FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Commission File Number 1-5318

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

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

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

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

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 September 3, 2002, 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 $945,130,000. 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 September 3, 2002, there were 35,073,626 shares of the Registrant's Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2002 Annual Report to Shareowners are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the 2002 Annual Meeting of Shareowners are incorporated by reference into Parts III and IV.

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PART I

ITEM 1. BUSINESS

OVERVIEW

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

We specialize in developing and manufacturing metalworking tools and wear-resistant parts using a specialized type of powder metallurgy. Our metalworking tools are made of cemented tungsten carbides, ceramics, cermets, high-speed steel and other hard materials. We also manufacture and market a complete line of toolholders, toolholding systems and rotary cutting tools by machining and fabricating steel bars and other metal alloys. We are one of the largest suppliers of metalworking consumables and related products in the United States and Europe. We also manufacture tungsten carbide products used in engineered applications, mining and highway construction, and other similar applications, including circuit board drills, compacts and metallurgical powders.

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

BUSINESS SEGMENT REVIEW

We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L Industrial Supply (J&L) and Full Service Supply (FSS). Segment selection was based upon internal organizational structure, the manner in which we organize segments for making operating decisions and assessing performance, the availability of separate financial results, and materiality considerations. Sales and operating income by segment are presented on pages 56 and 57 of the 2002 Annual Report to Shareowners, and such information is incorporated herein by reference. Additional information about our operations and assets by segment and geographic area is presented on pages 57 and 58 of the 2002 Annual Report to Shareowners, and such information is incorporated herein by reference.

METALWORKING SOLUTIONS & SERVICES GROUP - MSSG

In the MSSG segment, we provide consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. Our tooling systems consist of a steel toolholder and cutting tool such as an indexable insert or drill made from cemented tungsten carbides, high-speed steel and other hard materials. We also provide solutions to our customers' metalcutting needs through engineering services aimed at improving their competitiveness.

During a metalworking operation, the toolholder is positioned in a machine that provides the turning power. While the workpiece or toolholder is rapidly rotating, the cutting tool insert or drill contacts the workpiece and cuts or shapes the workpiece. The cutting tool insert or drill is consumed during use and must be replaced periodically.

We serve a wide variety of industries that cut and shape metal parts including manufacturers of automobiles, trucks, aerospace components, farm equipment, oil and gas drilling and processing equipment, railroad, marine, power generation equipment, machinery, appliances, factory equipment and metal components, as well as the job shops and maintenance operations. We deliver our products to customers through a direct field sales force, distribution, integrated supply programs, mail-order and e-business.

With a global marketing organization and operations worldwide, we believe we are the second largest global provider of consumable metalcutting tools and supplies.

ADVANCED MATERIALS SOLUTIONS GROUP - AMSG

In the AMSG segment, the principal business is the production and sale of cemented tungsten carbide products used in mining, highway construction, engineered applications, including circuit board drills, compacts and other similar applications. These products have technical commonality to our core metalworking products. We also sell metallurgical powders to manufacturers of cemented tungsten carbide products. We also provide application specific component design services and on-site application support services.

Our mining and construction 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, conical bits, drills, pinning rods, augers and a wide range of mining tool accessories. Highway 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. We produce these products for mine operators and suppliers, highway construction companies, municipal governments and manufacturers of mining equipment. We believe we are the worldwide market leader in mining and highway construction tooling.

Our customers use engineered products in manufacturing or other operations where extremes of abrasion, corrosion or impact require combinations of hardness or other toughness afforded by cemented tungsten carbides or other hard materials. We sell these products through a direct field sales force and distribution. We believe we are the largest independent supplier of oil field compacts in the world. Compacts are the cutting edges of oil well drilling bits, which are commonly referred to as "rock bits."

J&L INDUSTRIAL SUPPLY - J&L

In this segment, we provide metalworking consumables and related products to small- and medium-sized manufacturers in the United States and the United Kingdom. J&L markets products and services through annual mail-order catalogs and monthly sales flyers, telemarketing, the Internet and field sales. J&L distributes a broad range of metalcutting tools, abrasives, drills, machine tool accessories, precision measuring tools, gauges, hand tools and other supplies used in metalcutting operations. The majority of industrial supplies distributed by J&L are purchased from other manufacturers, although the product offering does include Kennametal-manufactured items.

FULL SERVICE SUPPLY - FSS

In the FSS segment, we provide metalworking consumables and related products to medium- and large-sized manufacturers in the United States and Canada. FSS offers integrated supply programs that provide inventory management systems, just-in-time availability and programs that focus on total cost savings. Through FSS programs, large commercially-oriented customers seeking a single source of metalcutting supplies engage us to carry out all aspects of complex metalworking supply processes, including needs assessment, cost analysis, procurement planning, supplier selection, "just-in-time" restocking of supplies and ongoing technical support.

INTERNATIONAL OPERATIONS
Our international operations are subject to the usual risks of doing business in those countries, including foreign currency exchange fluctuations and changes in social, political and economic environments. Our principal international operations in the MSSG and AMSG segments are conducted in Western Europe, Canada, the Asia Pacific region, China, South Africa and Mexico. In addition, we have manufacturing and/or distribution in Israel and South America, and sales agents and distributors in Eastern Europe and other areas of the world. Our Western European operations are integral to our U.S. operations, however, the diversification of our overall operations tend to minimize the impact on total sales and earnings of changes in demand in any one particular geographic area.

Our international assets and sales are presented on page 58 of the 2002 Annual Report to Shareowners, and such information is incorporated herein by reference. Information pertaining to the effects of foreign exchange risk is contained under the caption "Market Risk" in Management's Discussion and Analysis on pages 30 and 31 of the 2002 Annual Report to Shareowners and under the captions "Foreign Currency Translation" and "Derivative Financial Instruments and Hedging Activities" in the notes to the consolidated financial statements on pages 41 and 42 of the 2002 Annual Report to Shareowners. Such information is incorporated herein by reference.

THE WIDIA ACQUISITION
On August 30, 2002, we announced that we completed the previously reported acquisition of the Widia Group from Milacron Inc. for EUR 188 million subject to post-closing adjustments.

Widia, with approximately $240 million in sales, is a leading manufacturer and marketer of metalworking tools, engineered products and related services in Europe and India. Widia has an extensive product line of metalworking consumables, and is a recognized leader in milling applications. The company employs approximately 3,400 employees, and operates eight manufacturing facilities in Europe and two in India. Management currently intends to continue using the acquired assets for such purpose and to integrate the operations of the Widia Group with existing operations. Widia sells primarily through direct sales and has sales and service personnel in many European countries.

On August 30, 2002, to fund the acquisition, we borrowed EUR 188 million under our new revolving credit facility.

MARKETING AND DISTRIBUTION
We sell our manufactured products through the following distinct sales channels: (i) a direct sales force; (ii) integrated supply and FSS programs; (iii) mail-order catalogs; (iv) a network of independent distributors and sales agents in the United States and certain international markets; and (v) the Internet. Service engineers and technicians directly assist customers with product design, selection and application.

We market our products 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*, KennaMAX*, JLK*, J&L*, Kennametal Hertel*, Hertel*, KM Micro*, Widia*, Top Notch*, Erickson*, Kyon*, KM*, Drill-Fix*, Fix-Perfect*, Disston*, Chicago Latrobe*, Greenfield*, RTW* and Cleveland*. We also sell products to customers who resell such products under the customers' names or private labels.

RAW MATERIALS AND SUPPLIES
Major metallurgical raw materials consist of ore concentrates, compounds and secondary materials containing tungsten, tantalum, titanium, niobium and cobalt. Although adequate supply of these raw materials currently exists, our major sources for raw materials are located abroad and prices at times have been volatile. For these reasons, we exercise great care in the selection, purchase and inventory availability of raw materials. We also purchase steel bars and forgings for making toolholders, high-speed steel and other tool parts, rotary cutting tools and accessories. We obtain products purchased for use in manufacturing processes and for resale from thousands of suppliers located in the United States and abroad. Information pertaining to the effects of energy and raw material costs is contained under the caption "Market Risk" in Management's Discussion and Analysis on pages 30 and 31 of the 2002 Annual Report to Shareowners.

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* Trademark owned by Kennametal Inc. or a subsidiary of Kennametal Inc.

RESEARCH AND DEVELOPMENT

Our product development efforts focus on providing solutions to our customers' manufacturing problems and productivity requirements. Our Achieving a Competitive Edge (ACE) Program provides discipline and focus for the product development process by establishing "gateways," or sequential tests, during the development process to remove inefficiencies and accelerate improvements. ACE speeds and streamlines development into a series of actions and decision points, combining effort and resources to produce new and enhanced products, faster. ACE assures a strong link between customer needs and corporate strategy, and enables us to gain full benefit from our investment in new product development.

Research and development expenses totaled $18.3 million, $18.9 million and $19.2 million in 2002, 2001 and 2000, respectively. Additionally, certain costs associated with improving manufacturing processes are included in cost of goods sold. We hold a number of patents and licenses, which, in the aggregate, are not material to the operation of our businesses.

SEASONALITY

Our business is not materially affected by seasonal variations. However, to varying degrees, traditional summer vacation shutdowns of metalworking customers' plants and holiday shutdowns often affect our sales levels during the first and second quarters of our fiscal year.

BACKLOG

Our backlog of orders generally is not significant to our operations. We fill approximately 90 percent of all orders from stock, and the balance generally is filled within short lead times.

COMPETITION

We are one of the world's leading producers of cemented carbide products and high-speed steel tools, and maintain a strong competitive position, especially in North America and Europe. We actively compete in the sale of all our products, with approximately 40 companies engaged in the cemented tungsten carbide business in the United States and many more outside the United States. Several competitors are divisions of larger corporations. In addition, several hundred fabricators and toolmakers, many of whom operate out of relatively small shops, produce tools similar to ours and buy the cemented tungsten carbide components for such tools from cemented tungsten carbide producers, including us. Major competition exists from both U.S.-based and international-based concerns. In addition, we compete with thousands of industrial supply distributors.

The principal elements of competition in our businesses are service, product innovation, quality, availability and price. We believe that our competitive strength rests on our customer service capabilities, including multiple distribution channels, our global presence, state-of-the-art manufacturing capabilities, ability to develop solutions to customer needs through new and improved tools, and the consistent high quality of our products. Based upon our strengths, we are able to sell products based on the value added to the customer rather than strictly on competitive prices.

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 our capital expenditures or competitive position for the years covered by this report, nor is such compliance expected to have a material effect in the future.

We are involved in various environmental cleanup and remediation activities at several of our manufacturing facilities. In addition, we are currently named as a potentially responsible party (PRP) at the Li Tungsten Superfund site in Glen Cove, New York. In December 1999, we recorded a remediation reserve of $3.0 million with respect to our involvement in these matters, which is recorded as a component of operating expense. This represents our best estimate of the undiscounted future obligation based on our evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. We recorded this liability because certain events occurred, including the identification of other PRPs, an assessment of potential remediation solutions and direction from the government for the remedial action plan, that clarified our level of involvement in these matters and our relationship to other PRPs. This led us to conclude that it was probable that a liability had been incurred. At June 30, 2002, we have an accrual of $2.8 million recorded relative to this environmental issue.

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

Additionally, we also maintain reserves for other potential environmental issues associated with our Greenfield Industries, Inc. (Greenfield) operations and a location operated by our German subsidiary. At June 30, 2002, the total of these accruals was $1.4 million and represents anticipated costs associated with the remediation of these issues.

We maintain a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, we have established an EH&S administrator at all our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we establish or adjust financial provisions and reserves for environmental contingencies in accordance with SFAS No. 5, "Accounting for Contingencies."

PUBLIC OFFERINGS

On June 19, 2002, we sold 3.5 million shares of capital stock at a price of $36 per share. Net of issuance costs, this offering yielded proceeds of $120.6 million. On the same date, we issued $300.0 million of 7.2% Senior Unsecured Notes due 2012 at 99.629% of face amount for net proceeds of $294.3 million after related financing costs. Proceeds of these offerings were utilized to repay senior bank indebtedness and for general corporate purposes.

BUSINESS DEVELOPMENT

As previously discussed, on August 30, 2002 we completed the acquisition of the Widia Group. See "The Widia Acquisition."

On April 19, 2002, we sold Strong Tool Company, our industrial supply distributor based in Cleveland, Ohio, for $8.6 million.

In January 2002, we acquired Carmet Company for $5.1 million. Located in Duncan, South Carolina, this entity is a producer of tungsten carbide cutting tools and wear parts.

We will continue to evaluate new opportunities that allow for the expansion of existing product lines into new market areas, either directly or indirectly through joint ventures, where appropriate.

EMPLOYEES

We employed approximately 11,660 persons at June 30, 2002, of which approximately 7,400 were located in the United States and 4,260 in other parts of the world, principally Europe and Asia Pacific. At June 30, 2002, approximately 2,300 of the above employees were represented by labor unions. We consider our labor relations to be generally good.

CORPORATE DIRECTORY
Our consolidated subsidiaries and affiliated companies as of June 30, 2002 are:

Consolidated Subsidiaries of Kennametal Inc.
Kennametal Argentina S.A.
Kennametal Australia Pty. Ltd.
Kennametal Foreign Sales Corporation
Kennametal do Brasil Ltda.
Kennametal Ltd.
Kennametal Chile Ltda.
Kennametal (Shanghai) Ltd.
Kennametal Hardpoint (Shanghai) Ltd.
Kennametal (Xuzhou) Company Ltd.
Kennametal Hardpoint H.K. Ltd.
Kennametal Japan Ltd.
Kennametal (Malaysia) Sdn. Bhd.
Kennametal de Mexico, S.A. de C.V.
Kennametal SP. zo.o
Kennametal (Singapore) Pte. Ltd.
Kennametal South Africa (Proprietary) Limited
Kennametal Korea Ltd.
Kennametal Hardpoint (Taiwan) Inc.
Kennametal Co., Ltd.
Circle Machine Company
Greenfield Industries, Inc.
Kennametal Financing II
Kennametal Holdings Europe Inc.
Adaptive Technologies Corp.

Consolidated Subsidiaries of Kennametal Financing II
Kennametal PC Inc.
Kennametal TC Inc.
Kennametal Receivables Corporation

Consolidated Subsidiaries of Kennametal Holdings Europe Inc.
JLK Direct Distribution Inc.
Kennametal W Holdings Inc.

Consolidated Subsidiaries of Kennametal W Holdings Inc.
KH Holding (DE) Gmbh
Kennametal Europe Holdings Gmbh
Kennametal Deutschland Gmbh & Co. KG

Consolidated Subsidiaries of KH Holding (DE) Gmbh
Widia Gmbh
V & S Werkzeuge Gmbh

Consolidated Subsidiaries of Widia Gmbh
Metruit AG
Widia Vetriebsgesellschaft mbH

Consolidated Subsidiaries of Metruit AG
Widia India Ltd.

Consolidated Subsidiaries of Kennametal Europe Holdings G.m.b.H.
Cirbo LimitedEngland
Kennametal Hertel Europe Holding G.m.b.H.

Consolidated Subsidiaries of JLK Direct Distribution Inc.
J&L America, Inc.
Full Service Supply Inc.

Consolidated Subsidiaries of Kennametal Hertel Europe Holding G.m.b.H.
Kennametal Hertel AG
Kemmer Hartmetallwerkzeuge G.m.b.H.
Kemmer Prazision G.m.b.H.
Kennametal Hertel Hungaria Kft.
Kemmer Cirbo S.r.L. Italy

Consolidated Subsidiaries of Kennametal Hertel AG
Kennametal Hertel Belgium S.A.
Kennametal Hertel Limited
Kennametal Hertel France S.L.
Kennametal Hertel Beteiligungs G.m.b.H.
Kennametal Europe G.m.b.H.
Kennametal Hertel Deutschland G.m.b.H.
Kennametal Hertel International G.m.b.H.
Kennametal Hertel GmbH & Co. K.G.
Kennametal Korea G.m.b.H.
Rubig G.m.b.H. & Co. K.G.
Kennametal Hertel S.p.A.
Kennametal Hertel Nederland B.V.
Nederlandse Hardmetaal Fabrieken B.V.
Kennametal Hertel Kesici Takimlar ve Sistemler Anonim Sirketi
Kennametal Hertel International Gmbh
Kennametal Hertel Iberica S.L.

Consolidated Subsidiaries of Kennametal Hertel Limited
Widia UK Ltd.

Consolidated Subsidiaries of Kennametal Hertel Nederland B.V.
Widia Nederland B.B.

Consolidated Subsidiaries of Kennametal Hertel France S.L.
Widia France SAS

Consolidated Subsidiaries of Kennametal Hertel Iberica S.L.
Widia Iberica S.L.

Consolidated Subsidiaries of Kennametal Hertel International Gmbh
Kennametal Hertel Italia S.r.l.

Consolidated Subsidiaries of Kennametal Hertel Italia S.r.L.
Widia Italia S.r.l.

Consolidated Subsidiaries of J&L America, Inc.
J&L Industrial Supply Ltd.
J&L Industrial Supply UK (branch)
GRS Industrial Supply Company
Production Tools Sales, Inc.

Consolidated Subsidiaries of Greenfield Industries, Inc.
Greenfield Industries Canada Incorporated
Hanita Metal Works, Ltd.
Cleveland Twist Drill de Mexico, S.A. de C.V.
Greenfield Tools de Mexico, S.A. de C.V.
Herramientas Cleveland, S.A. de C.V.
Carbidie Corporation
Kemmer International, Inc.
Rogers Tool Works, Inc.
TCM Europe, Inc.
South Deerfield Industrial, Inc.
Hanita Cutting Tools, Inc.

Consolidated Subsidiaries of Rogers Tool Works Inc.
Kennametal Hungary Holdings Inc.
Kennametal Hungary Finance Services Kft.

ITEM 2. PROPERTIES

Our principal executive offices are located at 1600 Technology Way, P.O. Box 231, Latrobe, Pennsylvania, 15650. A summary of our principal owned and leased manufacturing facilities is as follows:

Location	Owned/Leased	Principal Products
United States:		
Bentonville, Arkansas	Owned	Carbide Round Tools
Pine Bluff, Arkansas	Leased	High Speed Steel Drills
Rogers, Arkansas	Owned	Carbide Products
Monrovia, California	Leased	Boring Bars
Placentia, California	Leased	Wear Parts
Evans, Georgia	Owned	High Speed Steel Drills
Chicago, Illinois	Leased	Circuit Board Drills
Elk Grove Village, Illinois	Leased	Fixed Limited Gages
Rockford, Illinois	Owned	Indexable Tooling
Monticello, Indiana	Owned	Carbide Round Tools
Framingham, Massachusetts	Leased	Fixed Limited Gages
Greenfield, Massachusetts	Owned	High Speed Steel Taps
South Deerfield, Massachusetts	Leased	High Speed Steel Drills and Saw Blades
Traverse City, Michigan	Owned	Ceramic Wear Parts
Troy, Michigan	Leased	Metalworking Toolholders
Fallon, Nevada	Owned	Metallurgical Powders
Asheboro, North Carolina	Owned	High Speed Steel End Mills
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
Irwin, Pennsylvania	Owned	Carbide Wear Parts
Latrobe, Pennsylvania	Owned	Metallurgical Powders and Wear Parts
Hendersonville, Tennessee	Leased	Fixed Limited Gages
Johnson City, Tennessee	Owned	Metalworking Inserts
Whitehouse, Tennessee	Leased	Fixed Limited Gages
Clemson, South Carolina	Owned	High Speed Steel Drills
Lyndonville, Vermont	Owned	High Speed Steel Taps
Chilhowee, Virginia	Owned	Mining and Construction Tools and Wear Parts
New Market, Virginia	Owned	Metalworking Toolholders

Location	Owned/Leased	Principal Products
International:		
Victoria, Canada	Owned	Wear Parts
Xuzhou, China	Owned	Mining Tools
Bodmin, England	Owned	Circuit Board Drills and Routers
Kingswinford, England	Leased	Metalworking Toolholders
Sheffield, England	Leased	High Speed Steel Drills
Bordeaux, France	Leased	Metalworking Cutting Tools
Boutheon Cedex, France	Owned	Metalworking Inserts
Altenburg, Germany	Leased	High Speed Steel Taps
Ebermannstadt, Germany	Owned	Metalworking Inserts
Essen, Germany	Owned/Leased	Metallurgical Powders and Wear Parts
Koenigsee, Germany	Leased	Carbide and High Speed Steel Drills
Lichtenau, Germany	Owned/Leased	Metalworking Toolholders
Lorch, Germany	Leased	Circuit Board Drills
Mistelgau, Germany	Owned	Metallurgical Powders, Metalworking Inserts and Wear Parts
Nabburg, Germany	Owned	Metalworking Toolholders
Sinsheim, Germany	Leased	Metalworking Special Tooling
Vohenstrauss, Germany	Owned	Metalworking Carbide Drills
Bangalore, India	Owned	Metalworking Inserts and Toolholders and Wear Parts
Patancheru, India	Owned	Mining Tools and Wear Parts
Schlomi, Israel	Owned	High Speed Steel Endmills
Milan, Italy	Owned	Metalworking Cutting Tools
Pachuca, Mexico	Owned	High Speed Steel Drills
Arnhem, Netherlands	Owned	Wear Products
Hardenberg, Netherlands	Owned	Wear Products
Vitoria, Spain	Leased	Metalworking Carbide Drills

We also have a network of warehouses and customer service centers located throughout North America, Western Europe, India, Asia, South America and Australia, a significant portion of which are leased. The majority of our research and development efforts are conducted in a corporate technology center located adjacent to the world headquarters in Latrobe, Pennsylvania, Rogers, Arkansas and in Furth, Germany.

