidated sales of approximately $201 million for the year ended December 31, 1992.

Since January 1, 1994, the company purchased additional shares of Hertel for $12 million, thereby increasing the company's ownership interest to 91 percent at June 30, 1995.

International Operations

The company's principal international operations are conducted in western Europe and Canada. In addition, the company has joint ventures in Japan, India and Italy, sales offices and sales agents in Asia-Pacific and sales agents and distributors in eastern Europe and other areas of the world. The company's international operations are subject to the usual risks of doing business in those countries, including currency fluctuations and changes in social, political and economic environments. In management's opinion, the company's business is not materially dependent upon any one international location involving significant risk.

The company's international sales are presented on page 23 of the 1995 Annual Report to Shareholders, and such information is incorporated herein by reference. Information pertaining to the effects of foreign currency fluctuations is contained under the caption "Foreign Currency Translation" in the notes to the consolidated financial statements on page 24 of the 1995 Annual Report to Shareholders, and such information is incorporated herein by reference.

Marketing and Distribution

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

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

Competition

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

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

Seasonality

Seasonal variations do not have a major effect on the company's business. However, to varying degrees, traditional summer vacation shutdowns of metalworking customers' plants and holiday shutdowns often affect the company's sales levels during the first and second quarters of its fiscal year.

Backlog

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

Research and Development

The company is involved in research and development of new products and processes. Research and development expenses totaled $18.7 million, $15.2 million and $14.7 million in 1995, 1994 and 1993, respectively. Additionally, certain costs associated with improving manufacturing processes are included in cost of goods sold. The company holds a number of patents and licenses which, in the aggregate, are not material to the operation of the business.

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

Raw Materials and Supplies

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

Employees

The company employed approximately 7,000 persons at June 30, 1995, of which 4,400 were located in the United States and 2,600 in other parts of the world, principally Europe and Canada. Approximately 1,200 employees were represented by labor unions, of which 140 were hourly-rated employees located at plants in the Latrobe, Pennsylvania area. The remaining 1,060 employees represented by labor unions were employed at eight plants located outside of the United States. The company considers its labor relations to be generally good.

Regulation

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

----

* Trademark owned by Kennametal Inc.

ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

(a) On August 13, 1993, the company was served with a Notice of Violation dated August 9, 1993, issued by the United States Environmental Protection Agency ("EPA"). The EPA alleges violations concerning visible emissions from the company's Fallon, Nevada facility. On October 6, 1993, the EPA issued an interim compliance order with respect to this matter. On April 26, 1994, the company was served with a second Notice of Violation dated April 19, 1994, which relates to the first Notice of Violation. The EPA alleges in the second but related notice the violation of a regulation concerning the allowable particulate emission rate. The company has agreed with EPA to pay a civil fine of $425,000 to settle those alleged violations without an admission of liability.

(b) In connection with a Domination Contract with Hertel, under German law, the company is required to offer to minority shareholders to purchase their shares for a reasonable compensation and to guarantee dividends during the term of the Domination Contract (ending June 30, 1996, subject to annual renewals) and to pay to Hertel any net cumulative losses it sustains during the term and has liability to Hertel creditors as if Hertel merged with the company. Minority shareholders are contesting the reasonableness of the purchase price for minority shares and the minimum dividend on minority shares offered by the company in connection with the Domination Contract. It is management's opinion that Hertel has viable defenses to the contest of the reasonableness of the minority share purchase price and minimum dividend and, in any event, that the ultimate outcome of this matter will not have a material adverse effect on the results of operations or financial position of the company.

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

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

During the fourth quarter of fiscal year 1995, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

OFFICERS OF THE REGISTRANT

Name, Age, and Position	Experience During Past Five Years (2)
Robert L. McGeehan, 58 (1) President Chief Executive Officer Director	President and Director since 1989. Chief Executive Officer since October 1, 1991.
David B. Arnold, 56 (1) Vice President Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
James R. Breisinger, 45 Vice President Controller	Vice President since 1990. Renamed Controller in 1994. Managing Director of Europe from 1991 to 1994. Controller from 1983 to 1991.
David T. Cofer, 50 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Richard P. Gibson, 60 Assistant Treasurer Director of Taxes	Assistant Treasurer since 1985. Director of Taxes since 1980.
James W. Heaton, 63 Senior Vice President Director of Customer Satisfaction	Senior Vice President and Director of Customer Satisfaction since 1990.
Richard C. Hendricks, 56 (1) Vice President Director of Corporate Business Development	Vice President since 1982. Director of Corporate Business Development since 1992. General Manager of the Mining and Metallurgical Division from 1990 to 1992.
Timothy D. Hudson, 49 Vice President Director of Human Resources	Vice President since 1994. Director of Human Resources since 1992. Corporate Manager of Human Resources from 1978 to 1992.
H. Patrick Mahanes, Jr., 52 (1) Vice President Chief Operating Officer	Vice President since 1987. Named Chief Operating Officer in 1995. Director of Operations from 1991 to 1995. Director of Metalworking Manufacturing from 1988 to 1991.
Richard V. Minns, 57 Vice President Director of Metalworking Sales, North America	Vice President since 1990. Director of Sales for the Metalworking Systems Division since 1985.
James E. Morrison, 44 Vice President Treasurer	Vice President since 1994. Treasurer since 1987.
Kevin G. Nowe, 43 Assistant Secretary Assistant General Counsel	Joined the company as Assistant General Counsel in 1992 and was elected Assistant Secretary in 1993. Previously was Senior Counsel and Corporate Secretary of Emro Marketing Company in Enon, Ohio.
Richard J. Orwig, 54 (1) Vice President Chief Financial and Administrative Officer	Vice President since 1987. Named Chief Financial and Administrative Officer in 1994. Director of Administration from 1991 to 1994. Director of Human Resources from 1989 to 1991.
Alan G. Ringler, 45 (1) Vice President Director of Metalworking Systems Division	Vice President since 1989. Director of Metalworking Systems Division since 1992. Director of Metalworking, North America, from 1991 to 1992. Managing Director, Europe, from 1990 to 1991.
Michael W. Ruprich, 39 (1)	Vice President and President of J&L

Vice President, Kennametal Inc. President, J&L America Inc.	America Inc. since 1994. General Manager of J&L from 1993 to 1994. National Sales and Marketing Manager from 1992 to 1993. General Manager-East Coast Region from 1990 to 1992.
P. Mark Schiller, 47 Vice President Director of Kennametal Distribution Services	Vice President since 1992. Director of Kennametal Distribution Services since 1990.

Notes:

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

PART II

The information required under Items 5 through 8 is included in the 1995 Annual Report to Shareholders and such information is incorporated herein by reference as indicated by the following table.