We use all significant properties in the business of powder metallurgy, tools, tooling systems and industrial supply. Our production capacity is adequate for our present needs. We believe that our properties have been adequately maintained, generally are in good condition and are suitable for our business as presently conducted.

ITEM 3. LEGAL PROCEEDINGS

Incorporated by reference is information set forth in Part I herein under the caption "Regulation." Other than noted therein, there are no material pending legal proceedings, other than litigation incidental to the ordinary course of business, to which Kennametal or any of our subsidiaries is a party or of which any of our property is the subject.

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

During the fourth quarter of 2002, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the executive officers of Kennametal Inc. is as follows (included herein pursuant to Item 401(b) of Regulation S-K):

Name, Age, and Position	Experience During Past Five Years (2)
Markos I. Tambakeras, 51 (1) Chairman, President and Chief Executive Officer,	Chairman of the Board effective July 1, 2002. President and Chief Executive Officer since July 1, 1999. Formerly employed by Honeywell Inc. as President of Industrial Controls Business from 1997 to 1999.
David B. Arnold, 62 (1) Vice President, Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
R. Daniel Bagley, 42 (1) Vice President, Corporate Strategy and Business Development	Vice President since July 2002. Formerly, Business Development Director and Industrial Consultant for Deloitte & Touche Consulting Group from 1997-2002; Vice President, Global Sales & Sourcing for General Signal Corporation from 1993-1997; and Director, U.S. Marketing and Distribution for Robert Bosch Fluid Power Corporation from 1992-1993.
James R. Breisinger, 52 (1) Vice President, Chief Operating Officer, Advanced Materials Solutions Group	Vice President since 1990. Chief Operating Officer, Advanced Materials Solutions Group since August 2000. Chief Financial Officer from September 1998 to August 2000. Chief Operating Officer, Greenfield Industries, Inc. from March through September 1998. Corporate Controller from 1994 to 1998.
M. Rizwan Chand, 38 (1) Vice President, Chief Human Resources Officer	Vice President and Chief Human Resources Officer since May 2000. Previously Vice President, Human Resources for Aetna International in 1999. Previously with Mary Kay Inc. as Senior Vice President, Global Human Resources from 1996 to 1999.
Stanley B. Duzy, Jr., 55 (1) Vice President, Mergers and Acquisitions and Chief Administrative Officer	Vice President since November 1999. Formerly employed by Honeywell Inc. as Vice President of Industrial Controls Business from 1998 to 1999 and Vice President and Controller, Asia Pacific from 1992 to 1997.
F. Nicholas Grasberger III, 38 (1) Vice President, Chief Financial Officer	Vice President and Chief Financial Officer since August 2000. Formerly, Corporate Treasurer, H.J. Heinz Company from 1997 to 2000.
David W. Greenfield, 52 (1) Vice President, Secretary and General Counsel	Vice President, Secretary and General Counsel since October 2001. Formerly a member of Buchanan Ingersoll Professional Corporation (attorneys-at-law) July 2000 to September 2001. Special Counsel for ArvinMeritor (a provider of components for vehicles) from February 1999 to July 2000. Senior Vice President, General Counsel and Secretary for Meritor Automotive, Inc. (predecessor to ArvinMeritor) from May 1997 to February 1999.

Name, Age, and Position	Experience During Past Five Years (2)
Timothy A. Hibbard, 45 Corporate Controller and Chief Accounting Officer	Elected Corporate Controller and Chief Accounting Officer in February 2002. Director of Finance for the Advanced Materials Solutions Group from September 2000 to February 2002. Vice President and Controller of Greenfield Industries, Inc. from October 1998 to September 2000. Division Controller of Mining & Construction Division from April 1998 to October 1998. Vice President, Finance, Automotive Remanufacturers, Inc. prior thereto.
Brian E. Kelly, 39 Assistant Treasurer and Director of Tax	Assistant Treasurer and Director of Tax since September 1998. Manager of Corporate Tax from 1996 to 1998.
Lawrence J. Lanza, 53 Assistant Treasurer and Director of Treasury Services	Assistant Treasurer and Director of Treasury Services since April 1999. Previously, Director, Global Capital Markets for CBS Corporation, formerly Westinghouse Electric Corporation, from 1972 to 1998.
H. Patrick Mahanes, Jr., 59 (1) Executive Vice President, Interim Chief Operating Officer, Metalworking Solutions and Services Group	Appointed Interim Chief Operating Officer, Metalworking Solutions and Services Group in August 2002. Vice President since 1987. Executive Vice President, Global Strategic Initiatives since 2000. Chief Operating Officer - Metalworking from 1995 to August 2000.
James E. Morrison, 51 Vice President, Treasurer	Vice President since 1994. Treasurer since 1987.
Wayne D. Moser, 49 (3) Vice President, Integration Director	Vice President since 1998. Formerly, General Manager, Mining & Construction from 1997 to 2002.
Ralph G. Niederst, 51 (1) Vice President, Chief Information Officer	Vice President since May 2000. Formerly, Director of Management Information Technology at Harsco Corporation's Heckett Multiserv from 1995 to 2000.
Kevin G. Nowe, 50 Assistant Secretary, Assistant General Counsel	Assistant General Counsel since 1992 and Assistant Secretary since 1993.
Ajita G. Rajendra, 50 Vice President and General Manager, Industrial Products Group	Vice President since 1998. General Manager of Industrial Products Group since 1997. Vice President of the Electronic Products Group of Greenfield Industries, Inc. from 1996 to 1997.
P. Mark Schiller, 54 Vice President, Director of Distribution Services	Vice President since 1992. Director of Distribution Services since 1990.
Michael P. Wessner, 41 (1) Vice President, Chief Operating Officer, J&L Industrial Supply	Vice President since January 2001. Formerly, Chief Executive Officer, Emco/ESS Holdings from 1999 to 2000 and Vice President, Midwest Region for Office Depot from 1995 to 1999.

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.

(3) Mr. Moser has been selected to lead the integration of Widia and Kennametal effective May 2002.

PART II

The information required under Items 5 through 8 is included in the 2002 Annual Report to Shareowners and such information is incorporated herein by reference as indicated below.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS

Incorporated by reference is the Quarterly Financial Information (Unaudited) set forth on page 59 of the 2002 Annual Report to Shareowners.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference is information with respect to the years 1998 to 2002 contained in the Eleven-Year Financial Highlights set forth on pages 62 and 63 of the 2002 Annual Report to Shareowners.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference is Management's Discussion & Analysis set forth on pages 18 to 33 of the 2002 Annual Report to Shareowners.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference is the information contained in Management's Discussion & Analysis under the caption "Market Risk" set forth on pages 30 and 31 and the information under the caption "Derivative Financial Instruments and Hedging Activities" on pages 41 and 42 of the 2002 Annual Report to Shareowners.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference is Item 14(a)1 of this Form 10-K and the Quarterly Financial Information (Unaudited) set forth on page 59 of the 2002 Annual Report to Shareowners.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective May 14, 2002, the Board of Directors, upon the recommendation of the Audit Committee, approved the engagement of PricewaterhouseCoopers LLP as its independent accountants for the fiscal year ending June 30, 2002 and dismissed the firm of Arthur Andersen LLP.

The reports of Arthur Andersen LLP on our consolidated financial statements for each of the past two fiscal years did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principle.

During the past two fiscal years and through May 14, 2002, there were no disagreements between us and Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction, would have caused the firm to make reference to the subject matter thereof in connection with their report on our consolidated financial statements and there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

During the years ended June 30, 2001 and 2000 and through May 14, 2002, we did not consult with PricewaterhouseCoopers LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

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 "Executive Officers of the Registrant" and the information under the captions "Election of Directors" and "Compliance with Section 16 (a) of the Exchange Act" in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after June 30, 2002 ("2002 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 2002 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREOWNER MATTERS

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, under the caption "Principal Holders of Voting Securities" with respect to other beneficial owners in the 2002 Proxy Statement and under the caption "Equity Compensation Plan Information" with respect to disclosure regarding the number of outstanding options, warrants and rights granted under equity compensation plans and the number of shares remaining for issuance under such plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the tables under the captions "Election of Directors" and "Compensation of Executive Officers" in the 2002 Proxy Statement.

ITEM 14. CONTROLS AND PROCEDURES

Item 14 is not yet applicable pursuant to the transition provisions of Exchange Act Release No. 34-46427.

PART IV

ITEM 15. 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, 2002 and 2001, the consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended June 30, 2002 and the notes to consolidated financial statements, together with the reports thereon of PricewaterhouseCoopers LLP dated July 26, 2002, except as for Note 19 as to which the date is August 30, 2002, and Arthur Andersen LLP dated July 20, 2001, presented in the 2002 Annual Report to Shareowners are incorporated herein by reference.

2. Financial Statement Schedule

The financial statement schedule shown below should be read in conjunction with the consolidated financial statements contained in the 2002 Annual Report to Shareowners. 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 Kennametal are omitted because Kennametal 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 Kennametal has a 98 percent interest.

Financial Statement Schedule:	Page
Reports of Independent Accountants	22-23
Schedule II - Valuation and Qualifying Accounts and Reserves for the Three Years Ended June 30, 2002	24

3. Exhibits

(2) Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession

(2.1)	Stock Purchase Agreement dated May 3, 2002 among Milacron Inc., Milacron B.V. and Kennametal Inc.	Exhibit 2.1 of the May 6, 2002 Form 8-K is incorporated herein by reference.

(3) Articles of Incorporation and Bylaws

(3.1)	Bylaws of Kennametal Inc. as amended through January 29, 2002	Exhibit 3.1 of December 31, 2001 Form 10-Q is incorporated herein by reference.
(3.2)	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the September 30, 1994 Form 10-Q (SEC file no. reference 1-5318; docket entry date - November 14, 1994) is incorporated herein by reference.

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

(4.1)	Rights Agreement effective as of November 2, 2002	Exhibit 1 of the Form 8-A dated October 10, 2000 is incorporated herein by reference.

(10) Material Contracts

(10.1)*	Prime Bonus Plan	The discussion regarding the Prime Bonus Plan under the caption "Report of the Board of Directors' Committee on Organization and Compensation" contained in the 2002 Proxy Statement is incorporated herein by reference.
(10.2)*	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
(10.3)*	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the June 30, 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.4)*	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the June 30, 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.5)*	Directors Stock Incentive Plan, as amended	Exhibit 10.5 of the June 30, 1999 Form 10-K is incorporated herein by reference.
(10.6)*	Performance Bonus Stock Plan of 1995, as amended	Exhibit 10.6 of the June 30, 1999 Form 10-K is incorporated herein by reference.
(10.7)*	Stock Option and Incentive Plan of 1996	Exhibit 10.14 of the September 30, 1996 Form 10-Q is incorporated herein by reference.
(10.8)*	Stock Option and Incentive Plan of 1992, as amended	Exhibit 10.8 of the December 31, 1996 Form 10-Q is incorporated herein by reference.

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* Denotes management contract or compensatory plan or arrangement.

(10.9)*	Form of Employment Agreement with Named Executive Officers (other than Mr. Tambakeras)	Exhibit 10.9 of the June 30, 2000 Form 10-K is incorporated herein by reference.
(10.10)*	Supplemental Executive Retirement Plan, as amended	Exhibit 10.10 of the June 30, 1999 Form 10-K is incorporated herein by reference.
(10.11)*	Executive Employment Agreement dated May 1, 2002 between Kennametal Inc. and Markos I. Tambakeras	Filed herewith.
(10.12)*	Kennametal Inc. 1999 Stock Plan	Exhibit 10.5 of the June 11, 1999 Form 8-K is incorporated herein by reference.
(10.13)*	Kennametal Inc. Stock Option and Incentive Plan of 1999	Exhibit A of the 1999 Proxy Statement is incorporated herein by reference.
(10.14)	Credit Agreement dated as of June 27, 2002 among Kennametal Inc., and the several lenders from time to time parties thereto, Bank of Tokyo-Mitsubishi Trust Company; Bank One, N.A.; Fleet National Bank; and PNC Bank, N.A. as the Co-Syndication Agents, and JP Morgan Chase Bank, as the Administrative Agent	Exhibit 10.1 of the September 11, 2002 Form 8-K is incorporated herein by reference.
(13)	Annual Report to Shareowners	Portions of the 2002 Annual Report are filed herewith.
(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Accountants	Filed herewith.
(99)	Additional Exhibits	
(99.1)	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Markos I. Tambakeras, Chief Executive Officer of Kennametal Inc. and F. Nicholas Grasberger III, Chief Financial Officer of Kennametal Inc.	Filed herewith.

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* Denotes management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

The following were filed during the quarter ended June 30, 2002:

Form 8-K dated May 1, 2002, reporting under Item 4. Changes in Registrant's Certifying Accountant regarding the appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal year ended June 30, 2002. Additionally, the dismissal of Arthur Andersen LLP as the company's independent auditors as of April 30, 2002 was also reported.

Form 8-K dated May 7, 2002, reporting under Item 5. Acquisition or Disposition of Assets regarding the signing of a definitive agreement to purchase the Widia Group in Europe and India from Milacron, Inc. for EUR 188 million.

Form 8-K/A dated May 8, 2002, reporting under Item 5. Other Events correcting the omission of the indication that the purchase price of 188 million was in EUROs relative to the agreement to purchase the Widia Group.

Form 8-K/A dated May 17, 2002, reporting under Item 4. Changes in Registrant's Certifying Accountant to reflect the fact that Arthur Andersen's dismissal and PricewaterhouseCoopers' engagement became effective May 14, 2002.

Form 8-K dated June 20, 2002, reporting under Item 7. Financial Statements and Exhibits which incorporated by reference certain exhibits into Registration No. 333-40809 pertaining to certain debt securities of the Registrant.

Form 8-K dated June 20, 2002, reporting under Item 7. Financial Statement and Exhibits which incorporated by reference certain exhibits into Registration No. 333-40809 pertaining to certain equity securities of the Registrant.

SIGNATURES

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

KENNAMETAL INC.

By: /s/ Timothy A. Hibbard

Timothy A. Hibbard
Corporate Controller and
Chief Accounting Officer

Date: September 25, 2002

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

SIGNATURE	TITLE	DATE
/s/ Markos I. Tambakeras Markos I. Tambakeras	Chairman, President and Chief Executive Officer	September 25, 2002
/s/ F. Nicholas Grasberger III F. Nicholas Grasberger III	Vice President and Chief Financial Officer	September 25, 2002

SIGNATURE	TITLE	DATE
/s/ Richard C. Alberding Richard C. Alberding	Director	September 25, 2002
/s/ Peter B. Bartlett Peter B. Bartlett	Director	September 25, 2002
/s/ Ronald M. DeFeo Ronald M. DeFeo	Director	September 25, 2002
/s/ A. Peter Held A. Peter Held	Director	September 25, 2002
/s/ Kathleen J. Hempel Kathleen J. Hempel	Director	September 25, 2002
/s/ Aloysius T. McLaughlin, Jr. Aloysius T. McLaughlin, Jr.	Director	September 25, 2002
/s/ William R. Newlin William R. Newlin	Director	September 25, 2002
/s/ Larry D. Yost Larry D. Yost	Director	September 25, 2002

CERTIFICATIONS

CERTIFICATION
OF THE
PRINCIPAL EXECUTIVE OFFICER

I, Markos I. Tambakeras, certify that:

1. I have reviewed this annual report on Form 10-K of Kennametal Inc.;

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

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

Date: September 25, 2002

/s/ Markos I. Tambakeras

Markos I. Tambakeras
Chairman, President and Chief Executive Officer

CERTIFICATION
OF THE
PRINCIPAL FINANCIAL OFFICER

I, F. Nicholas Grasberger, III, certify that:

1. I have reviewed this annual report on Form 10-K of Kennametal Inc.;

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

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

Date: September 25, 2002

/s/ F. Nicholas Grasberger III

F. Nicholas Grasberger III
Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Shareowners of Kennametal Inc.

Our audit of the consolidated financial statements referred to in our report dated July 26, 2002, except for Note 19 as to which the date is August 30, 2002 appearing in the 2002 Annual Report to Shareowners of Kennametal Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14 (a) (2) of this Form 10-K. In our opinion, this financial statement schedule as of and for the year ended June 30, 2002 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statements of Kennametal Inc. as of June 30, 2001, and for each of the two years in the period ended June 30, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements, before the revision described in Note 2, in their report dated July 20, 2001.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
July 26, 2002, except for Note 19 as to which the date is August 30, 2002

The following report is a copy of a previously issued report by Arthur Andersen LLP and it has not been reissued by Arthur Andersen LLP. Arthur Andersen LLP has not consented to its inclusion; therefore an investor's abilities to recover any potential damage may be limited.

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Shareowners of Kennametal Inc.

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Kennametal Inc.'s annual report to shareowners incorporated by reference in this Form 10-K, and have issued our report thereon dated July 20, 2001. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index in Item 14 (a)2 of this Form 10-K is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
July 20, 2001

KENNAMETAL INC. SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE THREE YEARS ENDED JUNE 30, 2002

(dollars in thousands)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Recoveries	Additions: Other Adjustments	Deductions from Reserves	Balance at End of Year
2002						
Allowance for doubtful accounts	$ 7,999	$ 7,137	$ 640	$ 315 (a)	$ 3,420(b)	$ 12,671
Restructuring and asset impairment charges	$ 6,483	$ 27,499	$ --	$ (192)(c)	$ 27,368(d)	$ 6,422
2001						
Allowance for doubtful accounts	$ 12,214	$ 2,576	$ 324	$ (918)(a)	$ 6,197(b)	$ 7,999
Restructuring and asset impairment charges	$ 7,565	$ 13,106	$ --	$ 82 (c)	$ 14,270(d)	$ 6,483
2000						
Allowance for doubtful accounts	$ 15,269	$ 4,177	$ 596	$ (307)(a)	$ 7,521(b)	$ 12,214
Restructuring and asset impairment charges	$ 3,567	$ 18,626	$ --	$ 595 (e)	$ 15,223(d)	$ 7,565

(a) Represents foreign currency translation adjustment and reserves acquired through business combinations.

(b) Represents uncollected accounts charged against the allowance.

(c) Represents adjustments for net incremental costs incurred related to restructuring programs initiated in 2001, 2000 and 1999.

(d) Represents asset write-downs, non-cash adjustments and cash expenditures charged against the accrual.

(e) Represents adjustment for company receiving more value upon disposition of property than initially anticipated.

EXHIBIT 10.11

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into this 1st day of May, 2002, by and between KENNAMETAL INC., a corporation organized under the laws of the Commonwealth of Pennsylvania, for and on behalf of itself and on behalf of its subsidiary companies (hereinafter referred to as "Kennametal"), and Markos I. Tambakeras, an individual (hereinafter referred to as "Employee") and shall be effective as of July 1, 2002 (the "Effective Date");

WITNESSETH:

WHEREAS, Kennametal and Employee are parties to an Executive Employment Agreement, as amended, dated as of May 4, 1999; and

WHEREAS, Kennametal and the Employee desire to enter into this Agreement in order to amend and restate the terms and conditions of Employee's continued employment with Kennametal; and

WHEREAS, Employee acknowledges that by reason of employment by Kennametal, it is anticipated that Employee will work with, add to, create, have access to and be entrusted with trade secrets and confidential information belonging to Kennametal which are of a technical nature or business nature or pertain to future developments, the disclosure of which trade secrets or confidential information would be highly detrimental to the interests of Kennametal;

NOW, THEREFORE, Kennametal and Employee, each intending to be legally bound hereby, do mutually covenant and agree as follows:

1. (a) Kennametal hereby agrees to employ the Employee and the Employee hereby agrees to be employed by the Company commencing on July 1, 2002 for the Term (as defined in paragraph 1(d) below) in the position and with the duties and responsibilities set forth in paragraph 1(b) below, and upon the other terms and subject to the conditions hereinafter stated.

(b) During the Term, (i) the Employee shall serve as the Chairman of the Board and Chief Executive Officer of Kennametal and as a member of the Board of Directors, (ii) the Employee shall have general executive supervision over the business and affairs of Kennametal, subject to the policies and directions of, and the executive responsibilities that may be assigned to him (which in each case shall be consistent with his position and title) by the Board of Directors of Kennametal (the "Board of Directors"), (iii) the Employee shall generally be responsible for supervising the development, coordination and implementation of the strategies for Kennametal's business, and (iv) the Employee's duties shall be performed principally at Kennametal's executive offices which are located in the Latrobe, Pennsylvania area. A demotion in Employee's position during the Term will be considered termination by Kennametal prior to a Change-in-Control (as defined herein) and other than for Cause (as defined herein).

(c) The Employee shall devote his full time and attention to the business and affairs of Kennametal; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the Board of Directors of any other for-profit entity so long as Employee has obtained the prior consent of Board of Directors, or (b) engaging in charitable and community affairs.

(d) The initial term of this Agreement shall be for a period of three (3) years, commencing on July 1, 2002 and ending on June 30, 2005 (the "Initial Term"). The Initial Term of this Agreement shall be extended by an additional year on each anniversary of the Effective Date beginning on July 1, 2003 and each year thereafter until one party gives the other not less than twelve (12) months written notice that this Agreement shall cease to be extended (as so extended, the "Term").

(e) For the services rendered by Employee to Kennametal during the Term, the Employee shall be paid the compensation and receive the benefits as follows:

(i) Employee shall be entitled to receive a salary at a starting rate of $780,000 per annum, payable in accordance with Kennametal's payroll practices ("Base Salary");

(ii) For fiscal years beginning on or after the Effective Date, Employee shall be eligible to receive future annual bonuses at a target rate of 100% of Base Salary under Kennametal's bonus plan for executive officers, the actual amount to be based on the performance of Kennametal and Employee (the "Cash Bonus");

(iii) Based on his performance, Employee shall receive stock option grants consistent with his grade on the compensation scale as may be granted under Kennametal's executive compensation plans;

(iv) On the Effective Date, Employee shall receive a one-time stock option grant for 70,000 shares of the Capital Stock of Kennametal with an exercise price equal to fair market value as of the date of grant and under the terms and conditions and pursuant to the Stock Option Agreement in the form of Exhibit A attached hereto;

(v) Employee shall receive, on the Effective Date, a one-time restricted stock grant for 100,000 shares of Capital Stock under the terms and conditions and pursuant to the Restricted Stock Agreement in the form of Exhibit B attached hereto;

(vi) Based on his performance, Employee shall receive performance share awards consistent with his grade on the compensation scale as may be granted under Kennametal's executive compensation plans;

(vii) Kennametal agrees to provide Employee with pension benefits in an amount not less than the following benefits (in the event that the benefits Employee would receive under Kennametal's pension plans would exceed the following benefits, Employee will receive those amounts instead of the following benefits):

(A) If Employee is terminated by Kennametal without Cause or for Disability (as defined herein), or if Employee terminates his employment for Employer's Breach (as defined herein), or if Employee terminates his employment at or after age 60, in each case in any year set forth in Column A of Schedule I attached hereto, then Employee will be entitled to receive from Kennametal the Lump Sum Amount (as hereinafter defined) equal to the annual benefit set forth in the row in Column B of Schedule I corresponding to the row in Column A of the year of termination; and

(B) If Employee voluntarily terminates his employment with Kennametal on or after July 1, 2003 in any year set forth in Column A of Schedule I attached hereto, then Employee will be entitled to receive from Kennametal the Lump Sum Amount equal to one-half of the annual benefit set forth in the row in Column B of Schedule I corresponding to the row in Column A of the year of termination.

"Lump Sum Amount" shall mean a single payment in an amount equal to the present value of the relevant annual benefit determined in accordance with the actuarial methods and assumptions used by the Pension Benefit Guaranty Corporation for valuing immediate annuity contracts reduced by the present value, determined in accordance with such methods, of any benefit provided to Employee under Kennametal's other pension benefit plans.

(viii) Employee shall be entitled to the following benefits: life insurance with a death benefit of not less than $1.5 million and memberships in the Duquesne Club in Pittsburgh, Pennsylvania and the Rolling Rock Club in Ligonier, Pennsylvania.

(ix) Employee shall receive, on the Effective Date, a one-time restricted stock grant for 50,000 shares of Capital Stock under the terms and conditions and pursuant to the Restricted Stock Agreement in the form of Exhibit C attached hereto;

2. In addition to the compensation set forth or contemplated elsewhere herein, Employee, during the Term and subject to the terms and conditions of this Agreement, shall be entitled to participate in all group insurance programs, retirement income (pension) plans, thrift plans and vacation and holiday programs normally provided for other executives of Kennametal. Nothing herein contained shall be deemed to limit or prevent Employee, during his employment hereunder, from being reimbursed by Kennametal for out-of-pocket expenditures incurred for travel, lodging, meals, entertainment expenses or any other expenses in accordance with the policies of Kennametal applicable to the executives of Kennametal.

3. Employee's employment may be terminated with or without any reason for termination by either party hereto at any time by giving the other party prior written notice thereof; provided, however, that any termination on the part of Kennametal shall occur only if specifically authorized by its Board of Directors; provided further, however, that termination by Kennametal for Cause shall be made by written notice which states (i) that it is a termination for Cause; (ii) in reasonable detail the facts and circumstances claimed to provide a basis for such termination for Cause; and (iii) the effective date of such termination of employment, which shall not be less than fifteen (15) days after such notice is given; and provided further, however, that termination by Employee, other than termination for Good Reason (as hereinafter defined) following a Change-in-Control (as hereinafter defined), shall be on not less than twelve (12)

months prior written notice to Kennametal. Notwithstanding the foregoing, the failure of Kennametal to set forth in any notice of termination any fact of circumstance which contributes to a showing of Cause shall not waive any right of Kennametal hereunder or preclude Kennametal from asserting such fact or circumstance in enforcing Kennametal's rights hereunder.

4. (a) In the event that Employee's employment is terminated during the Term by Kennametal prior to a Change-in-Control and other than for Cause, death or Disability, or by Employee for Employer's Breach, Employee will be entitled to twelve (12) months prior written notice or, in lieu thereof, payment of an amount equal to the sum of the Base Salary then in effect plus Employee's most recent Cash Bonus; in addition, Employee will be entitled to receive as severance pay, in addition to all amounts due him at the Date of Termination (as hereinafter defined), a lump sum payment equal to the product of:

(i) two (2)

times

(ii) the sum of

(x) the Base Salary at the annual rate in effect on the Date of Termination, plus

(y) the average of the two (2) most recent Cash Bonuses received by Employee prior to the Date of Termination (as defined in paragraph 4(g)).

Additionally, all stock-based compensation previously granted to Employee will vest immediately upon the occurrence of the events stated above in this paragraph 4(a). All amounts will be paid and stock will vest within fifteen (15) business days after satisfaction of the condition set forth in paragraph hereof.

"Employer's Breach" shall be defined as a material breach of this Agreement by Kennametal, including specifically any reduction in Employee's position, authority or responsibility.

Such severance pay shall be paid by wire transfer to an account designated by Employee or by delivery of a cashier's or certified check to the Employee at Kennametal's executive offices on a date which is no later than fifteen (15) business days satisfaction of the condition set forth in paragraph hereof.

(b) In the event that Employee's employment is terminated by Employee without Good Reason following a Change-in-Control (as hereinafter defined) or prior to a Change-in-Control other than for Employer's Breach, Employee will not be entitled to receive any severance pay other than the amounts, if any, due him at the Date of Termination but will be entitled to receive the pension benefits if due to him pursuant to the provisions of paragraph 1(e)(vii)(B) hereof.

(c) In the event that, at or after a Change-in-Control and prior to the third anniversary of the date of the Change-in-Control, Employee's employment is terminated during the Term by Employee for Good Reason or Employer's Breach or by Kennametal other than for Cause, death or Disability pursuant to paragraph 5, then Employee will receive as severance pay (in addition to all other amounts due him at the Date of Termination) an amount equal to the product of:

(i) three (3)

times

(ii) the sum of

(x) the Base Salary in effect on the Date of Termination, plus

(y) the average of the three (3) most recent Cash Bonuses received by Employee prior to the Date of Termination.

Such severance pay shall be paid by wire transfer to an account designated by Employee or by delivery of a cashier's or certified check to the Employee at Kennametal's executive offices on a date which is no later than fifteen (15) business days satisfaction of the condition set forth in paragraph hereof.

If there is a Change-in-Control, and if Employee elects to terminate his employment for any reason or no reason during the thirty (30) day period commencing twelve (12) months after the date of the Change-in-Control, the Employee shall be paid severance benefits as though Employee had been terminated by Kennametal without Cause pursuant to this paragraph 4(c).

In addition to the severance payments provided for in this paragraph 4(c), Employee also will receive the same or equivalent medical, dental, disability and group insurance benefits as were provided to the Employee at the Date of Termination, which benefits shall be provided to Employee for a three year period commencing on the Date of Termination. The Employee shall also be deemed and shall be credited for computing benefits, for vesting and for all other purposes under any pension or retirement income plan of Kennametal (including any supplemental retirement plan) to have continuously remained in the employment of Kennametal for the three year period following the Date of Termination at an annual compensation equal to the sum of the Base Salary and Cash Bonus which were used to compute the payment due the Employee under the first paragraph of this paragraph 4(c).

(d) If for any reason, whether by law or provisions of Kennametal's employee medical, dental or group insurance, pension or retirement plan or other benefit plans, any benefits which the Employee would be entitled to under the foregoing paragraph 4(c) cannot be paid pursuant to such employee benefit plans, then Kennametal hereby contractually agrees to pay to the Employee the difference between the benefits which the Employee would have received in accordance with the foregoing paragraph 4(c) if the relevant employee medical, dental or group insurance or pension or retirement plan or other benefit plan could have paid such benefit and the amount of benefits, if any, actually paid by such employee medical, dental or group insurance or pension or retirement plan or other benefit plan. Kennametal shall not be required to fund its obligation to pay the foregoing difference.

(e) In the event of a termination of employment under the circumstances described above in paragraph 4(a) or paragraph 4(c), Employee shall have no duty to seek any other employment after termination of Employee's employment with Kennametal and Kennametal hereby waives and agrees not to raise or use any defense based on the position that Employee had a duty to mitigate or reduce the amounts due him hereunder by seeking other employment whether suitable or unsuitable and should Employee obtain other employment, then the only effect of such on the obligations of Kennametal hereunder shall be that Kennametal shall be entitled to credit against any payments which would otherwise be made for medical, dental or group insurance or similar benefits (excluding, however, any credit against Kennametal payments relating to pension or retirement benefits including under any supplemental retirement plan) pursuant to the benefit provisions set forth in paragraph 4(c) hereof, any comparable payments to which Employee is entitled under the employee benefit plans maintained by Employee's other employer or employers in connection with services to such employer or employers after termination of his employment with Kennametal.

(f) The term "Change-in-Control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A promulgated under the Securities Exchange Act of 1934 as in effect on the date hereof ("1934 Act"), or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the 1934 Act which serve similar purposes; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) Kennametal shall be merged or consolidated with any corporation or other entity other than a merger or consolidation with a corporation or other entity all of whose equity interests are owned by Kennametal immediately prior to the merger or consolidation, or (B) Kennametal shall sell all or substantially all of its operating properties and assets to another person, group of associated persons or corporation, or (C) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act), is or becomes a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities coupled with or followed by the existence of a majority of the board of directors of Kennametal consisting of persons other than persons who either were directors of Kennametal immediately prior to or were nominated by those persons who were directors of Kennametal immediately prior to such person becoming a beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities.

(g) For purposes of this agreement "Date of Termination" shall mean:

(i) if Employee's employment is terminated due to his death or retirement, the date of death or retirement, respectively; or

(ii) if Employee's employment is terminated for any other reason, the date on which the termination becomes effective as stated in the written notice of termination given to or by the Employee or, if no written notice is given, the date determined by Kennametal in good faith.

(h) The term "Good Reason" for termination by the Employee shall mean the occurrence of any of the following at or after a Change-in-Control:

(i) without the Employee's express written consent, the assignment to the Employee of any duties materially and substantially inconsistent with his positions, duties, responsibilities and status with Kennametal immediately prior to a Change-in-Control, or a material change in his reporting responsibilities, titles or offices as in effect immediately prior to a Change-in-Control, or any removal of the Employee from or any failure to re-elect the Employee to any of such positions, except in connection with the termination of the Employee's employment due to Cause or as a result of the Employee's death;

(ii) a reduction by Kennametal in the Employee's base salary as in effect immediately prior to any Change-in-Control;

(iii) a failure by Kennametal to continue to provide incentive compensation, under the rules by which incentives are provided, comparable to that provided by Kennametal immediately prior to any Change-in-Control;

(iv) the failure by Kennametal to continue in effect any benefit or compensation plan, stock option plan, pension plan, life insurance plan, health and accident plan or disability plan in which Employee is participating immediately prior to a Change-in-Control (provided, however, that there shall not be deemed to be any such failure if Kennametal substitutes for the discontinued plan, a plan providing Employee with substantially similar benefits) or the taking of any action by Kennametal which would adversely affect Employee's participation in or materially reduce Employee's benefits under any of such plans or deprive Employee of any material fringe benefit enjoyed by Employee immediately prior to a Change-in-Control;

(v) the failure of Kennametal to obtain the assumption of this Agreement by any successor as contemplated in paragraph 11 hereof;

(vi) the relocation of the Employee to a facility or a location more than 60 miles from the Employee's then present location and more than 50 miles from Employee's then present primary residence without the Employee's prior written consent; or

(vii) any purported termination of the employment of Employee by Kennametal which is not for Cause as provided in paragraph 5.

5. (a) In the event that Employee:

(i) shall be guilty of malfeasance, willful misconduct or gross negligence in the performance of the services contemplated by this Agreement;

(ii) shall willfully, deliberately and continually fail to perform his duties or to implement the policies or directives of the Board of Directors after written demand is delivered to the Employee by the Board of Directors which specifically identifies the manner in which the Board of Directors believes that the Employee has failed to perform his duties or implement the policies or directives of the Board of Directors, and such failure has not been cured within thirty (30) days after such written demand;

(iii) shall not make his services available to Kennametal on a full time basis in accordance with paragraph 1 hereof for any reason prior to termination excluding Disability or Employee's incapacity due to physical or mental illness or injury which does not constitute Disability after written demand is delivered to the Employee by the Board of Directors which specifically identifies the manner in which the Board of Directors believes that the Employee has failed to make his services available to Kennametal on a full time basis, and such failure has not been cured within thirty (30) days after such written demand;

(iv) shall intentionally or recklessly breach or shall breach in any material respect any of the provisions of paragraphs 7, 8 or 9 of this Agreement; or

(v) shall be convicted of a felony

(each of the matters described in subparagraphs (i), (ii), (iii), (iv) and (v)) above shall be "Cause"), Kennametal shall have the right, exercised by resolution adopted by a majority of its Board of Directors, to terminate Employee's employment for Cause by giving prior written notice of termination pursuant to Section 3 hereof to Employee of its election so to do together with a reasonable opportunity for the Employee to appear with counsel before the Board of Directors prior to the effective date of such termination of employment to respond to such notice of termination. "Cause" shall not be deemed to include opposition by Employee to a Change-in-Control or any matter incidental thereto and any determination by the Board of Directors that "Cause" existed shall not be final or binding upon the Employee or his rights hereunder or entitled to any deference in any court or other tribunal.

(b) In that event, Employee's employment shall be deemed terminated for Cause, Kennametal shall not be obligated to pay and Employee shall not be entitled to the benefits set forth in paragraphs 1 and 4; provided, however, that Kennametal shall have the obligation to pay Employee the unpaid portion of Employee's Base Salary for the period from the last period from which Employee was paid to the Date of Termination.

(c) Kennametal shall have the right to terminate Employee's employment due to Disability. If Employee's employment is terminated as a result of the Disability of Employee, the benefits set forth in paragraphs 1 and 4 shall not be paid or payable but Employee shall be entitled to receive the annual supplement under the supplemental retirement plan pursuant to paragraph 1(e)(vii)(A) hereof and Employee's employment by Kennametal shall not be deemed terminated for purposes of the Long-Term Disability Plan, Retirement Income Plan for US Salaried Employees or any other benefit plan which so provides.

For purposes of this agreement "Disability" shall mean such incapacity due to physical or mental illness or injury which results in the Employee's being absent from his principal office at Kennametal's offices for the entire portion of 180 consecutive business days.

6. Nothing herein contained shall affect the right of Employee to participate in and receive benefits under and in accordance with the then current provisions of any retirement income, profit-sharing, additional year-end or periodic remuneration or bonus, incentive compensation, insurance or any other employee welfare plan or program of Kennametal and all payments hereunder shall be in addition to any benefits received thereunder (including long term disability payments).

7. (a) Employee acknowledges that Kennametal and its affiliates and subsidiaries by nature of their respective businesses have a legitimate and protectable interest in their customers and employees with whom they have established significant relationships as a result of a substantial investment of time and money and, but for his employment hereunder, Employee would not have had contact with such customers and employees. Employee agrees that during the period of Employee's employment with Kennametal and for a period of two (2) years after termination of Employee's employment for any reason (the "Non-Solicit Period"), Employee will not (except in his capacity as an employee of Kennametal), directly or indirectly, for Employee's own account, or as an agent, employee, director, owner, partner, or consultant of any corporation, firm, partnership, joint venture, syndicate, sole proprietorship or other entity which has a place of business:

(x) solicit or induce, or attempt to solicit or induce any client or customer of Kennametal or any of its subsidiaries or affiliates not to do business with Kennametal or any of its subsidiaries or affiliates; or

(y) solicit or induce, or attempt to solicit or induce, any employee or agent of Kennametal or any of its subsidiaries or affiliates to terminate his or her relationship with Kennametal or any of its subsidiaries or affiliates.