	Incorporated by Reference to Captions and Pages of the 1995 Annual Report
Item 5. Market for the Registrant's Capital Stock and Related Stockholder Matters	Quarterly Financial Information (Unaudited) on page 32.
Item 6. Selected Financial Data	Ten-Year Financial Highlights (information with respect to the years 1991 to 1995) on pages 34 and 35.
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion & Analysis on pages 15 to 23.
Item 8. Financial Statements and Supplementary Data	Item 14(a)1. herein and Quarterly Financial Information (Unaudited) on page 32.
Item 9. Changes in and Disagreements on Accounting and Financial Disclosure	Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information set forth in Part I under the caption "Officers of the Registrant," and the information set forth under the caption "Election of Directors" in the company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after June 30, 1995 ("1995 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference is the information set forth under the caption "Compensation of Executive Officers" and certain information regarding directors' fees under the caption "Board of Directors and Board Committees" in the 1995 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the information set forth under the caption "Ownership of Capital Stock by Directors, Nominees and Executive Officers" with respect to the directors' and officers' shareholdings and under the caption "Principal Holders of Voting Securities" with respect to other beneficial owners in the 1995 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the table under the caption "Election of Directors" and under the caption "Certain Transactions" in the 1995 Proxy Statement.

PART IV

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

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

1. Financial Statements

The consolidated balance sheets as of June 30, 1995 and 1994, the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1995,and the notes to consolidated financial statements, together with the report thereon of Arthur Andersen LLP dated July 24, 1995, presented in the company's 1995 Annual Report to Shareholders, are incorporated herein by reference.

2. Financial Statement Schedules

The financial statement schedules shown below should be read in conjunction with the financial statements contained in the 1995 Annual Report to Shareholders. Other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Separate financial statements of the company are omitted because the company is primarily an operating company and all significant subsidiaries included in the consolidated financial statements are wholly-owned, with the exception of Kennametal Hertel AG, in which the company has a 91 percent interest.

Financial Statement Schedules:

Report of Independent Public Accountants

II - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1995

3. Exhibits

(3) Articles of Incorporation and Bylaws

(3.1)	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.
(3.2)	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q is incorporated herein by reference.

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(4.1)	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 is incorporated herein by reference.
(4.2)	Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K is incorporated herein by reference. Note: Copies of instruments with respect to long-term debt or capitalized lease obligations which do not exceed 10% of consolidated assets will be furnished to the Securities and Exchange Commission upon request.

(10) Material Contracts

(10.1)*	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's

		1995 Proxy Statement is incorporated herein by reference.
(10.2)*	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q is incorporated herein by reference.
(10.3)*	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
(10.4)*	Form of Stock Option Agreement with respect to the Plan set forth as Exhibit 10.3 hereof	Exhibit 10.2 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
(10.5)*	Officer employment agreements, as amended and restated	Exhibit 10.3 of the company's 1988 Form 10-K is incorporated herein by reference.
(10.6)*	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K is incorporated herein by reference.
(10.7)*	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K is incorporated herein by reference.
(10.8)*	Form of Employment Agreement with certain executive officers	Exhibit 10.8 of the company's 1990 Form 10-K is incorporated herein by reference.
(10.9)*	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.10)*	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.11)*	Severance Agreement executed by and between Kennametal Inc. and H. L. Dykema	Exhibit 10.11 of the company's 1993 Form 10-K is incorporated herein by reference.
(10.12)	Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.12 of the company's 1993 Form 10-K is incorporated herein by reference.
(10.13)	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.14)	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.15)	Amendment No. 1 dated as of October 26, 1993 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.15 of the company's June 30, 1994 Form 10-K is incorporated herein by reference.
(10.16)	Amendment No. 2 dated as of June 15, 1994 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.16 of the company's June 30, 1994 Form 10-K is incorporated herein by reference.
(13)	Annual Report to Shareholders	Portions of the 1995 Annual Report are filed herewith.

(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Public Accountants	Filed herewith.
(27)	Financial Data Schedule	Filed herewith.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended June 30, 1995.

----

* Denotes management contract or compensatory plan or arrangement.

SIGNATURES

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

KENNAMETAL INC.

By RICHARD J. ORWIG

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

Date: September 19, 1995

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

Signature	Title	Date
QUENTIN C. MCKENNA ----------------------------- Quentin C. McKenna	Chairman of the Board	September 19, 1995
ROBERT L. MCGEEHAN ----------------------------- Robert L. McGeehan	President, Chief Executive Officer and Director	September 19, 1995
JAMES R. BREISINGER ----------------------------- James R. Breisinger	Vice President, Controller and Chief Accounting Officer	September 19, 1995
RICHARD J. ORWIG ----------------------------- Richard J. Orwig	Vice President, Chief Financial and Administrative Officer	September 19, 1995
RICHARD C. ALBERDING ----------------------------- Richard C. Alberding	Director	September 19, 1995
PETER B. BARTLETT ----------------------------- Peter B. Bartlett	Director	September 19, 1995
ROBERT N. ESLYN ----------------------------- Robert N. Eslyn	Director	September 19, 1995
A. PETER HELD ----------------------------- A. Peter Held	Director	September 19, 1995
WARREN H. HOLLINSHEAD ----------------------------- Warren H. Hollinshead	Director	September 19, 1995
ALOYSIUS T. MCLAUGHLIN, JR. ----------------------------- Aloysius T. McLaughlin, Jr.	Director	September 19, 1995
WILLIAM R. NEWLIN		

------------------------------ William R. Newlin	Director	September 19, 1995
LARRY YOST ------------------------------ Larry Yost	Director	September 19, 1995

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders of
Kennametal Inc.

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Kennametal Inc.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated July 24, 1995. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index in Item 14(a)2 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not a part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
July 24, 1995

KENNAMETAL INC. SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

FOR THE THREE YEARS ENDED JUNE 30, 1995

(Dollars in thousands)

		Additions				
Description	Balance at Beginning of Year	Charged to Costs and Expenses	Recoveries	Other Adjustments	Deductions from Reserves (c)	Balance at End of Year
1995						
Allowance for doubtful accounts	$9,328	$1,477	$237	$2,131 (a)	$1,067	$12,106
1994						
Allowance for doubtful accounts	$2,062	$ 608	$334	$6,682 (b)	$ 358	$ 9,328
1993						
Allowance for doubtful accounts	$2,054	$ 754	$247	$ -	$ 993	$ 2,062

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

EXHIBIT INDEX

Exhibit No.		Reference
3.1	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.
3.2	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q is incorporated herein by reference.
4.1	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 is incorporated herein by reference.
4.2	Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K is incorporated herein by reference.
10.1	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1995 Proxy Statement is incorporated herein by reference.
10.2	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q is incorporated herein by reference.
10.3	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
10.4	Form of Stock Option Agreement with respect to the Plan set forth as Exhibit 10.3 hereof	Exhibit 10.2 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
10.5	Officer employment agreements, as amended and restated	Exhibit 10.3 of the company's 1988 Form 10-K is incorporated herein by reference.
10.6	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K is incorporated herein by reference.
10.7	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K is incorporated herein by reference.
10.8	Form of Employment Agreement with certain executive officers	Exhibit 10.8 of the company's 1990 Form 10-K is incorporated herein by reference.
10.9	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.10	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.11	Severance Agreement executed by and between Kennametal Inc. and H.L. Dykema	Exhibit 10.11 of the company's 1993 Form 10-K is incorporated herein by reference.
10.12	Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.12 of the company's 1993 Form 10-K is incorporated herein by reference.
10.13	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.14	Underwriting Agreement	Exhibit 1.2 of the company's

	(International Version)	March 31, 1994 Form 10-Q is incorporated herein by reference.
10.15	Amendment No. 1 dated as of October 26, 1993 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.15 of the company's June 30, 1994 Form 10-K is incorporated herein by reference.
10.16	Amendment No. 2 dated as of June 15, 1994 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.16 of the company's June 30, 1994 Form 10-K is incorporated herein by reference.
13	Annual Report to Shareholders	Portions of the 1995 Annual Report are filed herewith.
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Independent Public Accountants	Filed herewith.
27	Financial Data Schedule	Filed herewith.