(b) Neither the Employee nor Kennametal will at any time (whether during or after termination of Employee's employment with Kennametal) knowingly make any statement, written or oral, or take any other action relating to the other party that would disparage or otherwise harm such party, its business or his reputation or, in the case of Kennametal, its affiliates and subsidiaries, the reputation of any of its employees, officers and directors.

8. During the period of employment of Employee by Kennametal and for three (3) years thereafter (provided, however, that this paragraph 8 shall not apply to the Employee following a termination of Employee's employment (x) if a Change-in-Control shall have occurred prior to the Date of Termination or (y) if Employee's employment is terminated by Kennametal other than for Cause or by Employee due to Employer's Breach), Employee will not, in any geographic area in which Kennametal is offering its services and products, without the prior written consent of Kennametal:

(a) directly or indirectly engage in, or

(b) assist or have an active interest in (whether as proprietor, partner, investor, shareholder, officer, director or any type of principal whatsoever), or

(c) enter the employ of, or act as agent for, or advisor or consultant to, any person, firm, partnership, association, corporation or business organization, entity or enterprise which is or is about to become directly or indirectly engaged in,

any business which is competitive with any business of Kennametal or any subsidiary or affiliate thereof in which Employee is or was engaged; provided, however, that the foregoing provisions of this paragraph 8 are not intended to prohibit and shall not prohibit Employee from purchasing, for investment, not in excess of 1% of any class of stock or other corporate security of any company which is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

Employee acknowledges that the breach by him of the provisions of this paragraph 8 would cause irreparable injury to Kennametal, acknowledges and agrees that remedies at law for any such breach will be inadequate and consents and agrees that Kennametal shall be entitled, without the necessity of proof of actual damage, to injunctive relief in any proceedings which may be brought to enforce the provisions of this paragraph 8. Employee acknowledges and warrants that he will be fully able to earn an adequate livelihood for himself and his dependents if this paragraph 8 should be specifically enforced against him and that such enforcement will not impair his ability to obtain employment commensurate with his abilities and fully acceptable to him.

If the scope of any restriction contained in this paragraph 8 is too broad to permit enforcement of such restriction to its full extent, then such restriction shall be enforced to the maximum extent permitted by law and Employee and Kennametal hereby consent and agree that such scope may be judicially modified in any proceeding brought to enforce such restriction.

9. (a) Employee acknowledges and agrees that in the course of his employment by Kennametal, Employee may work with, add to, create or acquire trade secrets and confidential information ("Confidential Information") which could include, in whole or in part, information:

(i) of a technical nature such as, but not limited to, Kennametal's manuals, methods, know-how, formulae, shapes, designs, compositions, processes, applications, ideas, improvements, discoveries, inventions, research and development projects, equipment, apparatus, appliances, computer programs, software, systems documentation, special hardware, software development and similar items; or

(ii) of a business nature such as, but not limited to, information about business plans, sources of supply, cost, purchasing, profits, markets, sales, sales volume, sales methods, sales proposals, identity of customers and prospective customers, identity of customers' key purchasing personnel, amount or kind of customers' purchases and other information about customers; or

(iii) pertaining to future developments such as, but not limited to, research and development or future marketing or merchandising.

Employee further acknowledges and agrees that (i) all Confidential Information is the property of Kennametal; (ii) the unauthorized use, misappropriation or disclosure of any

Confidential Information would constitute a breach of trust and could cause irreparable injury to Kennametal; and (iii) it is essential to the protection of Kennametal's goodwill and to the maintenance of its competitive position that all Confidential Information be kept secret and that Employee not disclose any Confidential Information to others or use any Confidential Information to the detriment of Kennametal.

Employee agrees to hold and safeguard all Confidential Information in trust for Kennametal, its successors and assigns and Employee shall not (except as required in the performance of Employee's duties), use or disclose or make available to anyone for use outside Kennametal's organization at any time, either during employment with Kennametal or subsequent thereto, any of the Confidential Information, whether or not developed by Employee, without the prior written consent of Kennametal.

(b) Employee agrees that:

(i) he will promptly and fully disclose to Kennametal or such officer or other agent as may be designated by Kennametal any and all inventions made or conceived by Employee (whether made solely by Employee or jointly with others) during employment with Kennametal (A) which are along the line of the business, work or investigations of Kennametal, or (B) which result from or are suggested by any work which Employee may do for or on behalf of Kennametal; and

(ii) he will assist Kennametal and its nominees during and subsequent to such employment in every proper way (entirely at its or their expense) to obtain for its or their own benefit patents for such inventions in any and all countries; the said inventions, without further consideration other than such salary as from time to time may be paid to him by Kennametal as compensation for his services in any capacity, shall be and remain the sole and exclusive property of Kennametal or its nominee whether patented or not; and

(iii) he will keep and maintain adequate and current written records of all such inventions, in the form of but not necessarily limited to notes, sketches, drawings, or reports relating thereto, which records shall be and remain the property of and available to Kennametal at all times.

(c) Employee agrees that, promptly upon termination of his employment, he will disclose to Kennametal, or to such officer or other agent as may be designated by Kennametal, all inventions which have been partly or wholly conceived, invented or developed by him for which applications for patents have not been made and shall thereafter execute all such instruments of the character hereinbefore referred to, and will take such steps as may be necessary to secure and assign to Kennametal the exclusive rights in and to such inventions and any patents that may be issued thereon any expense therefor to be borne by Kennametal.

(d) Employee agrees that he will not at any time aid in attacking the patentability, scope, or validity of any invention to which the provisions of subparagraphs (b) and (c), above, apply.

10. In the event that (a) Employee institutes any legal action to enforce his rights under, or to recover damages for breach of this Agreement, or (b) Kennametal institutes any action to avoid making any payments due to Employee under this Agreement, Employee, if he is the prevailing party, shall be entitled to recover from Kennametal any actual expenses for attorney's fees and other disbursements incurred by him in relation thereto (the "FEE REIMBURSEMENT"). If Employee is required to pay federal, state or local income or other taxes ("Income Taxes") on any Fee Reimbursement, then Kennametal shall pay to the Employee an amount of cash sufficient to "gross-up" such Fee Reimbursement so that the Fee Reimbursement is not diminished by any such Income Taxes that are imposed on the Fee Reimbursement or on Kennametal's gross-up hereunder. Except as set forth above, Employee's sole and exclusive remedy for breach of this Agreement by Kennametal shall be recovery of the amounts due to Employee for Employer's Breach in paragraphs 1(e)(vii) and 4(a) and 4(c). Employee acknowledges that Employee's actual damages in the event of Employer's Breach would be difficult to determine and that such amount is a reasonable amount of liquidated damages for any such Employer's Breach.

11. The terms and provisions of this Agreement shall be binding upon, and shall inure to the benefit of, Employee and Kennametal, it subsidiaries and affiliates and their respective successors and assigns.

12. From and after the Effective Date, this Agreement constitutes the entire Agreement between the parties hereto and supersedes all prior agreements and understandings, whether oral or written, among the parties with respect to the subject matter hereof. This Agreement may not be amended orally, but only by an instrument in writing signed by each of the parties to this Agreement.

13. The invalidity or unenforceability of any provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.

14. Any pronoun and any variation thereof used in this agreement shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the parties hereto may require.

15. It shall be a condition to Kennametal's obligations to make any severance payment or to provide any benefits hereunder (including, but not limited to, the vesting of any stock-based compensation) upon a termination of the Employee's employment that the Employee deliver, and not revoke within the period provided therein, on or before the making of any such severance payment or the providing of any such benefit, a release in the form of Exhibit D attached hereto.

16. If any payments or benefits received or to be received by Employee under paragraph 4(c) of this Agreement or any other payments (the "Severance Payments") will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar tax that may hereafter be imposed, Kennametal shall pay to Employee, at the time specified below, an additional amount (the "Excise Tax Payment") such that the amount retained by Employee, after deduction of any Excise Tax on the Severance Payments and any Income Taxes and Excise Tax upon the payment provided for by this paragraph 16(a), but not including any deduction for Income Taxes on the original amount of the Severance Payments, shall be equal to the Severance Payments.

For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all Severance Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Board of Directors, such Severance Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Severance Payments or (B) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by Kennametal's independent auditors in accordance with the principles of Section 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Excise Tax Payment, Employee shall be deemed to pay federal income taxes at Employee's highest marginal rate of federal income taxation in the calendar year in which the Excise Tax Payment is to be made and state and local income taxes at Employee's highest marginal rate of taxation in the state and locality of Employee's residence on the first date that Employee is entitled to receive Severance Payments under this Agreement, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder, Employee shall repay to Kennametal at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Excise Tax Payment attributable to such reduction (plus the portion of the Excise Tax Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Excise Tax Payment being repaid by Employee if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment from the date the Excise Tax Payment was initially made to the date of repayment at the rate provided in Section 1274(b)(2)(B) of the Code (the "Applicable Rate"); provided, however, the amount that Employee is required to repay to Kennametal under this paragraph shall not exceed the amount receivable by Employee in a refund or as a credit plus interest thereon calculated as set forth above.

In the event that the Excise Tax is determined to exceed the amount taken into account hereunder, Kennametal shall make an additional Excise Tax Payment in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined. Any payment to be made to Employee under this paragraph shall be payable within five (5) business days of Employee's Date of Termination (or within five (5) business days of Employee's earlier cessation of active service).

17. This agreement shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its conflict or choice of law provisions.

WITNESS the due execution hereto the day and year first above written.

WITNESS:	KENNAMETAL INC.
/s/ DEBORAH A. HANKS	By: /s/ WILLIAM R. NEWLIN
	William R. Newlin Chairman of the Board Chairman of the Executive Committee
WITNESS:	EMPLOYEE:
/s/ CECILE G. MITCHELL	/s/ MARKOS I. TAMBAKERAS
	Markos I. Tambakeras

Schedule I

SUPPLEMENTAL BENEFITS TABLE

COLUMN A	COLUMN B		
YEAR OF TERMINATION	TOTAL ANNUAL BENEFIT AT AGE 60	TOTAL ANNUAL BENEFIT AT AGE 63	TOTAL ANNUAL BENEFIT AT AGE 66
2002			$179,800
2003			200,679
2004			226,806
2005			257,309
2006			289,822
2007			325,748
2008		$364,408	
2009		406,336	
2010 and beyond	$392,722		

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS The following discussion should be read in connection with the consolidated financial statements of Kennametal Inc. and the related footnotes. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. Additionally, when used in this Annual Report, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries.

BUSINESS OVERVIEW We are a leading global manufacturer, marketer and distributor of a broad range of cutting tools, tooling systems, supplies and technical services, as well as wear-resistant parts. We believe that our reputation for manufacturing excellence and technological expertise and innovation in our principal products has helped us achieve a leading market presence in our primary markets. We believe we are the second largest global provider of metalcutting tools and tooling systems. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool and farm machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries.

SALES Sales of $1,583.7 million in 2002 declined 11 percent, versus $1,807.9 million last year excluding unfavorable foreign exchange effects of less than one percent due to a stronger U.S. dollar and the loss of sales through divestitures of one percent. Sales in North America contributed to the majority of the decline due to overall weak market conditions.

Sales of $1,807.9 million in 2001 increased two percent compared to sales of $1,866.6 million in 2000, excluding unfavorable foreign exchange effects of three percent due to the stronger U.S. dollar and the effects of fewer workdays in 2001 of two percent. Sales benefited from broad-based end market growth in Europe and sustained growth in Asia. Sales in the North American end markets softened throughout 2001, particularly in automotive, due to the slowdown in the U.S. manufacturing sector.

GROSS PROFIT MARGIN In 2002, our gross profit margin was 32.3 percent, down from 34.1 percent in 2001. Excluding special charges in each year, our gross profit margin was 32.4 percent in 2002 versus 34.2 percent in 2001. The decline was due primarily to underutilized capacity and unfavorable manufacturing variances associated with the lower sales volume. Additionally, unfavorable product mix contributed to the lower margins. These unfavorable items were partially offset by efficiencies derived from our lean initiatives. Gross margins for 2002 and 2001 included $2.7 million and $3.6 million, respectively, of inventory abandonment charges primarily associated with facility closures in 2002 and the rationalization of certain product lines that were discontinued as part of a program to streamline and optimize the product offering of J&L Industrial Supply (J&L) in 2001.

The consolidated gross profit margin for 2001 was 34.1 percent, 34.7 percent on a constant currency basis. This includes the charge of $3.6 million associated primarily with the write-down of certain product lines in the J&L segment. Excluding this charge and period costs associated with facility rationalizations for each period, the gross profit margin was flat compared with 34.3 percent in the prior year, despite weaker sales. Gross margin benefited from productivity improvements, continued implementation of lean manufacturing techniques and pricing discipline. This was offset by higher material costs and energy prices. Period costs included in gross profit in 2001 and 2000 were $0.6 million and $2.9 million, respectively, related to the facility closures.

OPERATING EXPENSE Operating expense of $389.4 million in 2002 was $36.2 million or nine percent lower than the operating expense level in 2001 of $425.6 million. Ongoing cost-cutting and lean initiatives, combined with several short-term savings actions, including the curtailment of salary increases and the company match on 401(k) contributions, mitigated the impact of reduced sales. Although overall operating expense declined, our spending on growth programs and research and development was sustained. On a constant currency basis, operating expense declined eight percent. Operating expense in 2002 includes $0.1 million of integration costs associated with the Widia acquisition (see "Business Development").

In 2001, operating expense declined to $425.6 million from $434.1 million in 2000. However, operating expense increased one percent on a constant currency basis. We offset inflationary pressures through restructuring benefits and other productivity improvements. Despite the decline, we incurred incremental costs of approximately $6.5 million on investments for strategic initiatives, including new sales and marketing programs, productivity programs and our e-business initiative. In 2001, operating expense includes $2.1 million of costs related to the tender offer for the minority shares of JLK Direct Distribution Inc. (JLK). Operating expense for 2000 includes a $3.0 million charge for environmental remediation costs and $0.8 million for costs incurred and expensed for the evaluation of strategic alternatives related to JLK.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

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

We implemented the measures associated with the closing and consolidation of the Advanced Materials Solutions Group (AMSG) electronics facility in Chicago, Ill., and Metalworking Solutions & Services Group (MSSG) industrial product group's Pine Bluff, Ark. and Monticello, Ind. locations, the production of a particular line of products in Rogers, Ark. and several customer service centers. As a result, we recorded restructuring charges of $14.8 million during 2002 related to exit costs associated with these actions, including severance for substantially all 337 employees at the closed facilities. We also recorded a charge of $2.5 million related to severance for 84 individuals, primarily in the MSSG segment. The total charge to date of $17.3 million includes non-cash items of $5.4 million. The components of the charges and the accrual at June 30, 2002 for this program are as follows:

(in thousands)	2002 Expense	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2002
Facility rationalizations	$14,801	$(5,387)	$(6,437)	$ 2,977
Employee severance	2,525	--	(1,305)	1,220
Total	$17,326	$(5,387)	$(7,742)	$ 4,197

The restructuring accrual at June 30, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next 12 months.

Additionally, as part of these actions, we recorded a non-cash charge of $1.0 million, net of salvage value, associated with the abandonment and scrapping of inventory. This charge was recorded as a component of cost of goods sold. We also incurred period costs associated with these actions of $1.5 million during 2002, which were expensed as incurred as a component of cost of goods sold.

2002 AND 2001 J&L AND FSS BUSINESS IMPROVEMENT PROGRAM In the J&L segment for 2001, we recorded a restructuring and asset impairment charge of $2.5 million of severance of 115 individuals, $1.8 million associated with the closure of 11 underperforming satellite locations, including the German operations, and $0.7 million for the exiting of three warehouses. This includes a $0.4 million non-cash write-down of the book value of certain property, plant and equipment, net of salvage value, that we determined would no longer be utilized in ongoing operations. In the Full Service Supply (FSS) segment for 2001, we recorded restructuring charges of $0.6 million for severance related to eight individuals.

In 2002, we continued our J&L and FSS business improvement programs initiated in 2001. In the J&L segment during 2002, we recorded restructuring and asset impairment charges of $5.3 million related to the write-down of a portion of the value of a business system, $2.5 million for severance for 81 individuals and $1.7 million related to the closure of 10 satellites and two call centers. In anticipation of migrating to a new business system, we capitalized costs associated with the development of system functionality specifically designed for the J&L business. In the December 2001 quarter, after further evaluation of the development of the system, we determined it was no longer feasible that J&L would use this portion of the business system because the vendor ceased supporting the system. Therefore, we recorded the non-cash charge of $5.3 million representing the portion of costs capitalized in connection with system enhancements specifically for the J&L business. In the FSS segment for 2002, we recorded restructuring charges of $0.7 million for severance related to 34 individuals.

All initiatives under this business improvement program have been implemented and completed and all charges have been taken. The components of the 2002 and 2001 charges and the restructuring accrual at June 30, 2002 and 2001 are as follows:

(in thousands)	2001 Expense	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2001
J&L business improvement program:				
Employee severance	$ 2,475	$ --	$(2,224)	$ 251
Facility closures	2,453	(987)	(526)	940
FSS business improvement program	571	--	(430)	141
Total	$ 5,499	$ (987)	$(3,180)	$ 1,332

(in thousands)	Accrual at June 30, 2001	2002 Expense	Expense Adjustments	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2002
J&L business improvement program:						
Employee severance	$ 251	$ 2,479	$ 6	$ --	$(2,370)	$ 366
Facility closures	940	1,731	93	(572)	(1,398)	794
Business system	--	5,257	--	(5,257)	--	--
FSS business improvement program	141	706	(71)	--	(548)	228
Total	$ 1,332	$10,173	$ 28	$(5,829)	$(4,316)	$ 1,388

The expense adjustments for the facility closures were due to incremental costs incurred to exit these facilities. The other expense adjustments relate to reductions in actual amounts paid for severance costs compared to what was initially anticipated. We recorded expense adjustments as a component of restructuring and asset impairment charges.

In connection with the 2001 J&L charge for exiting the warehouses and the satellite closures, we recorded a non-cash write-down, net of salvage value, of $0.6 million primarily related to inventory that was abandoned and not relocated. J&L also finalized and implemented a program to optimize the overall catalog product offering. We identified certain products that would no longer be offered to customers and scrapped these products, resulting in a non-cash charge of $3.0 million, net of salvage value. These charges were recorded as a component of cost of goods sold.

As part of the J&L facility closures, in 2002 we recorded a charge of $0.6 million, net of salvage value, associated with the abandonment and scrapping of inventory at these locations. This charge was recorded as a component of cost of goods sold.

2001 CORE-BUSINESS RESIZE PROGRAM In 2001, we took actions to reduce our salaried workforce in response to the weakened U.S. manufacturing sector. As a result of implementing this core-business resize program, we recorded a restructuring charge of $4.6 million related to severance for 209 individuals. All employee benefit initiatives under this program have been implemented. Cash expenditures were $1.9 million and $2.2 million in 2002 and 2001, respectively. The restructuring accrual at June 30, 2002 of $0.4 million represents projected payments, the majority of which are expected to occur over the next 12 months.

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

The asset impairment charges of $4.8 million consisted of a charge of $1.7 million related to a metalworking manufacturing operation in Shanghai, China. This operation became fully operational in 1998 and at the time of review, had not generated the performance that was expected at the time we entered into this market. We performed an in-depth review of the operations, capacity utilization and the local management team, and engaged a consultant to perform an independent review of the same. These reviews enabled us to determine that the market served by this operation is not expected to develop to the extent originally anticipated, but that the operations were in good working order, utilized modern technology, and the management team in place was competent. We also determined that this facility had excess capacity given the level of market demand. In addition, we recorded an asset impairment charge of $2.8 million related to the write-down of equipment in our North American metalworking operations and $0.3 million in our engineered products operations. In connection with the repositioning of the company, we completed an assessment of the assets currently being used in these operations and determined that these assets were not going to be further utilized in conducting these operations. This amount represents the write-down of the book value of the assets, net of salvage value.

The $7.4 million in employee severance related to severance packages provided to 171 hourly and salaried employees terminated in connection with a global workforce reduction. Included in this charge is an incremental pension obligation of $0.8 million, incurred as a result of the severance packages provided.

The $6.3 million charge for facility rationalizations relates to employee severance for 153 employees and other exit costs associated with the closure or downsizing of a metalworking manufacturing operation in Kingswinford, United Kingdom; a circuit board drill plant in Janesville, Wisc.; a German warehouse facility; and several offices in the Asia Pacific region and South America. Included in this charge is an incremental pension obligation of $0.2 million due to a plan curtailment. The charge also includes $3.4 million for employee severance for 41 employees and other exit costs associated with the closure of a mining and construction manufacturing operation in China and the exit of the related joint venture.

The product rationalization charge of $0.1 million represents the write-down of certain discontinued product lines manufactured in these operations. We manufactured these products specifically for the market served by these operations and we determined that these products are no longer salable. This charge has been recorded as a component of cost of goods sold.

As of June 30, 2002, $0.3 million remains accrued for facility rationalizations and is expected to be paid within the next 12 months. Adjustments to the original amounts accrued were immaterial.

In 2001, we incurred period costs of $0.3 million related to these initiatives which were included in cost of goods sold as incurred. In 2000, we incurred period costs of $0.8 million related to these initiatives, and costs of $1.7 million associated with the implementation of lean manufacturing techniques, both of which were included in cost of goods sold as incurred.

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

AMORTIZATION OF INTANGIBLES We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," (SFAS No. 142) on July 1, 2001. As a result of the non-amortization provisions of SFAS No. 142, we ceased amortizing goodwill resulting in amortization expense of $2.8 million for 2002, compared to $24.1 million and $26.5 million in 2001 and 2000, respectively. The amortization expense incurred in 2002 relates to non-goodwill intangibles.

INTEREST EXPENSE Interest expense of $32.6 million in 2002 was $17.8 million below the prior year due to ongoing debt reduction and lower average borrowing rates. Overall debt levels declined to $411.4 million at June 30, 2002 from $607.1 million a year ago. Our average domestic borrowing rate of 4.91 percent was 202 basis points below 2001 due to Federal Reserve rate cuts and improved pricing under our New Credit Agreement. Interest expense for 2002 included $0.3 million related to the write-down of the remaining deferred financing fees associated with the prior Bank Credit Agreement.

Interest expense for 2001 declined $4.7 million to $50.4 million due primarily to reduced borrowing levels. The 2001 results included $0.3 million related to the write-down of a portion of deferred financing fees due to the reduction of the availability under our Bank Credit Agreement. Excluding this item, interest expense declined nine percent. Our average domestic borrowing rate of 6.93 percent was 32 basis points higher compared to 2000 due to higher interest rate levels during the first six months of 2001. This was partially offset by improved pricing.

OTHER (INCOME) EXPENSE, NET In 2002, we recorded other income, net of $0.4 million, compared to other expense, net of $11.7 million in 2001. These amounts include losses of $3.5 million associated with our divestiture of Strong Tool Company and $5.8 million associated with our divestiture of ATS Industrial Supply, Inc. (ATS) in 2002 and 2001, respectively. Excluding these losses, other income, net improved $9.8 million primarily due to a $3.2 million reduction in fees in 2002 associated with the accounts receivable securitization program due to a significant decline in commercial paper rates which are the basis for determining the fees, and a $4.0 million increase in foreign exchange gains resulting from contracts entered to hedge against cross border cash flows.

For 2001 and 2000, other expense, net of $11.7 million and $3.3 million, respectively, included fees of $5.7 million and $5.2 million, respectively, related to the accounts receivable securitization program. The increase in these fees is due to higher levels of accounts receivable securitized through this program. In 2001, other expense also included a loss of $5.8 million associated with the divestiture of ATS. In 2000, other expense was partially offset by a net one-time gain of $1.4 million from the sale of miscellaneous underutilized assets.

INCOME TAXES The effective tax rate for 2002 was 32.0 percent compared to effective rates of 39.5 percent and 43.5 percent, respectively, for 2001 and 2000. The significant decrease in the effective rate for the current year is due mainly to the effects of the elimination of non-deductible goodwill expense due to the adoption of SFAS No. 142, as well as the continued leverage from previous years' European tax planning initiatives that were responsible for the effective tax rate decline from 2000 to 2001. The effective tax rates for 2001 and 2000 without the impact of non-deductible goodwill are 33.9 percent and 37.4 percent, respectively.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT In November 1999, we repaid our term loan under the Bank Credit Agreement. This resulted in an acceleration of the amortization of deferred financing fees of $0.4 million, which was recorded as an extraordinary loss of $0.3 million, net of tax, or $0.01 per diluted share.

CHANGES IN ACCOUNTING PRINCIPLES We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective July 1, 2001, which establishes new accounting and reporting requirements for goodwill and other intangible assets, including new measurement techniques for evaluating the recoverability of such assets. Under SFAS No. 142, all goodwill amortization ceased effective July 1, 2001. Material amounts of recorded goodwill attributable to each of our reporting units, including those affected by the restructuring program announced in November 2001, were tested for impairment by comparing the fair value of each reporting unit with its carrying value. As a result of the adoption of this rule, we recorded a non-cash, net of tax charge of $250.4 million, or $7.92 per diluted share specific to the electronics (AMSG segment - $82.1 million) and the industrial product group (MSSG segment - $168.3 million) businesses, which were acquired in 1998 as part of the acquisition of Greenfield Industries. The fair values of these reporting units were determined using a combination of discounted cash flow analysis and market multiples based upon historical and projected financial information. Under SFAS No. 142, the impairment adjustment recognized at adoption of this standard was reflected as a cumulative effect of a change in accounting principle, effective July 1, 2001.

On July 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133), resulting in the recording of a loss from the cumulative effect from the change in accounting principle of $0.6 million, net of tax, or $0.02 per diluted share. The loss primarily relates to the write-down of previously paid foreign currency option premiums.

NET INCOME Due largely to the goodwill impairment charge, we recorded a net loss in 2002 of $211.9 million, or $6.70 per diluted share, compared to net income of $53.3 million, or $1.73 per diluted share, in 2001. Excluding special charges and goodwill amortization in both years, diluted earnings per share were $1.95 in 2002 compared to $2.79 in 2001. The decline in earnings is due to lower sales levels and margins, partially offset by lower operating and interest expense, and a decline in our effective tax rate. Outside of the goodwill impairment charge, other restructuring and asset impairment charges of $27.3 million in 2002 or $0.86 per diluted share relate primarily to the MSSG and AMSG restructuring initiated in 2002 and additional costs associated with new restructuring actions made in the J&L business improvement program that was started in 2001. Included in net income for 2001 and 2000, respectively, was $19.0 million and $19.2 million of goodwill amortization, net of tax that was not included in 2002 due to the non-amortization provisions of SFAS No. 142.

Net income for 2001 was $53.3 million, or $1.73 per diluted share, compared to $51.7 million, or $1.70 per diluted share, in 2000. Excluding special charges and goodwill amortization in both years, diluted earnings per share were $2.79 in 2001 compared to $2.76 in 2000. We experienced significant weakness in key North American markets and unfavorable foreign exchange effects, however, earnings improved due to continued cost control and cost reduction activities, lower interest expense and a reduction in our effective tax rate. Special charges in 2001 of $22.5 million, or $0.44 per diluted share, related primarily to the J&L and FSS business improvement programs, the ATS divestiture, the core-business resize program and costs associated with the tender offer for the minority shares of JLK.

The following table provides a comparison of our reported results and the results excluding special charges and goodwill amortization for 2002, 2001 and 2000:

(in thousands, except per share amounts)	Gross Profit	Operating Income	Net Income (Loss)	Diluted Earnings (Loss) Per Share
Reported results - 2002	$ 510,824	$ 91,317	$(211,908)	$(6.70)
Adoption of SFAS No. 142	--	--	250,406	7.92
MSSG facility rationalizations and employee severance	544	10,245	6,958	0.22
J&L business improvement program	529	10,093	6,863	0.22
Electronics facility rationalization and employee severance	1,654	7,997	5,430	0.17
Loss on divestiture of Strong Tool Company	--	--	2,390	0.08
Corporate restructuring	--	1,075	730	0.02
FSS business improvement program	--	635	430	0.01
Deferred financing fees	--	--	184	0.01
Widia integration costs	--	144	98	--
Results excluding special charges - 2002	$ 513,551	$ 121,506	$ 61,581	$1.95
Reported results - 2001	$ 615,720	$ 156,400	$ 53,288	$1.73
Goodwill amortization	--	21,022	18,975	0.62
J&L business improvement program	3,643	7,952	4,726	0.16
Loss on divestiture of ATS	--	--	3,438	0.11
Core-business resize program	--	4,583	2,680	0.09
JLK tender offer costs	--	2,141	1,268	0.04
Adoption of SFAS No. 133	--	--	599	0.02
FSS business improvement program	--	571	330	0.01
Reduction of credit facility availability	--	--	208	0.01
2000 and 1999 restructuring program adjustments	--	82	50	--
Results excluding special charges and goodwill amortization - 2001	$ 619,363	$ 192,751	$ 85,562	$2.79
Reported results - 2000	$ 637,893	$ 158,779	$ 51,710	$1.70
Goodwill amortization	--	21,759	19,198	0.63
2000 core-business restructuring programs	100	18,626	10,573	0.35
Environmental remediation	--	3,000	1,695	0.06
JLK strategic alternatives costs	--	786	444	0.01
Extraordinary loss on debt extinguishment	--	--	267	0.01
Results excluding special charges and goodwill amortization - 2000	$ 637,993	$ 202,950	$ 83,887	$2.76

BUSINESS SEGMENT REVIEW Our operations are organized into four global business units consisting of MSSG, AMSG, J&L and FSS, and corporate functional shared services. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance.

METALWORKING SOLUTIONS & SERVICES GROUP In the MSSG segment, we provide consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. Our tooling systems consist of a steel toolholder and a cutting tool such as an indexable insert or drill made from cemented tungsten carbides, high-speed steel or other hard materials. Other cutting tools include end mills, reamers and taps. We provide solutions to our customers' metalcutting needs through engineering services aimed at improving their competitiveness. We also manufacture cutting tools, drill bits, saw blades and other tools for the consumer market which are marketed under private label and other proprietary brands.

(in thousands)	2002	2001	2000
External sales	$ 897,157	$ 999,813	$1,029,395
Intersegment sales	116,467	111,780	134,398
Operating income	97,323	130,558	131,676

Sales in the MSSG segment of $897.2 million declined 10 percent from $999.8 million of a year ago. In the North America Metalworking Group, sales declined $45.5 million or 13 percent while industrial products group sales declined $46.3 million or 19 percent, all in local currency. Due to depressed market conditions, sales of the North American operations contributed to nearly 90% of the overall segment decline.

In 2002, operating income declined $33.2 million to $97.3 million, including $10.2 million of charges related to this segment's restructuring. Additionally, the lower sales levels contributed significantly to the reduced operating profit, partially offset by operating expense reductions and lean initiatives.

In 2001, MSSG external sales increased one percent compared to 2000, excluding unfavorable foreign exchange effects of four percent. International markets experienced strong year-over-year growth, with particular strength in Europe. However, in North America, sales were down four percent primarily due to a decline in demand in the automotive market, coupled with significant weakness in the light engineering market. In Europe, sales increased nine percent, in local currency, due to broad-based growth reflecting strength in the machine tool and engineering markets. Demand in the European automotive market remained strong, though at a slightly diminished rate compared to 2000. Sales in Asia increased eight percent in local currency, compared to 2000.

Operating income in 2001 was $130.6 million and was reduced by restructuring charges of $3.3 million, primarily associated with severance costs for 129 people as part of the core-business resize program, and period costs of $0.2 million associated with facility closures. Operating income in 2000 of $131.7 million was reduced by restructuring and asset impairment charges of $11.0 million and period costs of $2.4 million. Excluding restructuring and period costs in each period, operating income declined $11.0 million, or eight percent, due to lower sales levels in the more profitable North American market, offset in part by lean initiatives and ongoing cost controls.

ADVANCED MATERIALS SOLUTIONS GROUP This segment's principal business is the production and sale of cemented tungsten carbide products used in mining, highway construction and engineered applications including circuit board drills, compacts and other similar applications. These products have technical commonality to our core metalworking products. We also sell metallurgical powders to manufacturers of cemented tungsten carbide products. In addition, we provide application specific component design services and on-site application support services.

(in thousands)	2002	2001	2000
External sales	$ 307,668	$ 352,933	$ 345,447
Intersegment sales	24,167	28,167	25,263
Operating income	26,781	43,270	41,204

AMSG sales declined 12 percent in 2002, excluding foreign exchange effects of one percent. A continued weak demand in the electronics business due to a depressed market accounted for 64 percent of the overall sales decline of this segment. Additionally, lower sales in energy and engineered products contributed 25 and 11 percent, respectively, to the overall sales decline due primarily to declining rig counts and lower levels of industrial activity.

Operating income of $26.8 million in 2002 included $8.0 million of restructuring charges related primarily to the closure of the electronics facility in Chicago, Ill. compared to $0.9 million in 2001, primarily for severance costs. Excluding these charges, operating income declined $9.4 million. The decline was due to lower gross profit due to under-utilization of capacity caused by the volume declines which was partially offset by operating expense reductions.

AMSG sales for 2001 increased four percent compared to 2000, excluding unfavorable foreign exchange effects of two percent. Sales benefited from robust growth in energy, mining and engineered products groups due to increased gas and oil exploration and production, and higher demand for coal. This was partially offset by a decline in electronics which was due to a sharp decline in demand from the telecommunication industry in the last half of 2001.

Operating income for 2001 was $43.3 million and was reduced by restructuring costs of $0.9 million, associated primarily with severance costs for 80 people as part of the core-business resize program, and period costs of $0.1 million associated with a facility closure. Operating income for 2000 was reduced by $4.8 million related to the closure of a manufacturing operation in China and exit of the related joint venture, the closure of a circuit board drill plant in Janesville, Wisc., employee severance and asset impairment charges. Additionally, period costs of $0.5 million were incurred in 2000 related to the drill plant closure. Excluding restructuring and period costs in each year, operating income declined $2.2 million, or five percent, due to operating inefficiencies in the electronics business caused by weak sales, partially offset by sales growth in the other businesses and margin improvement in the energy and mining businesses.

J&L INDUSTRIAL SUPPLY In this segment, we provide metalworking consumables and related products to small- and medium-sized manufacturers in the United States and the United Kingdom. J&L markets products and services through annual mail-order catalogs and monthly sales flyers, telemarketing, the Internet and field sales. J&L distributes a broad range of metalcutting tools, abrasives, drills, machine tool accessories, precision measuring tools, gauges, hand tools and other supplies used in metalcutting operations.

(in thousands)	2002	2001	2000
External sales	$ 226,010	$ 296,264	$ 333,061
Intersegment sales	2,083	3,823	5,038
Operating income (loss)	(681)	3,689	17,208

Sales in this segment declined $70.3 million or 24 percent from a year ago, including eight percent due to the ATS and Strong Tool Company divestitures. The remainder of the decline is due to weak demand in the broad U.S. industrial market. Excluding the special charges in each period, operating income was $9.4 million and $13.8 million in 2002 and 2001, respectively. This decline occurred primarily due to the reduction in sales despite significantly reduced operating expense as a result of the initiatives related to the business improvement plan implemented in both 2002 and 2001. Operating income in 2002 and 2001 included $10.1 million and $8.0 million, respectively, associated with the business improvement program begun in 2001. Additionally, 2001 included $2.1 million related to the tender offer to acquire the minority shares of JLK.

In 2001, J&L sales declined 11 percent excluding the effect of the ATS disposition of one percent and unfavorable foreign exchange effects. Sales were affected by the automotive downturn and weakening in the broader U.S. industrial market. Operating income in 2001 of $3.7 million included costs of $8.0 million associated with the business improvement program and $2.1 million primarily related to the tender offer to acquire the minority shares of JLK. Excluding special charges in each period, operating income declined $4.1 million due primarily to lower sales levels, partially offset by operational improvements resulting from the business improvement program. As part of the business improvement plan, J&L recorded a restructuring and asset impairment charge associated with costs related to product pruning initiatives, severance for 115 individuals, the closure of 11 underperforming satellite locations, including the German operations, and the exit of three warehouse locations.

FULL SERVICE SUPPLY In the FSS segment, we provide metalworking consumables and related products to medium- and large-sized manufacturers in the United States and Canada. FSS offers integrated supply programs that provide inventory management systems, just-in-time availability and programs that focus on total cost savings.

(in thousands)	2002	2001	2000
External sales	$ 152,907	$ 158,886	$ 158,675
Intersegment sales	2,747	5,278	7,827
Operating income	2,014	7,541	12,021

FSS sales for 2002 declined four percent, or $6.0 million, compared to a year ago due primarily to the weakening in the North American industrial market. Operating income of $2.0 million in 2002, declined $5.5 million compared to 2001, excluding restructuring charges of $0.6 million in each of the two years. The decline is due to lower sales levels coupled with slightly lower gross margins due to a higher percentage of sales in the automotive sector.

In 2001, FSS sales were flat compared to 2000 as sales in existing accounts grew five percent, but were tempered by the downturn in the automotive end market. This growth also was offset by a decline in the integrated supply business transferred to FSS in 2001 as this business has relatively higher exposure to the automotive industry. Operating income for 2001, excluding restructuring costs of $0.6 million, declined by $3.9 million due to overall lower gross margins caused by a shift in end markets served and higher operating expense due to higher shipping costs incurred to provide enhanced customer service. Restructuring costs in 2001 relate to severance costs for eight people incurred as part of the business improvement program.

LIQUIDITY AND CAPITAL RESOURCES Our cash flow from operations is the primary source of financing for capital expenditures and internal growth. The most significant risks associated with our ability to generate sufficient cash flow from operations is the overall level of demand for our products. However, we believe we can adequately control costs and manage our working capital to meet our cash flow needs, despite low levels of demand. In June 2002, we entered into a new three-year, multi-currency, $650 million revolving bank credit facility with a group of financial institutions (New Credit Agreement). Our New Credit Agreement contains various covenants with which we must be in compliance including three financial covenants: a maximum leverage ratio, a maximum fixed charge coverage ratio and a minimum consolidated net worth. As of June 30, 2002, outstanding borrowings under this agreement were $81.5 million and we had the ability to borrow under this agreement or otherwise have additional debt of up to $262.5 million and be in compliance with the maximum leverage ratio financial covenant. The maximum leverage ratio financial covenant requires that we maintain at the end of each fiscal quarter a specified consolidated leverage ratio (as that term is defined in this agreement). On August 30, 2002, we borrowed approximately $185.0 million under this facility in connection with the Widia acquisition. Additionally, we generally obtain local financing through credit lines with commercial banks in the various countries in which we operate. At June 30, 2002, these borrowings amounted to $7.3 million. We believe that cash flow from operations and the availability under our credit lines will be sufficient to meet our cash requirements over the next 12 months. Based upon our debt structure at June 30, 2002 and 2001, 54 and 65 percent, respectively, of our debt was exposed to floating rates of interest, which is consistent with our target range for floating versus fixed interest rate debt. We periodically review the target range and the strategies designed to maintain the mix of floating to fixed interest rate debt within that range. In the future, we may decide to adjust the target range or the strategies to achieve it.