EXHIBIT 13

KENNAMETAL INC. 1995 ANNUAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MATTERS AFFECTING COMPARABILITY

HERTEL ACQUISITION. In fiscal 1994, Kennametal acquired 81 percent (subsequently increased to 91 percent during 1995) of the shares of Hertel AG, a manufacturer of metalcutting tools and tooling systems based in Fuerth, Germany. The results of operations for 1994 included the results of Hertel AG and its subsidiaries for 11 months. The fair values of assets acquired and liabilities assumed were $241 million and $194 million, respectively.

RESTRUCTURING OF OPERATIONS. In connection with the acquisition of Hertel, Kennametal incurred a restructuring charge of $24.7 million ($20.4 million after taxes) in 1994 for costs associated with closing its manufacturing facility in Neunkirchen, Germany, and other integration activities.

ACCOUNTING CHANGES. In 1995, Kennametal adopted Statement of Financial Accounting Standards (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits." Under this new accounting rule, employers must accrue the cost of separation and other benefits provided to former or inactive employees after employment but before retirement. The adoption of this standard did not have a material effect on the results of operations or financial position of the company.

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

CONSOLIDATED STATEMENTS OF INCOME

Year Ended June 30	1995	1994	1993
In thousands, except per share data			
OPERATIONS			
Net sales	$983,873	$802,513	$598,496
Cost of goods sold	560,867	472,533	352,773
Gross profit	423,006	329,980	245,723
Research and development expenses	18,744	15,201	14,714
Selling, marketing and distribution expenses	219,271	189,487	144,850
General and administrative expenses	55,853	58,612	41,348
Restructuring charge	-	24,749	-
Amortization of intangibles	2,165	3,996	3,425
Patent litigation settlement	-	-	(1,738)
Operating income	126,973	37,935	43,124
Interest expense	12,793	13,811	9,549
Other income (expense)	(886)	2,291	519
Income before taxes and cumulative effect of accounting changes	113,294	26,415	34,094
Provision for income taxes	45,000	15,500	14,000
Income before cumulative effect of accounting changes	68,294	10,915	20,094
Cumulative effect of accounting changes, net of income taxes:			
Postretirement benefits	-	(20,060)	-
Income taxes	-	5,057	-
Net income (loss)	$ 68,294	$ (4,088)	$ 20,094
PER SHARE DATA			
Earnings before cumulative effect of accounting changes	$ 2.58	$ 0.45	$ 0.93
Cumulative effect of accounting changes:			
Postretirement benefits	-	(0.83)	-
Income taxes	-	0.21	-
Earnings (loss) per share	$ 2.58	$ (0.17)	$ 0.93
Dividends per share	$ 0.60	$ 0.58	$ 0.58

Weighted average shares outstanding	26,486	24,304	21,712
	========	========	========

The accompanying notes are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

RESULTS OF OPERATIONS

NET SALES. Net sales increased 23 percent and 34 percent in 1995 and 1994, respectively. Excluding the acquisition of Hertel, sales in 1994 increased 9 percent. Sales in 1995 rose primarily because of higher sales volume, favorable foreign currency translation effects and modest price increases. Sales in 1994 increased primarily from higher sales volume, partially offset by negative currency translation effects. Sales volume increased 17 percent and 10 percent in 1995 and 1994, respectively.

Sales in the United States increased 17 percent and 18 percent in 1995 and 1994, respectively. Excluding the acquisition of Hertel, sales in the United States increased 14 percent in 1994. International sales rose 33 percent and 78 percent in 1995 and 1994, respectively. Most of the sales increase in 1994 related to the acquisition of Hertel.

Worldwide sales of metalworking products increased 25 percent and 41 percent in 1995 and 1994, respectively. Excluding the acquisition of Hertel, worldwide sales of metalworking products increased 11 percent in 1994. Sales increased primarily due to higher sales volume and modest price increases in both years.

In the United States, sales of traditional metalcutting products increased 16 percent and 11 percent in 1995 and 1994, respectively, primarily because of increased volume. In addition, sales of industrial supplies rose 25 percent and 22 percent, respectively, primarily because of higher sales volume and additional satellite branches in the direct mail operations.

Sales of mining and construction products increased 6 percent and 2 percent in 1995 and 1994, respectively. Increased demand for mining and construction tools in the United States was largely offset by lower international demand. Sales of metallurgical products increased 27 percent and 19 percent, respectively, due to strong demand for carbide intermediate and diamond matrix powders in 1995 and hardfacing products in 1994.

COSTS AND EXPENSES. As a percentage of sales, the gross profit margin was 43.0 percent in 1995 and 41.1 percent in 1994 and 1993. The improvement in 1995 resulted from a better sales mix, favorable foreign currency impacts of international sales manufactured in the United States and improved manufacturing efficiency. In addition, higher raw material costs were generally offset by increased selling prices.

Operating expenses increased 12 percent in 1995 primarily because of costs necessary to support the higher sales volume and increased spending on research and development and marketing activities. Operating expenses increased 31 percent in 1994 primarily because of the acquisition of Hertel. As a percentage of sales, operating expenses declined to 29.9 percent in 1995 as compared with 32.8 percent in 1994 and 33.6 percent in 1993 because of higher sales volume and improved operating efficiency, particularly in Europe.

Average total employment increased 5 percent in 1995 primarily because of increased production levels in the manufacturing operations. Average total employment increased 31 percent in 1994 because of the acquisition of Hertel.

NET INCOME. Net income was $68.3 million, $31.3 million (before the restructuring charge and accounting changes discussed previously) and $20.1 million in 1995, 1994 and 1993, respectively. Earnings increased in 1995 and 1994 primarily because of higher sales volume, a more favorable sales mix and improved operating efficiency. The acquisition of Hertel reduced earnings by $2.6 million in 1994. Earnings in 1995, however, increased substantially as the result of improved economic conditions and the successful turnaround and integration of Hertel in Europe.

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

OUTLOOK. In looking to fiscal 1996, management expects continued growth in sales of metalworking products throughout the world. Sales of metalcutting products in the United States should benefit from continued expansion of the U.S. economy, opportunities in milling and drilling applications, and the strategic marketing alliance with W. W. Grainger.

Sales of industrial supply products should continue to increase from expansion of direct mail and full service supply. Sales in Europe and Asia-Pacific should continue to benefit from the enhanced product offerings and technical expertise of Kennametal and Hertel in those regions.

In addition, sales of mining and construction tools should continue to increase from selected opportunities in existing markets and developing opportunities in China and Poland.