Following is a summary of our contractual obligations and other commercial commitments as of June 30, 2002:

(in thousands)	2003	2004	2005	2006 and thereafter	Total
Cash Commitments					
Long-term debt(1)	$ 14,621	$ 240	$ 81,745	$298,852	$395,458
Notes payable	6,926	--	--	--	6,926
Capital leases	1,933	1,780	1,359	3,911	8,983
Operating leases	18,825	14,716	11,551	27,588	72,680
Total	$ 42,305	$ 16,736	$ 94,655	$330,351	$484,047

(1) On August 30, 2002 we borrowed EUR 188.0 million (approximately $185.0 million) to finance the acquisition of Widia as further described in Note 19.

(in thousands)	2003	2004	2005	2006 and thereafter	Total
Other Commercial Commitments					
Letters of credit	$11,936	$ --	$ --	$ --	$11,936

During 2002, we generated $155.2 million in cash from operations, compared to $187.6 million in 2001. Lower income from operations and depreciation and amortization charges were partially offset by a net reduction in working capital. The continued reduction of working capital reflects our initiatives to generate strong cash flow. Both receivables and inventories were reduced when compared to the prior year as a result of the above initiatives and the lower sales levels experienced in 2002.

Net cash used for investing activities was $43.3 million in 2002. Compared to the prior year, net cash used for investing activities declined by $59.2 million primarily due to a reduction in the repurchase of minority interests of $46.3 million from 2001 and decreased capital spending of $15.9 million in 2002. We believe the level of capital spending in 2002 was sufficient to improve productivity and make necessary improvements to remain competitive.

Net cash flow used for financing activities was $118.2 million in 2002, compared to $92.2 million in 2001. This increase of $26.0 million is primarily due to higher debt repayments including the repayment of the borrowings under the previous Bank Credit Agreement and the Euro Credit Agreement, partially offset by $120.6 million in proceeds from the June 2002 stock offering.

On June 19, 2002, we issued $300.0 million of 7.2% Senior Unsecured Notes due 2012 (Senior Unsecured Notes). These notes were issued at 99.629% of the face amount and yielded $294.3 million of net proceeds after related financing costs. Additionally, in June 2002, we issued 3.5 million shares of our capital stock at a price of $36 per share. Net of issuance costs, this offering yielded proceeds of $120.6 million. Proceeds from these offerings were utilized to repay senior bank indebtedness and for general corporate purposes.

During 2001, we generated $187.6 million in cash flow from operations, a decrease of $33.6 million from 2000. This reduction is due to a decline in working capital improvements in 2001 after a robust reduction in 2000. The continued reduction of working capital reflects our initiative to generate strong cash flow.

Net cash used for investing activities was $102.5 million in 2001. Compared to the prior year, the increase in net cash used for investing activities of $59.4 million is primarily due to the repurchase of JLK of $40.8 million and other minority interests of $6.7 million and increased capital spending of $9.3 million. We believe the level of capital spending in 2001 was sufficient to improve productivity and make necessary improvements to remain competitive.

Net cash flow used for financing activities was $92.2 million in 2001, which compares to $173.3 million in 2000. This decline is due to lower debt repayments of $86.4 million coupled with higher company contributions of capital stock to U.S. defined contribution pension plans of $11.6 million. In 2001, these contributions resulted in the issuance of 247,860 shares of our capital stock, with a market value of $6.9 million. These declines were partially offset by treasury stock repurchases of $16.5 million. Lower debt repayments are the result of the purchase of the JLK and other minority interests, lower cash flow from operations and the repurchase of treasury stock.

In 2002, we continued our program to repurchase, from time to time, up to a total of 1,600,000 shares of our outstanding capital stock for investment or other general corporate purposes under the repurchase program announced on January 31, 1997. Additionally, our Board of Directors authorized the repurchase, from time to time, of up to a total of 2,000,000 additional shares of our outstanding capital stock. During 2002 and 2001, we purchased 375,000 shares and 600,000 shares, respectively, of our capital stock at a total cost of $12.4 million and $16.5 million, respectively, bringing the total number of shares purchased under the authority of these programs to 1,755,900 shares. The repurchases were financed principally by cash from operations and short-term borrowings. Repurchases may be made from time to time in the open market, in negotiated or other permissible transactions.

In December 2000, we entered into a EUR 212.0 million ($179.1 million at June 30, 2001 exchange rates) Euro-denominated revolving credit facility (Euro Credit Agreement) to hedge the foreign exchange exposure of our net investment in Euro-based subsidiaries and to diversify our interest rate exposure. Amounts borrowed under the Euro Credit Agreement were required to be used to repay indebtedness under the previous Bank Credit Agreement. To the extent the Bank Credit Agreement was fully repaid, these funds were available for working capital and general corporate purposes. On January 8, 2001, we borrowed EUR 212.0 million under this facility to meet our obligation under the then outstanding Euro-denominated forward exchange contracts. The proceeds from the Euro-denominated forward exchange contracts of $191.1 million were used to repay amounts borrowed under the previous Bank Credit Agreement. Subsequently, the availability under the previous Bank Credit Agreement was permanently reduced from $900.0 million to $700.0 million, resulting in a write-down of a portion of deferred financing fees of $0.3 million. This was recorded as a component of interest expense. The Bank Credit Agreement and the Euro Credit Agreement were cancelled in June 2002 when we repaid both facilities using proceeds raised from the public debt offering, the capital stock issuance and the New Credit Agreement.

We have an agreement with a financial institution whereby we securitize, on a continuous basis, an undivided interest in a specific pool of our domestic trade accounts receivable. We are permitted to securitize up to $100.0 million of accounts receivable under this agreement. The actual amount of accounts receivable securitized each month is a function of the net change (new billings less collections) in the specific pool of domestic accounts receivable, the impact of detailed eligibility requirements in the agreement (e.g. the aging, terms of payment, quality criteria and customer concentration), and the application of various reserves which are typically in trade receivable securitization transactions. A decrease in the amount of eligible accounts receivable could result in our inability to continue to securitize all or a portion of our accounts receivable. It is not unusual, however, for the amount of our eligible accounts receivable to vary by up to $5.0 to $10.0 million per month.

The financial institution charges us fees based on the level of accounts receivable securitized under this agreement and the commercial paper market rates plus the financial institution's cost to administer the program. The costs incurred under this program, $2.5 million, $5.7 million and $5.2 million in 2002, 2001 and 2000, respectively, are accounted for as a component of other expense, net and represent attractive funding costs compared to existing bank and public debt transactions. At June 30, 2002 and 2001, we securitized accounts receivable of $95.9 million and $93.7 million, respectively, under this program.

This agreement is required to be renewed periodically, and it is our intention to continuously obtain that renewal when required. The current agreement has an expiration date of June 30, 2003. Non-renewal of this agreement would result in our requirement to otherwise finance the amounts securitized. We anticipate that the risk of non-renewal of this securitization program with the provider or some other provider is very low. In the event of a decrease of our eligible accounts receivable or non-renewal of our securitization program, we would have to utilize alternative sources of capital to fund that portion of our working capital needs.

Capital expenditures for 2003 are estimated to be $50 to $60 million and will be used primarily to support new strategic initiatives, new products and to upgrade machinery and equipment almost all of which are discretionary.

FINANCIAL CONDITION At June 30, 2002, total assets were $1,523.6 million, a decline of 17 percent from June 30, 2001 due predominantly to the net goodwill impairment charge of $250.4 million associated with the adoption of SFAS No. 142 (See "Change in Accounting Principles" in Note 2 to the Consolidated Financial Statements). Net working capital was $375.3 million, a decline of three percent from $386.7 million for 2001 due primarily to lower accounts receivable and inventory levels. In 2002, accounts receivable declined $27.1 million to $179.1 million, while inventories declined $28.1 million to $345.1 million compared to 2001. Inventory turnover was 2.9 in 2002 compared to 3.1 in 2001. The improvement in net working capital is due to our initiatives to reduce accounts receivable and inventory levels as well as the lower sales levels experienced in 2002.

One of the features of our management incentive program is the focus on more efficient use of working capital to generate sales. Our ratio of primary working capital as a percentage of sales (PWC%) was 27.9 percent and 27.3 percent at June 30, 2002 and 2001, respectively. Primary working capital (PWC) is defined as inventory plus accounts receivable, less accounts payable. PWC% is calculated by averaging beginning of the year and quarter-end balances for PWC, divided by sales for the most recent 12-month period. While PWC% is not an alternative measure of asset utilization efficiency under accounting principles generally accepted in the United States of America and may not be comparable to other similarly titled measures of other companies, we believe PWC% is a meaningful measure of our efficiency in utilizing working capital to support sales.

Total debt (including capital lease obligations) decreased 32.2 percent to $411.4 million in 2002, primarily as a result of the repayment of borrowings under the Euro Credit Agreement and previous Bank Credit Agreement from proceeds obtained in the equity public offering and cash from operations. The ratio of total debt-to-capital was 36.2 percent at June 30, 2002, compared with 42.9 percent at June 30, 2001. The decline in the total debt-to-capital ratio is due to reduced debt levels, partially offset by lower shareowners' equity and minority interest. Cash from operations and our debt capacity are expected to continue to be sufficient to fund capital expenditures, debt service obligations, share repurchases, dividend payments and operating requirements. The debt-to-capital ratio at June 30, 2002 does not include amounts that were borrowed to fund the Widia acquisition.

ACQUISITION OF JLK MINORITY INTEREST In 2000, we engaged an investment bank to explore strategic alternatives regarding our 83 percent-owned subsidiary, JLK Direct Distribution Inc. (JLK), including a possible divestiture. At that time, we believed a divestiture might enhance growth prospects for both ourselves and JLK by allowing each company to focus on its core competencies. We completed a thorough and disciplined process of evaluating strategic alternatives and on May 2, 2000, decided to terminate consideration of a possible divestiture at that time. We incurred and expensed $0.8 million in costs associated with this evaluation in 2000.

On July 20, 2000, we proposed to the Board of Directors of JLK to acquire the outstanding shares of JLK we did not already own. On September 11, 2000, we announced a definitive merger agreement with JLK to acquire all the outstanding minority shares. Pursuant to the agreement, JLK agreed to commence a cash tender offer for all of its shares of Class A Common Stock at a price of $8.75 per share. The tender offer commenced on October 3, 2000 and expired on November 15, 2000 resulting in JLK reacquiring 4.3 million shares for $37.5 million. Following JLK's purchase of shares in the tender offer, we acquired the minority shares at the same price in a merger. We incurred transaction costs of $3.3 million, which were included in the total cost of the transaction. JLK incurred costs of $2.1 million associated with the transaction, which were expensed as incurred. The transaction was unanimously approved by the JLK Board of Directors, including its special committee comprised of independent directors of the JLK Board.

BUSINESS DEVELOPMENT On May 3, 2002, we signed a definitive agreement to purchase the Widia Group (Widia) in Europe and India from Milacron Inc. for EUR 188 million (approximately $185 million) subject to a purchase price adjustment based on the change in the net assets of Widia from December 31, 2001 to the closing date. The acquisition closed on August 30, 2002.

Widia, with approximately $240 million in sales in calendar 2001, is a leading manufacturer and marketer of metalworking tools, engineered products and related services in Europe and India. Widia has an extensive product line of metalworking consumables, and is a recognized leader in milling applications. Widia employs approximately 3,400 employees, and operates eight manufacturing facilities in Europe and two in India. We currently intend on integrating the operations of the Widia Group with existing operations. Widia sells primarily through direct sales and has sales and service personnel in many European countries.

The funding of the Widia acquisition was taken into consideration as part of the recently-completed comprehensive refinancing of our capital structure, the key components of which were the establishment of a new $650 million three-year, multi-currency, revolving credit facility, the issuance of $300 million of 7.2% Senior Unsecured Notes due 2012, and the sale of 3.5 million shares of Capital Stock at a public offering price of $36 per share.

In January 2002, we acquired Carmet Company for $5.1 million. Located in Duncan, S.C., this entity is a producer of tungsten carbide cutting tools and wear parts and is included in our AMSG segment.

On April 19, 2002, we sold Strong Tool Company, our industrial supply distributor based in Cleveland, Ohio, for $8.6 million comprised of cash proceeds of $4.0 million and a seller note for $4.6 million. This action resulted in a pretax loss of $3.5 million and is in line with our strategy to refocus the J&L segment on its core catalog business. Annualized sales of this business were approximately $34 million.

In April 2001, we sold ATS, our industrial supply distributor based in Salt Lake City, Utah, for $6.8 million comprised of cash proceeds of $1.0 million and a seller note for $5.8 million. This action resulted in a pretax loss of $5.8 million and is in line with our strategy to refocus the J&L segment on its core catalog business. Annualized sales of this business were approximately $17 million.

We continue to evaluate new opportunities that allow for the expansion of existing product lines into new market areas, either directly or indirectly through joint ventures, where appropriate.

ENVIRONMENTAL MATTERS We are involved in various environmental cleanup and remediation activities at several of our manufacturing facilities. In addition, we are currently named as a potentially responsible party (PRP) at the Li Tungsten Superfund site in Glen Cove, New York. In December 1999, we recorded a remediation reserve of $3.0 million with respect to our involvement in these matters, which was recorded as a component of operating expense. This represents our best estimate of the undiscounted future obligation based on our evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. We recorded this liability because certain events occurred, including the identification of other PRPs, an assessment of potential remediation solutions and direction from the government for the remedial action plan, that clarified our level of involvement in these matters and our relationship to other PRPs. This led us to conclude that it was probable that a liability had been incurred.

In addition to the amount currently reserved, we may be subject to loss contingencies related to these matters estimated to be up to an additional $3.0 million. We believe that such undiscounted unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities for all environmental concerns could change substantially in the near term due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by the government on these matters. At June 30, 2002, we have an accrual of $2.8 million recorded relative to this environmental issue.

Additionally, we also maintain reserves for other potential environmental issues associated with our Greenfield operations and a location operated by our German subsidiary. At June 30, 2002, the total of these accruals was $1.4 million and represents anticipated costs associated with the remediation of these issues.

We maintain a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, we have established an EH&S administrator at each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we establish or adjust financial provisions and reserves for environmental contingencies in accordance with SFAS No. 5, "Accounting for Contingencies."

MARKET RISK We are exposed to certain market risks arising from transactions that are entered into in the normal course of business. We seek to minimize these risks through our normal operating and financing activities and, when considered appropriate, through the use of derivative financial instruments. We do not enter into derivative transactions for speculative purposes and therefore hold no derivative instruments for trading purposes. Our objective in managing these exposures is to reduce both earnings and cash flow volatility to allow us to focus our attention on our business operations. We hedge our foreign exchange and interest rate exposures for changes in foreign exchange and interest rates on consolidated results. See Notes 2 and 13 to the consolidated financial statements for additional information.

A portion of our operations consists of investments in foreign subsidiaries. Our exposure to market risk for changes in foreign exchange rates arises from these investments, intercompany loans utilized to finance these subsidiaries, trade receivables and payables, and firm commitments arising from international transactions. We manage our foreign exchange transaction risk to reduce the volatility of cash flows caused by currency fluctuations through internal natural offsets, to the fullest extent possible, and foreign exchange contracts. These contracts are designated as hedges of transactions which will settle in future periods, that otherwise would expose us to foreign currency risk.

The following sensitivity analyses were based upon a hypothetical 10 percent weakening or strengthening in the U.S. dollar compared to the June 30, 2002 foreign currency rates, the effective interest rates under our current borrowing arrangements and the market value of our available-for-sale security. We compared the contractual derivative and borrowing arrangements in effect at June 30, 2002 to the hypothetical foreign exchange or interest rates in the sensitivity analyses to determine the effect on interest expense, pretax income, fair value of the available-for-sale security or the accumulated other comprehensive loss. Our analyses take into consideration the different types of derivative instruments and the applicability of hedge accounting.

Our foreign exchange hedging program protects portions of our currency exposure from unfavorable exchange rate movements. This exposure arises from anticipated cash collections from foreign subsidiaries on transactions between domestic and foreign subsidiaries. This program utilizes purchased options, range forwards and forward contracts primarily to sell foreign currency. The notional amounts of the contracts translated into U.S. dollars at June 30, 2002 and 2001 rates are $62.5 million and $77.9 million, respectively. At June 30, 2002 and 2001, a hypothetical 10 percent strengthening or weakening of the U.S. dollar would not materially change pretax income related to these positions; however, accumulated other comprehensive loss would change by $4.4 million and $1.5 million, respectively.

In June 2001, we accelerated the payment of intercompany sales of product from certain foreign subsidiaries. While this transaction did not affect consolidated June 30, 2001 results, it eliminated a significant portion of hedged anticipated transactions, and therefore, we unwound and discontinued hedge accounting for the related derivative contracts. This resulted in the recognition of gains of $0.6 million, net of hedge ineffectiveness of $0.2 million, as a component of other expense, net. A portion of the gain, $0.2 million, has been deferred in accumulated other comprehensive loss and was recognized in 2002 as the remaining portion of the anticipated transactions occurred in 2002.

In addition, we may enter into forward contracts to hedge transaction exposures or significant cross-border intercompany loans by either purchasing or selling specified amounts of foreign currency at a specified date. At June 30, 2002 and 2001, we had several outstanding forward contracts to purchase and sell foreign currency, with notional amounts, translated into U.S. dollars at June 30, 2002 and 2001 rates, of

$135.2 million and $31.8 million, respectively. A hypothetical 10 percent change in the applicable 2002 and 2001 year-end exchange rates would result in an increase or decrease in pretax income of $5.5 million and $1.6 million, respectively, related to these positions.

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations. We seek to manage our interest rate risk in order to balance our exposure between fixed and floating rates while attempting to minimize our borrowing costs. To achieve these objectives, we primarily use interest rate swap agreements to manage exposure to interest rate changes related to these borrowings. At June 30, 2002 and 2001, we had interest rate swap agreements outstanding that effectively convert a notional amount of $150.0 million and $200.0 million, respectively, of debt from floating to fixed interest rates. At June 30, 2002, these agreements mature at various times between July 2002 and June 2003. Additionally, at June 30, 2002, we had interest rate swap agreements outstanding that effectively convert a notional amount of $200 million of the ten-year term notes from fixed to floating interest rates. These agreements mature in June 2012 but provide for a one-time optional early termination for the bank counterparty in June 2007 at the then prevailing market value of the swap agreements.

At June 30, 2002 and 2001, we had $411.4 million and $607.1 million, respectively, of debt outstanding at effective interest rates of 7.9 percent and 5.6 percent, respectively, including the effect of interest rate swaps. A hypothetical change of 10 percent in interest rates from year-end 2002 and 2001 levels would increase or decrease interest expense by approximately $2.2 million and $2.1 million, respectively.

We are exposed to counterparty credit risk for nonperformance of derivative contracts and, in the event of nonperformance, to market risk for changes in interest and currency rates. We manage exposure to counterparty credit risk through credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk. We do not anticipate nonperformance by any of the counterparties.

Our investment in Toshiba Tungaloy is classified as an available-for-sale security and, therefore, is carried at its quoted market value, adjusted for changes in currency exchange rates. At June 30, 2002 and 2001, the carrying and fair value of our investment was $10.7 million and $12.4 million, respectively. A hypothetical change of 10 percent in the quoted market value of this common stock at June 30, 2002 and 2001 would result in a $1.1 million and $1.2 million, respectively, increase or decrease in fair value.