CONSOLIDATED BALANCE SHEETS

As of June 30 In thousands	1995	1994
ASSETS		
Current Assets:		
Cash and equivalents	$ 10,827	$ 17,190
Accounts receivable, less allowance for doubtful accounts of $12,106 and $9,328	175,405	143,691
Inventories	200,680	158,179
Deferred income taxes	22,362	13,744
Total current assets	409,274	332,804
Property, Plant and Equipment:		
Land and buildings	151,905	138,956
Machinery and equipment	365,275	328,696
Less accumulated depreciation	(256,838)	(224,554)
Net property, plant and equipment	260,342	243,098
Other Assets:		
Investments in affiliated companies	6,873	6,393
Intangible assets, less accumulated amortization of $19,009 and $16,540	32,253	32,141
Deferred income taxes	56,629	65,606
Other	16,238	17,490
Total other assets	111,993	121,630
Total assets	$781,609	$697,532
LIABILITIES		
Current Liabilities:		
Current maturities of term debt and capital leases	$ 17,475	$ 4,364
Notes payable to banks	53,555	52,753
Accounts payable	60,211	52,148
Accrued vacation pay	18,424	15,569
Other	75,537	77,193
Total current liabilities	225,202	202,027
Term Debt and Capital Leases, Less Current Maturities	78,700	90,178
Deferred Income Taxes	20,998	19,279
Other Liabilities	51,615	51,800
Total liabilities	376,515	363,284
Minority Interest in Consolidated Subsidiaries	13,209	11,412
SHAREHOLDERS' EQUITY		
Shareholders' Equity:		
Preferred stock, 5,000 shares authorized; none issued	-	-
Capital stock, $1.25 par value; 70,000 and 30,000 shares authorized; 29,370 shares issued	36,712	36,712
Additional paid-in capital	85,768	83,839
Retained earnings	297,838	245,428
Treasury shares, at cost; 2,793 and 3,015 shares held	(36,737)	(39,247)
Cumulative translation adjustments	8,304	(3,360)
Pension liability adjustment	-	(536)
Total shareholders' equity	391,885	322,836
Total liabilities and shareholders' equity	$781,609	$697,532

The accompanying notes are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL CONDITION

Kennametal's financial condition remains strong. Total assets were $782 million in 1995, up 12 percent from $698 million in 1994. Net working capital was $184 million, up 40 percent from the previous year. The ratio of current assets to current liabilities was 1.8 in 1995 as compared with 1.6 in 1994.

Accounts receivable increased 22 percent to $175 million entirely because of increased sales. Inventories rose 27 percent to $201 million to support increased product demand and to maintain adequate supplies of essential raw materials. Inventory turnover was 3.1 in both 1995 and 1994. During the next several years, Kennametal will focus on ways to improve inventory turnover and overall asset utilization.

Total debt (including capital lease obligations) increased 2 percent to $150 million in 1995. The ratio of total debt to total invested capital was 27.6 percent in 1995 as compared with 31.3 percent in 1994. In order to maintain financial flexibility and to optimize the cost of capital, Kennametal's financial objective is to maintain a debt to capital ratio of not more than 40 percent.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30	1995	1994	1993
In thousands			
OPERATING ACTIVITIES			
Net income (loss)	$68,294	$(4,088)	$20,094
Adjustments for noncash items:			
Depreciation and amortization	39,315	43,232	30,927
Other	11,953	14,984	3,202
Changes in certain assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(23,815)	(11,352)	(1,644)
Inventories	(34,389)	9,638	(1,524)
Accounts payable and accrued liabilities	(9,340)	(18,007)	(1,422)
Other	4,615	(4,158)	(7,615)
Net cash flow from operating activities	56,633	30,249	42,018
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(43,371)	(27,313)	(23,099)
Disposals of property, plant and equipment	3,725	6,716	1,460
Acquisition of Hertel AG, net of cash	-	(19,595)	-
Other	(5,268)	(2,344)	(2,373)
Net cash flow used for investing activities	(44,914)	(42,536)	(24,012)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	(5,721)	11,246	(7,310)
Increase in term debt	8,163	5,715	1,000
Reduction in term debt	(9,721)	(64,098)	(9,266)
Net proceeds from issuance of capital stock	-	73,594	-
Dividend reinvestment and employee stock plans	4,439	8,658	4,301
Cash dividends paid to shareholders	(15,884)	(14,015)	(12,579)
Other	-	2,731	1,180
Net cash flow from (used for) financing activities	(18,724)	23,831	(22,674)
Effect of exchange rate changes on cash	642	1,497	(190)
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	(6,363)	13,041	(4,858)
Cash and equivalents, beginning	17,190	4,149	9,007
Cash and equivalents, ending	$10,827	$17,190	$ 4,149
SUPPLEMENTAL DISCLOSURES			
Interest paid	$12,569	$12,403	$ 9,617
Income taxes paid	23,125	16,296	13,232

The accompanying notes are an integral part of these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES

Kennametal's cash flow from operations is a primary source of financing for capital expenditures and internal growth. In addition, the company maintains global credit lines with commercial banks totaling $219 million, of which $165 million was unused at June 30, 1995. The company's non-U.S. subsidiaries and affiliates generally obtain local financing through credit lines with commercial banks.

Kennametal generated net cash flow from operations of $57 million, $30 million and $42 million in 1995, 1994 and 1993, respectively. Cash flow increased in 1995 as a result of increased earnings, which was partially offset by higher working capital requirements. Cash flow decreased in 1994 primarily because of increased working capital requirements and payments for Hertel integration costs.

Capital expenditures totaled $43 million, $27 million and $23 million in 1995, 1994 and 1993, respectively. Investments were made to modernize facilities, upgrade machinery and equipment, and acquire new information technology. Capital expenditures for 1996 are estimated to be $60 - 70 million and will be used primarily to upgrade machinery and equipment and acquire new information technology.

As a public company, Kennametal also maintains access to global capital markets for potential offerings of debt and equity securities. In 1994, Kennametal issued approximately 4 million shares of capital stock for net proceeds of $73.6 million. The proceeds were used to repay a bridge loan ($38.7 million) and certain borrowings under revolving credit agreements ($34.9 million).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Year Ended June 30 In thousands	1995	1994	1993
CAPITAL STOCK			
Balance at beginning of year	$ 36,712	$ 15,891	$ 15,891
Issuance of capital stock	-	2,465	-
Stock split (2-for-1)	-	18,356	-
Balance at end of year	36,712	36,712	15,891
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	83,839	28,135	27,594
Dividend reinvestment and stock purchase plan	1,015	424	144
Employee stock plans	914	2,507	397
Issuance of capital stock	-	71,129	-
Stock split (2-for-1)	-	(18,356)	-
Balance at end of year	85,768	83,839	28,135
RETAINED EARNINGS			
Balance at beginning of year	245,428	263,531	256,016
Net income (loss)	68,294	(4,088)	20,094
Cash dividends	(15,884)	(14,015)	(12,579)
Balance at end of year	297,838	245,428	263,531
TREASURY SHARES			
Balance at beginning of year	(39,247)	(44,974)	(48,734)
Dividend reinvestment and stock purchase plan	938	590	1,567
Employee stock plans	1,572	5,137	2,193
Balance at end of year	(36,737)	(39,247)	(44,974)
CUMULATIVE TRANSLATION ADJUSTMENTS			
Balance at beginning of year	(3,360)	(7,442)	744
Current year translation adjustments	11,664	4,082	(8,186)
Balance at end of year	8,304	(3,360)	(7,442)
PENSION LIABILITY ADJUSTMENT			
Balance at beginning of year	(536)	-	-
Minimum pension liability adjustment	536	(536)	-
Balance at end of year	-	(536)	-
Total shareholders' equity, June 30	$391,885	$322,836	$255,141

======== ======== ========

The accompanying notes are an integral part of these statements.

SALES BY PRODUCT CLASS AND GEOGRAPHIC AREA

Year Ended June 30	1995 Percent of Total	1995 Amount	1995 Percent Change	1994 Amount	1994 Percent Change	1993 Amount
In thousands						
BY PRODUCT CLASS:						
Metalworking products	86%	$844,626	25%	$676,355	41%	$478,137
Mining and construction products	11	108,019	6	101,575	2	99,614
Metallurgical products	3	31,228	27	24,583	19	20,745
Net sales	100%	$983,873	23%	$802,513	34%	$598,496
BY GEOGRAPHIC AREA:						
Within the United States	62%	$606,623	17%	$517,856	18%	$438,910
International	38	377,250	33	284,657	78	159,586
Net sales	100%	$983,873	23%	$802,513	34%	$598,496

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management has prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles. The summary of significant accounting policies within these principles is presented below to assist in evaluating the company's financial statements.

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

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

ACCOUNTS RECEIVABLE included $16.4 million and $6.3 million of receivables from affiliates at June 30, 1995 and 1994, respectively.

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

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

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

INTANGIBLE ASSETS, which include the excess of cost over net assets of acquired companies, are amortized using the straight-line method over periods ranging from 3 to 40 years.

RESEARCH AND DEVELOPMENT costs are expensed as incurred.

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

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

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

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

In 1994, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under this standard, employers must accrue the expected cost of providing postretirement health care and life insurance benefits during employees' active service. The company's previous practice was to expense these costs as incurred. The company elected to immediately recognize the cumulative postretirement benefit obligation, which resulted in a one-time charge to earnings of $34 million ($20.1 million after taxes). See also Note 9.

Also in 1994, the company adopted SFAS No. 109, "Accounting for Income Taxes." Under this standard, deferred income taxes are recognized based on the future income tax effects of differences in the carrying

amounts of assets and liabilities for financial reporting and tax purposes. The adoption of SFAS No. 109 resulted in an increase in net income of $5.1 million. The financial statements for 1993 and prior years were accounted for under the deferred method of accounting and have not been restated. See also Note 7.

NOTE 2:

HERTEL ACQUISITION AND RESTRUCTURING

On August 4, 1993, the company acquired 81 percent of the outstanding shares of Hertel AG (Hertel) for $43 million in cash and assumed $55 million in debt. Hertel is a manufacturer of metalcutting tools and tooling systems based in Fuerth, Germany. Since January 1, 1994, the company purchased additional shares of Hertel for $12 million, thereby increasing the company's ownership interest to 91 percent at June 30, 1995.

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

In thousands	1994
Current assets	$114,800
Property, plant and equipment	70,200
Intangible assets (goodwill)	5,300
Deferred tax assets (see Note 7)	40,600
Other noncurrent assets	10,500
Current liabilities	104,100
Long-term liabilities	89,400

Included in current liabilities was a reserve of approximately $36 million (pretax) for restructuring Hertel's operations. The restructuring costs primarily included amounts for severance, phaseout and relocation. Cash payments and other costs applied to the restructuring reserve were $19.9 million in 1995 and $16.1 million in 1994. The restructuring, which began in fiscal 1994, was substantially completed in fiscal 1995.

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

NOTE 3:

INVENTORIES

Inventories consisted of the following:

In thousands	1995	1994
Finished goods	$147,231	$112,202
Work in process and powder blends	65,231	54,831
Raw materials and supplies	24,629	20,571
Inventories at current cost	237,091	187,604
Less LIFO valuation	(36,411)	(29,425)
Total inventories	$200,680	$158,179

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of U.S. inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 55 percent of total inventories at June 30, 1995 and 1994. The company uses the LIFO method for valuing the majority of its inventories in order to more closely match current costs with current revenues, thereby reducing the effects of inflation on earnings.

NOTE 4:

OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following:

In thousands	1995	1994
Accrued restructuring costs	$ -	$25,631
Federal and state income taxes	19,060	5,546
Accrued compensation	14,139	11,961
Payroll, state and local taxes	8,406	8,172
Accrued product warranty costs	4,779	4,651
Accrued benefits	4,089	2,074
Accrued professional fees	2,456	1,449
Accrued interest expense	1,005	1,114
Other accrued expenses	21,603	16,595
Total other current liabilities	$75,537	$77,193

NOTE 5:

TERM DEBT AND CAPITAL LEASES

Term debt and capital lease obligations consisted of the following:

In thousands	1995	1994
Senior notes, 9.64%, due in installments through 2000	$50,000	$50,000
Industrial Revenue Notes, 8.05% tax exempt, due in 1996	833	1,667
Borrowings outside the U.S., varying from 5.75% to 10.25% (1995) and 5.0% to 10.25% (1994), due in installments through 2008	21,070	20,291
Lease of office facilities with terms expiring through 2011 at 6.75% to 7.55%	14,547	13,182
Other	9,725	9,402
Total term debt and capital leases	96,175	94,542
Less current maturities:		
Term debt	(15,782)	(2,811)
Capital leases	(1,693)	(1,553)
Total current maturities	(17,475)	(4,364)
Long-term debt and capital leases	$78,700	$90,178

Future principal maturities of term debt are $15.8 million, $18.3 million, $12.6 million, $12.5 million and $12.4 million, respectively, in fiscal years 1996 through 2000.

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

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

In thousands	
YEAR ENDING JUNE 30:	
1996	$ 1,693
1997	1,693
1998	1,693
1999	1,693
2000	1,693
After 2000	14,007
Total future minimum lease payments	22,472
Less amount representing interest	(7,925)
Present value of minimum lease payments	$14,547

Future minimum lease payments under operating leases with noncancelable terms beyond one year were not significant at June 30, 1995.

NOTE 6:

NOTES PAYABLE AND LINES OF CREDIT

Notes payable to banks of $53.6 million and $52.8 million at June 30, 1995 and 1994, respectively, represent short-term borrowings under U.S. and international credit lines with commercial banks. These credit lines totaled approximately $219 million at June 30, 1995, of which $165 million was unused. The weighted average interest rate for short-term borrowings was 6.1 percent and 6.0 percent at June 30, 1995 and 1994, respectively.

Primary U.S. credit lines totaling $90 million are covered by a single revolving credit agreement. Borrowings under this agreement are available at fixed or variable interest rates. The credit lines expire during fiscal 1997, and require the company to pay a facility fee on the total line and a commitment fee on unborrowed amounts under one of the lines. The company has the option to terminate this agreement in whole or in part at any time.