EFFECTS OF INFLATION Despite modest inflation in recent years, rising costs continue to affect our operations throughout the world. We strive to minimize the effects of inflation through cost containment, productivity improvements and price increases under highly competitive conditions.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America, we make judgments and estimates about the amounts reflected in our financial statements. As part of our financial reporting process, our management collaborates to determine the necessary information on which to base our judgments and develops estimates used to prepare the financial statements. We use historical experience and available information to make these judgments and estimates. However, different amounts could be reported using different assumptions and in light of different facts and circumstances. Therefore, actual amounts could differ from the estimates reflected in our financial statements. Our significant accounting policies are described in Note 2 of our consolidated financial statements. We believe that the following discussion addresses our critical accounting policies.

ACCOUNTING FOR CONTINGENCIES We accrue for contingencies in accordance with SFAS No. 5, "Accounting for Contingencies," when it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies by their nature relate to uncertainties that require our exercise of judgment both in assessing whether or not a liability or loss has been incurred and estimating the amount of probable loss. The significant contingencies affecting our financial statements include accounts and notes receivable collectibility, inventory valuation, environmental health and safety matters, pending litigation and the realization of deferred tax assets.

LONG-LIVED ASSETS As required under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," we evaluate the recoverability of property, plant and equipment and intangible assets other than goodwill that are amortized whenever events or changes in circumstances indicate the carrying amount of any such assets may not be fully recoverable. Changes in circumstances include technological advances, changes in our business model, capital structure, economic conditions or operating performance. Our evaluation is based upon, among other things, our assumptions about the estimated future undiscounted cash flows these assets are expected to generate. When the sum of the undiscounted cash flows is less than the carrying value, we will recognize an impairment loss. We continually apply our best judgment when performing these evaluations to determine the timing of the testing, the undiscounted cash flows used to assess recoverability and the fair value of the asset.

We evaluate the recoverability of the goodwill and other intangibles of each of our reporting units as required under SFAS No. 142 by comparing the fair value of each reporting unit with its carrying value. The fair values of our reporting units are determined using a combination of a discounted cash flow analysis and market multiples based upon historical and projected financial information. We apply our best judgment when assessing the reasonableness of the financial projections used to determine the fair value of each reporting unit.

PENSION AND OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS We sponsor these types of benefit plans for a majority of our employees and retirees. We account for these plans as required under SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," and SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Accounting for the cost of these plans requires the estimation of the cost of the benefits to be provided well into the future and attributing that cost over the expected work life of employees participating in these plans. This estimation requires our judgment about the discount rate used to determine these obligations, expected return on plan assets, rate of future compensation increases, rate of future health care costs, withdrawal and mortality rates and participant retirement age. Differences between our estimates and actual results may significantly affect the cost of our obligations under these plans.

RESTRUCTURING ACTIVITIES We accrue the cost of our restructuring activities in accordance with Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain costs incurred in a restructuring)." We exercise our judgment in estimating the total costs of each of these activities. As we implement these activities, the actual costs may differ from the estimated costs due to changes in the facts and circumstances that were not foreseen at the time of our initial cost accrual.

NEW ACCOUNTING STANDARDS In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001.

SFAS No. 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. We adopted SFAS No. 142 effective July 1, 2001 and therefore, goodwill will no longer be amortized to earnings. We will continue to amortize non-goodwill intangible assets (i.e. patents, non-compete agreements) over their existing remaining useful lives. As required by SFAS No. 142, we completed the initial phase of the impairment tests within six months of adoption of SFAS No. 142 or December 31, 2001 (see "Changes in Accounting Principles" in Note 2 of the Consolidated Financial Statements). On an ongoing basis, (absent of any impairment indicators), we expect to perform our impairment tests during each June quarter, in connection with our annual planning process. We incurred expense in 2001 and 2000 of $21.0 million and $21.8 million, respectively, related to the amortization of goodwill.

SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. We are required to adopt this standard on July 1, 2002 and are preparing a plan of implementation.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this standard are effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We are currently evaluating the effects of this standard and are preparing a plan of implementation.

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

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

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

Consolidated Statements of Income

Year ended June 30 (in thousands, except per share data)	2002	2001	2000
Operations			
Net sales (Note 2)	$1,583,742	$1,807,896	$1,866,578
Cost of goods sold	1,072,918	1,192,176	1,228,685
Gross profit	510,824	615,720	637,893
Operating expense	389,396	425,641	434,136
Restructuring and asset impairment charges (Note 12)	27,307	9,545	18,526
Amortization of intangibles	2,804	24,134	26,452
Operating income	91,317	156,400	158,779
Interest expense	32,627	50,381	55,079
Other (income) expense, net	(361)	11,690	3,289
Income before provision for income taxes and minority interest	59,051	94,329	100,411
Provision for income taxes (Notes 2 and 9)	18,900	37,300	43,700
Minority interest	1,653	3,142	4,734
Income before extraordinary loss and cumulative effect of change in accounting principles	38,498	53,887	51,977
Extraordinary loss on early extinguishment of debt, net of tax of $178	-	-	(267)
Cumulative effect of change in accounting principles, net of tax of $2,389 and $399, respectively	(250,406)	(599)	-
Net (loss) income	$ (211,908)	$ 53,288	$ 51,710
Per Share Data			
Basic earnings per share before extraordinary loss and cumulative effect of change in accounting principles	$ 1.24	$ 1.76	$ 1.72
Extraordinary loss	-	-	(0.01)
Cumulative effect of change in accounting principles	(8.04)	(0.02)	-
Basic (loss) earnings per share	$ (6.80)	$ 1.74	$ 1.71
Diluted earnings per share before extraordinary loss and cumulative effect of change in accounting principles	$ 1.22	$ 1.75	$ 1.71
Extraordinary loss	-	-	(0.01)
Cumulative effect of change in accounting principles	(7.92)	(0.02)	-
Diluted (loss) earnings per share (Note 2)	$ (6.70)	$ 1.73	$ 1.70
Dividends per share	$ 0.68	$ 0.68	$ 0.68
Basic weighted average shares outstanding (Note 2)	31,169	30,560	30,263
Diluted weighted average shares outstanding	31,627	30,749	30,364

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

As of June 30 (in thousands, except per share data)	2002	2001
Assets		
Current assets:		
Cash and equivalents (Note 2)	$ 10,385	$ 12,940
Marketable equity securities available-for-sale (Note 2)	10,728	12,419
Accounts receivable, less allowance for doubtful accounts of $12,671 and $7,999 (Notes 2 and 4)	179,101	206,175
Inventories (Notes 2 and 5)	345,076	373,221
Deferred income taxes (Notes 2 and 9)	71,375	57,452
Other current assets	20,719	18,989
Total current assets	637,384	681,196
Property, plant and equipment (Note 2):		
Land and buildings	227,539	227,382
Machinery and equipment	847,196	776,494
Less accumulated depreciation	(639,619)	(531,002)
Net property, plant and equipment	435,116	472,874
Other assets:		
Investments in affiliated companies	11,681	3,875
Intangible assets, less accumulated amortization of $75,390 and $88,514 (Note 2)	367,992	624,760
Other	71,438	42,737
Total other assets	451,111	671,372
Total assets	$1,523,611	$1,825,442
Liabilities		
Current liabilities:		
Current maturities of long-term debt and capital leases (Note 7)	$ 16,554	$ 2,031
Notes payable to banks (Note 8)	6,926	22,499
Accounts payable	101,586	118,073
Accrued income taxes	4,066	16,425
Accrued vacation pay	28,190	29,134
Accrued payroll	22,696	22,189
Other current liabilities (Note 6)	82,082	84,134
Total current liabilities	262,100	294,485
Long-term debt and capital leases, less current maturities (Notes 7 and 8)	387,887	582,585
Deferred income taxes (Note 9)	52,570	53,844
Other liabilities	96,421	87,898
Total liabilities	798,978	1,018,812
Commitments and contingencies (Note 16)	-	-
Minority interest in consolidated subsidiaries	10,671	9,861
Shareowners' Equity		
Preferred stock, no par value; 5,000 shares authorized; none issued	-	-
Capital stock, $1.25 par value; 70,000 shares authorized; 37,383 and 33,615 shares issued	46,729	42,018
Additional paid-in capital	491,263	353,804
Retained earnings	307,631	540,965
Treasury stock, at cost; 2,573 and 2,774 shares held	(72,026)	(65,963)
Unearned compensation	(4,856)	(2,165)
Accumulated other comprehensive loss (Note 11)	(54,779)	(71,890)
Total shareowners' equity	713,962	796,769
Total liabilities and shareowners' equity	$1,523,611	$1,825,442

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Year ended June 30 (in thousands)	2002	2001	2000
Operating Activities			
Net (loss) income	$ (211,908)	$ 53,288	$ 51,710
Adjustments for non-cash items:			
Depreciation	70,825	73,163	75,194
Amortization	2,804	24,134	26,452
Loss on divestitures	3,522	5,781	-
Restructuring and asset impairment charges	12,712	4,325	6,378
Cumulative effect of change in accounting principles, net of tax	250,406	599	-
Loss on early extinguishment of debt, net of tax	-	-	267
Other	2,485	12,362	11,472
Changes in certain assets and liabilities, net of effects of acquisition and divestitures:			
Accounts receivable	33,603	9,620	(17,257)
Proceeds from accounts receivable securitization	2,200	5,200	6,500
Inventories	40,251	19,894	14,331
Accounts payable and accrued liabilities	(29,033)	(827)	44,968
Other	(22,707)	(19,983)	1,192
Net cash flow from operating activities	155,160	187,556	221,207
Investing Activities			
Purchases of property, plant and equipment	(44,040)	(59,929)	(50,663)
Disposals of property, plant and equipment	10,905	4,227	8,109
Divestitures, net of cash	3,309	729	-
Purchase of subsidiary stock	(1,161)	(47,505)	-
Acquisition of business assets	(5,385)	-	-
Investment in affiliates	(5,770)	-	-
Other	(1,129)	(26)	(531)
Net cash flow used for investing activities	(43,271)	(102,504)	(43,085)
Financing Activities			
Net (decrease) increase in notes payable	(4,778)	4,038	(18,491)
Net decrease in revolving and other lines of credit	(84,151)	(78,905)	(15,100)
Term debt borrowings	549,950	1,216	378
Term debt repayments	(677,563)	(2,941)	(129,810)
Net proceeds from issuance of capital stock	120,584	-	-
Dividend reinvestment and employee benefit and stock plans	23,269	22,854	11,276
Purchase of treasury stock	(12,417)	(16,494)	-
Cash dividends paid to shareowners	(21,426)	(21,056)	(20,570)
Financing fees	(10,448)	-	-
Other	(1,268)	(949)	(1,018)
Net cash flow used for financing activities	(118,248)	(92,237)	(173,335)
Effect of exchange rate changes on cash and equivalents	3,804	(2,198)	128
Cash and Equivalents			
Net (decrease) increase in cash and equivalents	(2,555)	(9,383)	4,915
Cash and equivalents, beginning of year	12,940	22,323	17,408
Cash and equivalents, end of year	$ 10,385	$ 12,940	$ 22,323
Supplemental Disclosures			
Interest paid (net of amount capitalized)	$ 33,861	$ 51,480	$ 55,000
Income taxes paid	31,949	36,608	17,092
Contribution of stock to employee benefit plans	9,405	13,364	9,170
Notes received from sale of subsidiaries	4,587	5,809	-

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareowners' Equity

Year ended June 30 (in thousands)	2002	2001	2000
Capital Stock			
Balance at beginning of year	$ 42,018	$ 41,500	$ 41,128
Issuance of capital stock	4,428	-	-
Issuance of capital stock under employee benefit and stock plans	283	518	372
Balance at end of year	46,729	42,018	41,500
Additional Paid-In Capital			
Balance at beginning of year	353,804	335,314	325,382
Issuance of capital stock	116,156	-	-
Dividend reinvestment	1,672	1,511	1,250
Issuance of capital stock under employee benefit and stock plans	19,631	16,979	8,682
Balance at end of year	491,263	353,804	335,314
Retained Earnings			
Balance at beginning of year	540,965	508,733	477,593
Net (loss) income	(211,908)	53,288	51,710
Cash dividends to shareowners	(21,426)	(21,056)	(20,570)
Balance at end of year	307,631	540,965	508,733
Treasury Stock			
Balance at beginning of year	(65,963)	(55,236)	(57,199)
Purchase of treasury stock, at cost	(12,417)	(16,494)	-
Dividend reinvestment	854	1,284	1,236
Issuance of capital stock under employee benefit and stock plans	5,500	4,483	727
Balance at end of year	(72,026)	(65,963)	(55,236)
Unearned Compensation			
Balance at beginning of year	(2,165)	(2,814)	(3,330)
Issuance of capital stock under employee benefit and stock plans	(4,671)	(1,921)	(1,094)
Amortization of unearned compensation	1,980	2,570	1,610
Balance at end of year	(4,856)	(2,165)	(2,814)
Accumulated Other Comprehensive Loss			
Balance at beginning of year	(71,890)	(47,243)	(38,443)
Unrealized (loss) gain on marketable equity securities available-for-sale, net of tax	(1,774)	(7,379)	7,503
Cumulative effect of change in accounting principle, net of tax	-	1,571	-
Unrealized losses on derivatives designated and qualified as cash flow hedges, net of tax	(1,372)	(2,044)	-
Reclassification of unrealized gains or losses on expired derivatives, net of tax	(1,902)	(2,049)	-
Minimum pension liability adjustment, net of tax	(945)	(2,670)	415
Foreign currency translation adjustments	23,104	(12,076)	(16,718)
Other comprehensive income (loss)	17,111	(24,647)	(8,800)
Balance at end of year	(54,779)	(71,890)	(47,243)
Total shareowners' equity, June 30	$ 713,962	$ 796,769	$ 780,254
Comprehensive (Loss) Income			
Net (loss) income	$ (211,908)	$ 53,288	$ 51,710
Other comprehensive income (loss)	17,111	(24,647)	(8,800)
Comprehensive (loss) income	$ (194,797)	$ 28,641	$ 42,910

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS We are a leading global manufacturer, marketer and distributor of a broad range of cutting tools, tooling systems, supplies and technical services, as well as wear-resistant parts. We believe that our reputation for manufacturing excellence and technological expertise and innovation in our principal products has helped us achieve a leading market presence in our primary markets. We believe we are the second largest global provider of metalcutting tools and tooling systems. End users of our products include metalworking manufacturers and suppliers in the aerospace, automotive, machine tool and farm machinery industries, as well as manufacturers and suppliers in the highway construction, coal mining, quarrying and oil and gas exploration industries.

Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. When used in this Annual Report to Shareowners, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The summary of our significant accounting policies is presented below to assist in evaluating our consolidated financial statements.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include our accounts and those of majority-owned subsidiaries. All significant intercompany balances and transactions are eliminated. Investments in entities over which we have significant influence are accounted for on an equity basis.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America, we make judgments and estimates about the amounts reflected in our financial statements. As part of our financial reporting process, our management collaborates to determine the necessary information on which to base our judgments and develop estimates used to prepare the financial statements. We use historical experience and available information to make these judgments and estimates. However, different amounts could be reported using different assumptions and in light of different facts and circumstances. Therefore, actual amounts could differ from the estimates reflected in our financial statements.

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

MARKETABLE EQUITY SECURITIES AVAILABLE-FOR-SALE Our investment in marketable equity securities is accounted for as an available-for-sale security under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This investment in Toshiba Tungaloy Co., Ltd., a leading Japanese manufacturer of consumable metalcutting products, is reported at fair value, as determined through quoted market sources. The unrealized gain or loss on this investment is recorded as a component of accumulated other comprehensive loss, net of tax. A gross unrealized loss on this investment of $0.8 million is recorded at June 30, 2002 while a gross unrealized gain of $2.1 million was recorded at June 30, 2001.

ACCOUNTS RECEIVABLE Accounts receivable includes $3.3 million and $2.8 million of receivables from affiliates at June 30, 2002 and 2001, respectively. We market our products to a diverse customer base throughout the world. Trade credit is extended based upon evaluations of each customer's ability to satisfy its obligations, which are updated periodically. Accounts receivable reserves are determined based upon an aging of accounts and a review of specific accounts.

INVENTORIES Inventories are stated at the lower of cost or market. We use the last-in, first-out (LIFO) method for determining the cost of a significant portion of our U.S. inventories. The cost of the remainder of inventories is determined under the first-in, first-out (FIFO) or average cost methods. When market conditions indicate an excess of carrying costs over market value, a lower-of-cost-or-market provision is recorded.

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

Depreciation for financial reporting purposes is computed using the straight-line method over the following estimated useful lives:

Building and improvements	15 - 40 years
Machinery and equipment	4 - 10 years
Furniture and fixtures	5 - 10 years
Computer hardware and software	3 - 5 years

Leased property and equipment under capital leases are amortized using the straight-line method over the terms of the related leases.

Routine maintenance, repairs and replacements are charged to operations. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

Under the provisions of SOP 98-1, we capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and we have authorized further funding for projects which we believe will be completed and used to perform the function intended.

LONG-LIVED ASSETS We periodically perform ongoing reviews of underperforming businesses and other long-lived assets for impairment pursuant to the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." These in-depth reviews may include an analysis of the current operations, capacity utilization etc., in conjunction with the markets in which the businesses are operating. A comparison is performed of the undiscounted projected cash flows of the current operating forecasts to the net book value of the related assets. If it is determined that the full value of the assets may not be recoverable, an appropriate charge to adjust the carrying value of the long-lived assets to fair value may be required.

INTANGIBLE ASSETS Intangible assets primarily include goodwill, which represents the excess of cost over the fair value of acquired companies. Prior to our adoption of SFAS No. 142 on July 1, 2001, goodwill was amortized using the straight-line method over periods ranging from two to forty years. Under SFAS No. 142, all goodwill amortization ceased effective July 1, 2001. SFAS No. 142 is not permitted to be applied retroactively to financial statements of prior periods. Prospectively, goodwill and intangible assets with indefinite useful lives will be tested at least annually for impairment. On an ongoing basis (absent of any impairment indicators), we expect to perform our impairment tests during the June quarter, in connection with our planning process.

DEFERRED FINANCING FEES Fees incurred in connection with new borrowings are capitalized and amortized to interest expense over the life of the related obligation.

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

For purposes of determining the number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised capital stock options by 0.5 million, 0.2 million and 0.1 million shares in 2002, 2001 and 2000, respectively. Unexercised stock options to purchase our capital stock of 1.2 million, 1.5 million and 1.7 million shares at June 30, 2002, 2001 and 2000, respectively, are not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price.

REVENUE RECOGNITION Revenue from the sale of products is generally recognized when risk of loss, title and insurable risk have transferred to the customer, which in most cases coincides with shipment of the related products. We do not ship product unless we have documentation authorizing shipment to our customers. Historically, we have experienced very low levels of returned product and do not consider the effect of returned product to be material.

RESEARCH AND DEVELOPMENT COSTS Research and development costs of $18.3 million, $18.9 million and $19.2 million in 2002, 2001 and 2000, respectively, were expensed as incurred.

SHIPPING AND HANDLING FEES AND COSTS All fees billed to customers for shipping and handling are classified as a component of net sales. All costs associated with shipping and handling are classified as a component of cost of goods sold.

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.

CHANGES IN ACCOUNTING PRINCIPLES On July 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," resulting in the recording of current assets of $1.6 million, long-term assets of $1.4 million, current liabilities of $1.3 million, long-term liabilities of $0.7 million, a decrease in accumulated other comprehensive loss of $1.6 million, net of tax, and a loss from the cumulative effect from the change in accounting principle of $0.6 million, net of tax.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001.