NOTE 7:

INCOME TAXES

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

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

In thousands	1995	1994	1993
Income before taxes:			
United States	$ 83,401	$39,095	$33,655
International	29,893	(12,680)	439
Total income before taxes	$113,294	$26,415	$34,094
Current income taxes:			
Federal	$ 26,500	$15,000	$ 7,100
State	6,100	3,100	2,000
International	4,000	(900)	2,000
Total	36,600	17,200	11,100
Deferred			

income taxes	8,400	(1,700)	2,900
Provision for income taxes	$ 45,000	$15,500	$14,000
Effective tax rate	39.7%	58.7%	41.1%

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

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

In thousands	1995	1994	1993
Income taxes at U.S. statutory rate	$39,653	$ 9,245	$11,592
State income taxes, net of federal tax benefits	3,981	2,018	1,331
Combined tax effects of international income	1,288	2,883	(255)
International losses with no related tax benefits	219	2,325	540
Other	(141)	(971)	792
Provision for income taxes	$45,000	$15,500	$14,000

Deferred tax assets and liabilities consisted of the following:

In thousands	1995	1994
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$52,923	$50,839
Other postretirement benefits	14,122	13,972
Inventory valuation and reserves	6,643	8,071
Accrued vacation compensation	3,680	3,471
Property and equipment	2,866	2,131
Other accruals	4,463	6,626
Accumulated depreciation	(20,998)	(19,279)
Total	63,699	65,831
Less valuation allowance	(5,706)	(5,760)
Net deferred tax assets	$57,993	$60,071

The sources of deferred income taxes in 1993 were as follows:

In thousands	1993
Patent litigation settlement	$2,200
Inventory valuation and reserves	400
Depreciation	200
Accrued vacation compensation	200
Other, net	(100)
Total	$2,900

Deferred income taxes have not been provided on cumulative undistributed earnings of international subsidiaries and affiliates. Any U.S. income taxes on such earnings, if distributed, would generally be offset by available foreign tax credits. In addition, there were no significant undistributed earnings of unconsolidated affiliates at June 30, 1995.

Included in deferred tax assets at June 30, 1995 are unrealized tax benefits totaling $52.9 million related to net operating loss carryforwards. The realization of these tax benefits is contingent on future taxable income in certain international operations. Of this amount, approximately $47.2 million relates to net operating loss carryforwards in Germany, which can be carried forward indefinitely. The company's operations in Germany are currently profitable.

The remaining unrealized tax benefits relate to net operating loss carryforwards in certain other international operations, which expire at various dates through 2002. The company established a valuation allowance of $5.7 million to offset the deferred tax benefits that may not be realized before the expiration of the carryforward periods.

NOTE 8:

PENSION BENEFITS

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

In thousands	1995	1994	1993
Service cost	$ 5,906	$ 5,777	$ 6,338
Interest cost	13,016	12,345	12,644
Return on plan assets	(37,746)	(8,885)	(27,814)
Net amortization and deferral	17,628	(11,099)	9,946
Net pension cost (credit)	$ (1,196)	$ (1,862)	$ 1,114

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

In thousands	1995	1994
Plan assets, at fair value	$231,007	$203,715
Present value of accumulated benefit obligations:		
Vested benefits	131,552	119,025
Nonvested benefits	2,933	2,881
Accumulated benefit obligations	134,485	121,906
Effect of future salary increases	40,550	39,442
Projected benefit obligations	175,035	161,348
Plan assets in excess of projected benefit obligations	55,972	42,367
Amounts not recognized in the financial statements:		
Unrecognized net assets from July 1, 1986	(16,689)	(18,868)
Unrecognized prior service costs	909	1,299
Unrecognized net gains	(36,037)	(21,959)
Adjustment to recognize minimum liability	-	(1,624)
Prepaid pension costs	$ 4,155	$ 1,215

Prepaid pension costs are included in other noncurrent assets.

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

	1995	1994
Discount rate	8.00%	8.25%
Rate of future salary increases	5.00%	5.00%
Rate of return on plan assets	9.00%	9.00%

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

In thousands	1995	1994
Service cost	$ 231	$143
Interest cost	967	833
Net pension cost	$1,198	$976

Net pension cost for international plans was not significant in 1993.

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

In thousands	1995	1994
Present value of accumulated benefit obligations:		
Vested benefits	$11,314	$ 8,980

Nonvested benefits	2,555	2,539
Accumulated benefit obligations	13,869	11,519
Effect of future salary increases	143	369
Projected benefit obligations	14,012	11,888
Plan assets, at fair value	-	-
Accrued pension costs	$14,012	$11,888

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

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

	1995	1994
Discount rate	7.75%	7.75%
Rate of future salary increases	5.00%	5.00%

Total pension cost (credit) for U.S. and international plans amounted to $0.8 million, $(1.2) million and $1.8 million in 1995, 1994 and 1993, respectively.

NOTE 9:

OTHER POSTRETIREMENT BENEFITS

The company presently provides varying levels of postretirement health care and life insurance benefits to most U.S. employees who complete 10 years of service and retire on or after age 55. Beginning with retirements on or after January 1, 1997, postretirement health care benefits will be capped at 1996 levels. In addition, benefits will be provided to employees who retire on or after the normal retirement age of 65 and complete at least five years of service after age 40. These benefits are currently unfunded.

Effective July 1, 1993, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under the new

standard, the expected cost of providing such benefits must be accrued during the periods in which employees render the necessary service. The company previously expensed these costs as incurred. The cumulative effect of the change in accounting method resulted in a one-time charge to earnings of $34 million ($20.1 million after taxes) in 1994.

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

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

Other postretirement benefit costs were $1.9 million in fiscal 1993.

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

In thousands	1995	1994
Present value of accumulated benefit obligations:		
Retirees	$19,692	$14,800
Fully eligible active participants	6,335	8,000
Other active participants	8,604	13,000
Accumulated benefit obligations	34,631	35,800
Plan assets, at fair value	-	-
Accumulated benefit obligations in excess of plan assets	34,631	35,800
Unrecognized net gains	2,231	-
Accrued postretirement benefits	$36,862	$35,800

Included in other noncurrent liabilities were accrued postretirement benefits of $33.5 million and $33.8 million at June 30, 1995 and 1994, respectively.

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

	1995	1994
Discount rate	8.00%	8.50%
Rate of increase in health care costs:		
Initial rate	9.00%	9.50%
Ultimate rate in 2003 and after	5.00%	5.00%

A one percent increase in the health care cost trend rate would increase other postretirement benefit costs by $0.2 million in 1995 and the accumulated benefit obligation by $1.6 million at June 30, 1995.

NOTE 10:

FINANCIAL INSTRUMENTS

FAIR VALUE. The company had $10.8 million in cash and equivalents at June 30, 1995, which approximates fair value because of the short maturity of these investments.

The estimated fair value of term debt was $85.2 million at June 30, 1995. Fair value was determined using discounted cash flow analysis and the company's incremental borrowing rates for similar types of arrangements.

OFF-BALANCE-SHEET RISK. The company uses currency forward contracts in the normal course of business to hedge foreign currency exposures of underlying receivables and payables. These financial instruments involve credit risk in excess of the amount recognized in the financial statements. The company controls credit risk through credit evaluations, limits and monitoring procedures. There were no financial instruments with significant off-balance-sheet risk at June 30, 1995.

CONCENTRATIONS OF CREDIT RISK. Financial instruments that potentially subject the company to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. By policy, the company makes temporary cash investments with high credit quality financial institutions. With respect to trade receivables, concentrations of credit risk are significantly reduced because the company serves a large number of customers in many industries and geographic areas. As of June 30, 1995, the company had no significant concentrations of credit risk.

NOTE 11:

STOCK ISSUANCE AND STOCK SPLIT

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

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

NOTE 12:

STOCK OPTIONS

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

Number of Shares	1995	1994	1993	1995 Option Prices Per Share
Options outstanding, beginning of year	475,650	914,616	1,115,384	$20.53-14.06
Granted	204,950	100,000	42,000	24.75
Exercised	(157,452)	(508,966)	(201,196)	16.94-14.22
Lapsed and forfeited	(2,000)	(30,000)	(41,572)	16.94
Options outstanding, end of year	521,148	475,650	914,616	$24.75-14.50
Exercisable at year-end	281,482	235,504	741,710	$24.75-14.50

Available for future grant	754,820	961,290	1,031,290
	========	========	=========

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

Under provisions of the plans, participants may deliver Kennametal stock in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. Shares valued at $0.4 million (13,728 shares), $1.2 million (62,934 shares) and $0.3 million (20,668 shares) were delivered in 1995, 1994 and 1993, respectively.

Under the 1992 and 1988 plans, shares may be awarded to eligible employees without payment. The respective plans specify such shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. Such awards were not significant in 1995, 1994 and 1993.

NOTE 13:

PATENT LITIGATION SETTLEMENT

In 1993, the company settled a patent infringement suit for $5.8 million in cash, which resulted in the reversal of a portion of previously established reserves of $1.7 million ($1.0 million after taxes).

NOTE 14:

ENVIRONMENTAL MATTERS

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

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

Note 15:

CONTRACT DISPUTE

Prior to its acquisition by Kennametal, a non-U.S. subsidiary recorded sales of approximately $60 million in calendar 1993 under contracts with a certain customer to provide various equipment, know-how and training for a manufacturing facility. Upon the acquisition by Kennametal, the subsidiary decided to complete performance under the contracts with this customer but to not enter into any such contracts in the future.

Pursuant to a United States embargo effective June 6, 1995, the subsidiary suspended performance under the contracts pending issuance by the U.S. government of definitive embargo regulations. Other than finalizing the transfer of know-how and training to commence production, performance was substantially completed prior to the suspension. The estimated costs to complete performance are not material and were accrued in the consolidated financial statements as of June 30, 1995. However, the customer has disputed the suspension and has advised that it may file suit to require completion of performance as well as for compensation for alleged damages.

At the present time, management is unable to predict the outcome of this matter; however, management believes that the ultimate resolution of this matter will not have a material adverse impact on the financial position of the company.

NOTE 16:

SHAREHOLDER RIGHTS PLAN

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

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

NOTE 17:

SEGMENT DATA

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

In thousands	1995	1994	1993
Sales:			
United States	$ 726,977	$610,320	$512,748
International	390,358	296,702	156,183
Total	1,117,335	907,022	668,931
Intersegment transfers:			
United States	92,939	70,005	52,492
International	40,523	34,504	17,943
Total	133,462	104,509	70,435
Net sales	$ 983,873	$802,513	$598,496
Operating income:			
United States	$ 95,228	$ 47,560	$ 41,190
International	36,769	(8,263)	1,483
Eliminations	(5,024)	(1,362)	451
Total operating income	126,973	37,935	43,124
Interest expense	(12,793)	(13,811)	(9,549)
Other income (expense)	(886)	2,291	519
Income before taxes	$ 113,294	$ 26,415	$ 34,094
Identifiable assets:			
United States	$ 462,812	$422,517	$359,996
International	336,193	279,558	94,730
Eliminations	(31,001)	(26,455)	(18,316)
Corporate	13,605	21,912	11,853
Total assets	$ 781,609	$697,532	$448,263

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

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

Sales to a single customer did not aggregate 10 percent or more of total sales. Export sales from U.S. operations to unaffiliated customers were $27.4 million, $22.7 million and $21.7 million in 1995, 1994 and 1993, respectively.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

SELECTED QUARTERLY FINANCIAL DATA

In thousands except per share	Quarter Ended Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1995:				

Net sales	$218,838	$230,335	$268,064	$266,636
Gross profit	90,787	94,621	119,225	118,373
Net income	10,668	11,873	22,150	23,603
Earnings per share	0.40	0.45	0.84	0.89
FISCAL 1994:				
Net sales	$175,665	$195,167	$211,809	$219,872
Gross profit	70,018	76,913	88,429	94,620
Net income (loss)	(33,057)	4,088	11,090	13,791
Earnings (loss) per share	(1.51)	0.18	0.43	0.52

Earnings (loss) per share were computed independently for each quarter in 1994 and, therefore, do not equal the amount computed for the entire fiscal year.

In the first quarter of 1994, the company incurred a restructuring charge of $24.7 million ($20.4 million after taxes) related to the acquisition of Hertel and recognized the net cumulative effect of accounting changes of $15 million (after taxes). Net loss before the net cumulative effect of accounting changes was $18.1 million and net loss per share was $0.82.

STOCK PRICE RANGES AND DIVIDENDS PAID

The company's capital stock is traded on the New York Stock Exchange (symbol KMT). The approximate number of shareholders of record as of August 10, 1995, was 2,870. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended			
In dollars	Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1995:				
High	$28	$29	$28-5/8	$35-3/4
Low	24-1/8	23-1/4	23	26-3/4
Dividends	0.15	0.15	0.15	0.15
FISCAL 1994:				
High	$19-1/16	$23	$29-9/16	$29-9/16
Low	15-3/8	18-3/16	21-1/16	23-1/8
Dividends	0.145	0.145	0.145	0.145

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF KENNAMETAL INC.

We have audited the accompanying consolidated balance sheets of Kennametal Inc. and subsidiaries as of June 30, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kennametal Inc. and subsidiaries as of June 30, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 9 to the consolidated financial statements, effective July 1, 1993, the company changed its methods of accounting for income taxes and postretirement benefits other than pensions.

ARTHUR ANDERSEN LLP

Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 24, 1995

TEN-YEAR FINANCIAL HIGHLIGHTS

Dollars in thousands, except per share data	Notes	10-Year CAGR	1995	1994
OPERATING RESULTS				
Net sales		11.2%	$983,873	$802,513
Cost of goods sold		11.1	560,867	472,533
Research and development		4.9	18,744	15,201
Selling, marketing and distribution		12.7	219,271	189,487
General and administrative		6.4	55,853	58,612
Interest expense		11.6	12,793	13,811
Unusual or nonrecurring items	(1)	n.m.	-	24,749
Income taxes		11.4	45,000	15,500
Accounting changes, net of tax	(2)	n.m.	-	15,003
Net income (loss)	(3)	13.6	68,294	(4,088)
FINANCIAL POSITION				
Net working capital		3.9%	$184,072	$130,777
Inventories		5.4	200,680	158,179
Property, plant and equipment, net		7.3	260,342	243,098
Total assets		9.1	781,609	697,532
Long-term debt, including capital leases		8.7	78,700	90,178
Total debt, including capital leases		12.4	149,730	147,295
Total shareholders' equity	(4)	6.1	391,885	322,836
PER SHARE DATA				
Earnings (loss)	(3)	13.0%	$ 2.58	$ (0.17)
Dividends		4.4	0.60	0.58
Book value (at year-end)		5.5	14.75	12.25
Market price (at year-end)		13.4	34.50	24.63
OTHER DATA				
Capital expenditures		6.0%	$ 43,371	$ 27,313
Number of employees (at year-end)		2.5	7,030	6,600
Average shares outstanding (in thousands)	(4)	0.5	26,486	24,304
KEY RATIOS				
Sales growth			22.6%	34.1%
Gross profit margin			43.0	41.1
Operating profit margin			13.1	8.3
Return on sales	(3)		6.9	n.m.
Return on equity	(3)		19.3	n.m.
Total debt to capital			27.6	31.3
Dividend payout			23.3	n.m.
Inventory turnover			3.1x	3.1x
Average sales per employee		8.9%	$ 146	$ 125

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

Note 1. Unusual charges (credits) reflect restructuring and integration costs associated with the acquisition of Hertel AG in 1994, settlement and partial reversal of accrued patent litigation costs in 1993, accrued patent litigation costs in 1991, and rationalization of production facilities and disposition of certain assets in 1986.

2. Accounting changes in 1994 reflect changes in the methods of accounting for postretirement health care and life insurance benefits (SFAS No. 106) and income taxes (SFAS No. 109).

3. Excluding unusual charges and accounting changes in 1994, net income was $31,330; earnings per share were $1.29; return on sales was 3.9 percent; and return on equity was 11.4 percent.

4. In 1994, the company issued approximately 4 million shares of capital stock for net proceeds of $73.6 million. In 1986, the company repurchased approximately 4.8 million shares of capital stock for $60 million.

TEN-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)

Dollars in thousands, except per share data	1993	1992	1991	1990	1989	1988	1987	1986
OPERATING RESULTS								
Net sales	$598,496	$594,533	$617,833	$589,023	$472,200	$419,900	$354,450	$355,377
Cost of goods sold	352,773	362,967	358,529	342,434	274,929	244,026	205,682	217,999
Research and development	14,714	13,656	14,750	13,325	11,969	9,757	10,265	11,783
Selling, marketing and distribution	144,850	137,494	136,319	123,286	94,934	84,820	72,400	70,175
General and administrative	41,348	45,842	49,219	42,648	31,443	29,497	29,767	29,209
Interest expense	9,549	10,083	11,832	10,538	8,960	8,601	7,246	7,707

Unusual or nonrecurring items	(1,738)	-	6,350	-	-	-	-	20,402
Income taxes	14,000	8,100	17,300	23,000	20,900	19,100	14,400	200
Accounting changes, net of tax	-	-	-	-	-	-	-	-
Net income (loss)	20,094	12,872	21,086	32,113	29,994	24,319	17,200	571
FINANCIAL POSITION								
Net working capital	$120,877	$108,104	$ 88,431	$108,954	$ 91,032	$ 99,565	$102,271	$101,442
Inventories	115,230	118,248	119,767	114,593	105,033	96,473	92,232	86,956
Property, plant and equipment, net	192,305	200,502	193,830	175,523	166,390	161,788	139,815	126,734
Total assets	448,263	472,167	476,194	451,379	383,252	359,258	326,994	300,024
Long-term debt, including capital leases	87,891	95,271	73,113	81,314	57,127	74,405	72,085	69,286
Total debt, including capital leases	110,628	127,954	130,710	116,212	95,860	103,982	93,303	79,928
Total shareholders' equity	255,141	251,511	243,535	231,598	204,465	186,238	166,190	153,325
PER SHARE DATA								
Earnings (loss)	$ 0.93	$ 0.60	$ 1.00	$ 1.54	$ 1.45	$ 1.19	$ 0.85	$ 0.03
Dividends	0.58	0.58	0.58	0.58	0.56	0.52	0.485	0.43
Book value (at year-end)	11.64	11.64	11.42	11.02	9.84	9.04	8.15	7.58
Market price (at year-end)	16.75	17.13	17.81	17.25	15.88	18.38	15.44	11.50
OTHER DATA								
Capital expenditures	$ 23,099	$ 36,555	$ 55,323	$ 35,998	$ 28,491	$ 46,336	$ 34,111	$ 24,083
Number of employees (at year-end)	4,850	4,980	5,360	5,580	5,420	4,990	4,760	4,800
Average shares outstanding (in thousands)	21,712	21,452	21,094	20,872	20,696	20,526	20,322	20,582
KEY RATIOS								
Sales growth	0.7%	(3.8)%	4.9%	24.7%	12.5%	18.5%	(0.3)%	4.1%
Gross profit margin	41.1	38.9	42.0	41.9	41.8	41.9	42.0	38.7
Operating profit margin	7.5	5.8	9.6	11.4	12.5	12.3	10.3	7.4
Return on sales	3.4	2.2	3.4	5.5	6.4	5.8	4.9	0.2
Return on equity	8.1	5.2	8.7	14.9	15.4	13.9	10.9	0.4
Total debt to capital	30.2	33.7	34.9	33.4	31.9	35.8	36.0	34.3
Dividend payout	62.4	96.7	58.0	37.7	38.6	43.7	57.1	n.m.
Inventory turnover	3.1x	3.0x	3.0x	3.1x	2.9x	2.4x	2.3x	2.1x
Average sales per employee	$ 122	$ 116	$ 113	$ 107	$ 94	$ 85	$ 75	$ 71

EXHIBIT 21

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
CONSOLIDATED SUBSIDIARIES	
Adaptive Technologies Corp.	Michigan, United States
Hertel Cutting Technologies Inc.	Tennessee, United States
J&L America Inc.	Michigan, United States
Kennametal Australia Pty. Ltd.	Australia
Kennametal China Limited	China
Kennametal Foreign Sales Corporation	Barbados
Kennametal GTS Co., Ltd.	Thailand
Kennametal GTS Pte. Ltd.	Singapore
Kennametal Hardpoint, Inc.	Delaware, United States
Kennametal Hertel AG	Germany
Kennametal Ltd.	Canada
Kennametal de Mexico, S.A. de C.V.	Mexico
CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG	
Hertel Iberica S.A.	Spain
Hertel Japan Limited	Japan
Kennametal Hertel G.m.b.H.	Germany
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel France S.A.	France
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
September 19, 1995

5

This schedule contains summary financial information
extracted from the June 30, 1995 Consolidated Financial
Statements and is qualified in its entirety by reference
to such financial statements.

1,000

YEAR
JUN-30-1995
JUL-1-1994
JUN-30-1995
10,827
0
187,511
12,106
200,680
409,274
517,180
256,838
781,609
225,202
0
36,712
0
0
355,173
781,609
983,873
983,873
560,867
560,867
20,909
1,477
12,793
113,294
45,000
68,294
0
0
0
68,294
2.58
2.58