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective July 1, 2001, which establishes new accounting and reporting requirements for goodwill and other intangible assets, including new measurement techniques for evaluating the recoverability of such assets. Under SFAS No. 142, all goodwill amortization ceased effective July 1, 2001. Goodwill attributable to each of our reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. As a result of the adoption of this rule, we recorded a non-cash pre-tax charge of $252.8 million specific to the electronics (AMSG segment - $82.1 million) and the industrial product group (MSSG segment - $170.7 million) businesses, which were acquired in 1998 as part of Greenfield Industries. The fair values of these reporting units were determined using a combination of discounted cash flow analysis and market multiples based upon historical and projected financial information. The initial phase of the impairment tests were performed within six months of adoption of SFAS No. 142 or December 31, 2001, and are required at least annually thereafter. On an ongoing basis (absent of any impairment indicators), we expect to perform our impairment tests during the June quarter, in connection with our annual planning process.

Under SFAS No. 142, the impairment adjustment recognized at adoption of this standard was reflected as a cumulative effect of a change in accounting principle, effective July 1, 2001. Impairment adjustments recognized after adoption, if any, are required to be recognized as a component of operating expense.

The carrying amount of goodwill attributable to each segment, after the non-cash charges for the adoption of SFAS No. 142 at June 30, 2002 and 2001 is as follows:

(in thousands)	June 30, 2001	Impairment	Disposals	Translation	June 30, 2002
MSSG	$ 315,463	$ (170,682)	$ --	$ 2,376	$ 147,157
AMSG	249,345	(82,113)	--	310	167,542
J&L Industrial Supply	45,748	--	(6,099)	--	39,649
Full Service Supply	4,707	--	--	--	4,707
Total	$ 615,263	$ (252,795)	$ (6,099)	$ 2,686	$ 359,055

In connection with the adoption of SFAS No. 142, we also reassessed the useful lives and the classification of our identifiable intangible assets and determined that they continue to be appropriate. The remaining lives of these assets, excluding the intangible pension asset, range from one to four years. The components of our intangible assets are as follows:

	June 30, 2002		June 30, 2001	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract based	$ 11,910	$ (9,488)	$ 12,098	$ (7,969)
Technology based and other	3,374	(2,423)	5,098	(2,817)
Intangible pension asset	5,564	--	3,087	--
Total	$ 20,848	$ (11,911)	$ 20,283	$ (10,786)

Amortization expense for intangible assets, other than goodwill, was $2.8 million, $3.1 million and $4.7 million for 2002, 2001 and 2000, respectively.

Actual results of operations for the year ended June 30, 2002 and pro forma results of operations for the years ended June 30, 2001 and 2000 had we applied the non-amortization provisions of SFAS No. 142 in these periods are as follows:

	June 30		
(in thousands, except per share amounts)	2002	2001	2000
Reported net (loss) income	$ (211,908)	$ 53,288	$ 51,710
Goodwill impairment, net of tax	250,406	--	--
Goodwill amortization, net of tax	--	18,975	19,198
Adjusted net income	$ 38,498	$ 72,263	$ 70,908
Basic earnings per share:			
Reported net (loss) income	$ (6.80)	$ 1.74	$ 1.71
Goodwill impairment	8.04	--	--
Goodwill amortization	--	0.62	0.63
Adjusted net income	$ 1.24	$ 2.36	$ 2.34
Diluted earnings per share:			
Reported net (loss) income	$ (6.70)	$ 1.73	$ 1.70
Goodwill impairment	7.92	--	--
Goodwill amortization	--	0.62	0.63
Adjusted net income	$ 1.22	$ 2.35	$ 2.33

FOREIGN CURRENCY TRANSLATION 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 component of accumulated other comprehensive loss. The local currency is the functional currency of most of our locations.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES From time to time, we use derivative financial instruments to dampen the effects of changes in foreign exchange rates on our consolidated results and to achieve our targeted mix of fixed and floating interest rates on outstanding debt. We account for derivative instruments as a hedge of the related asset, liability, firm commitment or anticipated transaction when the derivative is specifically designated as a hedge of such items. We do not enter into derivative transactions for speculative purposes and therefore hold no derivative instruments for trading purposes. Our objective in managing foreign exchange exposures with derivative instruments is to reduce both earnings and cash flow volatility, allowing us to focus our attention on business operations. With respect to interest rate management, these derivative instruments allow us to achieve our targeted fixed-to-floating interest rate mix as a separate decision from funding arrangements in the bank and public debt markets.

Forward contracts, purchased options and range forward contracts (a transaction where both a put option is purchased and a call option is sold), designated as cash flow hedges, hedge anticipated cash flows from cross-border intercompany sales of product and services. These contracts mature at various times through August 2003. Gains and losses realized on these contracts at maturity are recorded in accumulated other comprehensive loss, net of tax, and are recognized as a component of other expense (income), net when the underlying sale of product or services are recognized into earnings. We recognized expense of $0.1 million and $0.8 million as a component of other expense, net, in 2002 and 2001, respectively, related to hedge ineffectiveness. The time value component of the fair value of purchased options and range forwards is excluded from the assessment of hedge effectiveness. Based upon foreign exchange and interest rates at June 30, 2002, we expect to recognize into earnings in the next 12 months losses on outstanding derivatives of $2.9 million related to outstanding derivative instruments.

Floating-to-fixed interest rate swap agreements, designated as cash flow hedges, hedge our exposure to interest rate changes on a portion of our floating rate debt, and mature at various times through June 2003. We record the fair value of these contracts in the balance sheet, with the offset to accumulated other comprehensive loss, net of tax. The difference between the amounts to be received and paid under interest rate swap agreements is recognized in interest expense.

Fixed-to-floating interest rate swap agreements, designated as fair value hedges, hedge our exposure to fair value fluctuations on a portion of our fixed rate ten-year Senior Unsecured Notes due to changes in the overall interest rate environment. These contracts mature in June 2012. We record the gain or loss of these contracts in the balance sheet, with the offset to the carrying value of the Senior Unsecured Notes. Any gain or loss resulting from changes in the fair value of these contracts offset the corresponding gains or losses from changes in the fair values of the Senior Unsecured Notes. As a result, changes in the fair value of these contracts had no impact on current year earnings.

Forward contracts hedging significant cross-border intercompany loans are considered other derivatives and therefore, not eligible for hedge accounting. These contracts are recorded at fair value in the balance sheet, with the offset to other expense (income), net.

In June 2001, we accelerated the payment of certain intercompany sales of product from foreign subsidiaries. While this transaction did not affect consolidated June 30, 2001 results, it eliminated a significant portion of hedged anticipated transactions, and therefore, we unwound and discontinued hedge accounting for the related derivative contracts. This resulted in the recognition of gains of $0.6 million, net of hedge ineffectiveness of $0.2 million, as a component of other expense, net. A portion of the gain, $0.2 million, was deferred in accumulated other comprehensive loss and was recognized in 2002 as the remaining portion of the transactions occurred in 2002.

New Accounting Standards In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. We are required to adopt this standard on July 1, 2002 and are preparing a plan of implementation.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121. This statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The provisions of this standard are effective for the fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We are currently evaluating the effects of this standard and are preparing a plan for its implementation.

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

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

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

NOTE 3 ACQUISITIONS AND DIVESTITURES In 2000, we engaged an investment bank to explore strategic alternatives regarding our 83 percent-owned subsidiary, JLK Direct Distribution Inc. (JLK), including a possible divestiture. At that time, we believed a divestiture might enhance growth prospects for both Kennametal and JLK by allowing each company to focus on its core competencies. We completed a thorough and disciplined process of evaluating strategic alternatives and on May 2, 2000, decided to terminate consideration of a possible divestiture at that time. We incurred and expensed $0.8 million in costs associated with this evaluation in 2000.

On July 20, 2000, we proposed to the Board of Directors of JLK to acquire the outstanding shares of JLK we did not already own. On September 11, 2000, we announced a definitive merger agreement with JLK to acquire all the outstanding minority shares. Pursuant to the agreement, JLK agreed to commence a cash tender offer for all of its shares of Class A Common Stock at a price of $8.75 per share. The tender offer commenced on October 3, 2000 and expired on November 15, 2000 resulting in JLK reacquiring 4.3 million shares for $37.5 million. Following JLK's purchase of shares in the tender offer, we acquired these shares at the same price in a merger. We incurred transaction costs of $3.3 million, which were included in the total cost of the transaction. JLK incurred costs of $2.1 million associated with the transaction, which were expensed as incurred. The transaction was unanimously approved by the JLK Board of Directors, including its special committee comprised of independent directors of the JLK Board.

In January 2002, we acquired Carmet Company for $5.1 million. Located in Duncan, S.C., this entity is a producer of tungsten cutting tools and wear parts and is included in our AMSG segment.

In April 2001, we sold ATS Industrial Supply, Inc., our industrial supply distributor based in Salt Lake City, Utah, for $6.8 million comprised of cash proceeds of $1.0 million and a seller note for $5.8 million. This action resulted in a pretax loss of approximately $5.8 million and is in line with our strategy to refocus the J&L segment on its core catalog business. Annualized sales of this business were approximately $17 million.

On April 19, 2002, we sold Strong Tool Company, our industrial supply distributor based in Cleveland, Ohio, for $8.6 million comprised of cash proceeds of $4.0 million and a seller note for $4.6 million. This action resulted in a pretax loss of $3.5 million and is in line with our strategy to refocus the J&L segment on its core catalog business. Annualized sales of this business were approximately $34 million.

On May 3, 2002, we signed a definitive agreement to purchase the Widia Group (Widia) in Europe and India from Milacron Inc. for EUR 188.0 million (approximately $185 million) subject to a purchase price adjustment based on the change in the net assets of Widia from December 31, 2001 to the closing date.

NOTE 4 ACCOUNTS RECEIVABLE SECURITIZATION PROGRAM We have an agreement with a financial institution whereby we securitize, on a continuous basis, an undivided interest in a specific pool of our domestic trade accounts receivable. Pursuant to this agreement, we, and several of our domestic subsidiaries, sell our domestic accounts receivable to Kennametal Receivables Corporation, a wholly-owned, bankruptcy-remote subsidiary (KRC). A bankruptcy-remote subsidiary is a company that has been structured to make it highly unlikely that it would be drawn into a bankruptcy of Kennametal Inc., or any of our other subsidiaries. KRC was formed to purchase these accounts receivable and sell participating interests in such accounts receivable to the financial institution which, in turn, purchases and receives ownership and security interests in those assets. As collections reduce the amount of accounts receivable included in the pool, we sell new accounts receivable to KRC which, in turn, securitizes these new accounts receivable with the financial institution.

We are permitted to securitize up to $100.0 million of accounts receivable under this agreement. The actual amount of accounts receivable securitized each month is a function of the net change (new billings less collections) in the specific pool of domestic accounts receivable, the impact of detailed eligibility requirements in the agreement (e.g. the aging, terms of payment, quality criteria and customer concentrations), and the application of various reserves which are typically in trade receivable securitization transactions. A decrease in the amount of eligible accounts receivable could result in our inability to continue to securitize all or a portion of our accounts receivable. It is not unusual, however, for the amount of our eligible accounts receivable to vary by up to $5.0 to $10.0 million per month. The financial institution charges us fees based on the level of accounts receivable securitized under this agreement and the commercial paper market rates plus the financial institution's cost to administer the program. The costs incurred under this program, $2.5 million, $5.7 million and $5.2 million in 2002, 2001 and 2000, respectively, are accounted for as a component of other expense, net and represent attractive funding costs compared to existing bank and public debt transactions. At June 30, 2002 and 2001, we securitized accounts receivable of $95.9 million and $93.7 million, respectively, under this program. Our retained interests in accounts receivable available for securitization and recorded as a component of accounts receivable were $37.1 million and $35.8 million at June 30, 2002 and 2001, respectively.

This agreement is required to be renewed periodically, and it is our intention to continuously obtain that renewal when required. The current agreement has an expiration date of June 30, 2003. Non-renewal of this agreement would result in our requirement to otherwise finance the amounts securitized.

We anticipate that the risk of non-renewal of this securitization program with the provider or some other provider is very low. In the event of a decrease of our eligible accounts receivable or non-renewal of our securitization program, we would have to utilize alternative sources of capital to fund that portion of our working capital needs.

NOTE 5 INVENTORIES Inventories consisted of the following:

(in thousands)	2002	2001
Finished goods	$ 260,783	$ 284,801
Work in process and powder blends	91,871	94,231
Raw materials and supplies	34,452	32,130
Inventories at current cost	387,106	411,162
Less LIFO valuation	(42,030)	(37,941)
Total inventories	$ 345,076	$ 373,221

We used the LIFO method of valuing our inventories for approximately 49 and 44 percent of total inventories at June 30, 2002 and 2001, respectively. We use the LIFO method in order to more closely match current costs with current revenues, thereby reducing the effects of inflation on earnings.

NOTE 6 OTHER CURRENT LIABILITIES Other current liabilities consisted of the following:

(in thousands)	2002	2001
Accrued employee benefits	$21,378	$21,829
Payroll, state and local taxes	5,234	9,568
Accrued interest expense	1,355	2,803
Other accrued expenses	54,115	49,934
Total other current liabilities	$82,082	$84,134

NOTE 7 LONG-TERM DEBT AND CAPITAL LEASES Long-term debt and capital lease obligations consisted of the following:

(in thousands)	2002	2001
7.2% Senior Unsecured Notes due 2012 net of discount of $1,108 and the fair value of certain interest rate swaps of $934	$ 297,958	$ --
New Credit Agreement, revolving credit loans, 2.905% to 4.775% in 2002, due 2005	81,500	--
Bank Credit Agreement, revolving credit loans, 4.355% to 5.805% in 2001	--	375,000
Euro Credit Agreement, revolving credit loans, 5.389% in 2001	--	179,140
Yen Credit Facility, 0.83% and 1.11% in 2002 and 2001, due 2003	14,083	13,482
Lease of office facilities and equipment with terms expiring through 2008 at 4.45% to 4.73%	8,982	7,906
Other	1,918	9,088
Total debt and capital leases	404,441	584,616
Less current maturities:		
Long-term debt	(14,621)	(524)
Capital leases	(1,933)	(1,507)
Total current maturities	(16,554)	(2,031)
Long-term debt and capital leases	$ 387,887	$ 582,585

SENIOR UNSECURED NOTES AND NEW CREDIT AGREEMENT On June 19, 2002, we issued $300 million of 7.2% Senior Unsecured Notes due 2012 (Senior Unsecured Notes). These notes were issued at 99.629% of the face amount and yielded $294.3 million of net proceeds after related financing fees. The proceeds of this debt issuance were utilized to repay senior bank indebtedness and for general corporate purposes. Interest is payable semi-annually on June 15th and December 15th of each year commencing December 15, 2002. The Senior Unsecured Notes contain covenants that restrict our ability to create loans, enter into sale-leaseback transactions or certain consolidations or mergers, or sell all or substantially all of our assets.

We also entered into a new three-year, multi-currency, revolving credit facility with a group of financial institutions (New Credit Agreement). This New Credit Agreement permits revolving credit loans of up to $650 million for working capital, capital expenditures and general corporate purposes and replaces the previous Bank Credit

Agreement and Euro Credit Agreement discussed below. Interest payable under this New Credit Agreement is based upon the type of borrowing under the facility and may be (1) the greater of the prime rate and the federal funds effective rate plus 0.50%, (2) Euro-currency rates plus an applicable margin, or (3) a quoted fixed rate offered by one or more lenders at the time of borrowing. The New Credit Agreement contains various restrictive and affirmative covenants including some requiring the maintenance of certain financial ratios.

Our New Credit Agreement contains various covenants with which we must be in compliance including three financial covenants: a maximum leverage ratio, a maximum fixed charge coverage ratio and a minimum consolidated net worth. As of June 30, 2002, outstanding borrowings under this agreement were $81.5 million and we had the ability to borrow under this agreement or otherwise have additional debt of up to $262.5 million and be in compliance with the maximum leverage ratio financial covenant. The maximum leverage ratio financial covenant requires that we maintain at the end of each fiscal quarter a specified consolidated leverage ratio (as that term is defined in this agreement).

PREVIOUS DEBT AGREEMENTS In 1998, we entered into a $1.4 billion Bank Credit Agreement. Subject to certain conditions, the Bank Credit Agreement permitted term loans of up to $500 million and revolving credit loans of up to $900 million for working capital, capital expenditures and general corporate purposes.

On December 20, 2000, we entered into a EUR 212.0 million Euro-denominated revolving credit facility (Euro Credit Agreement) to hedge the foreign exchange exposure of our net investment in Euro-based subsidiaries and to diversify our interest rate exposure. Amounts borrowed under the Euro Credit Agreement were required to be used to repay indebtedness under the previous Bank Credit Agreement and, to the extent the previous Bank Credit Agreement was repaid, for working capital and general corporate purposes. On January 8, 2001, we borrowed EUR 212.0 million under this facility to meet our obligation under then outstanding Euro-denominated forward foreign exchange contracts. The proceeds from the Euro-denominated forward foreign exchange contracts of $191.1 million were used to repay amounts borrowed under our previous Bank Credit Agreement. Subsequently, the availability under the previous Bank Credit Agreement was permanently reduced from $900.0 million to $700.0 million, resulting in a write-down of a portion of deferred financing fees of $0.3 million. This charge was recorded as a component of interest expense.

The Bank Credit Agreement and the Euro Credit Agreement were cancelled in June 2002 when we repaid both facilities using proceeds raised from the public debt offering, the capital stock issuance and the New Credit Agreement.

Future principal maturities of long-term debt are $14.6 million, $0.2 million, $81.7 million, $0.2 million and $0.2 million, respectively, in 2003 through 2007.

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

(in thousands)	
2003	$ 2,343
2004	2,125
2005	1,622
2006	2,488
2007	660
After 2007	942
Total future minimum lease payments	10,180
Less amount representing interest	(1,198)
Amount recognized as capital lease obligation	$ 8,982

Our secured debt at June 30, 2002 are industrial revenue bond obligations of $1.5 million and the capitalized lease obligations of $9.0 million. These obligations are secured by the underlying assets.

NOTE 8 NOTES PAYABLE AND LINES OF CREDIT. Notes payable to banks of $6.9 million and $22.5 million at June 30, 2002 and 2001, respectively, represent short-term borrowings under international credit lines with commercial banks. These credit lines, translated into U.S. dollars at June 30, 2002 rates, totaled $81.5 million at June 30, 2002, of which $74.6 million was unused. The weighted average interest rate for short-term borrowings was 2.78 percent and 5.13 percent at June 30, 2002 and 2001, respectively.

NOTE 9 INCOME TAXES Income before income taxes and the provision for income taxes consisted of the following:

(in thousands)	2002	2001(1)	2000
Income before provision for income taxes:			
United States	$ 11,564	$ 35,108	$ 59,679
International	47,487	59,221	40,732
Total income before provision for income taxes and minority interest	$ 59,051	$ 94,329	$ 100,411
Current income taxes:			
Federal	$ (17,303)	$ 26,435	$ 16,053
State	1,070	5,034	1,729
International	19,255	15,234	19,861
Total current income taxes	3,022	46,703	37,643
Deferred income taxes	15,878	(9,403)	6,057
Provision for income taxes	$ 18,900	$ 37,300	$ 43,700
Effective tax rate	32.0%	39.5%	43.5%

(1) Taxes of $16.8 million in 2001 were previously classified as current and have been reclassified to deferred taxes in the 2001 presentation.

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)	2002	2001	2000
Income taxes at U.S. statutory rate	$ 20,668	$ 33,015	$ 35,144
State income taxes, net of federal tax benefits	2,656	2,696	528
Nondeductible goodwill	--	5,557	5,605
International tax rate differences	(5,773)	(4,899)	(123)
International losses with no related tax benefits	990	1,135	2,527
Other	359	(204)	19
Provision for income taxes	$ 18,900	$ 37,300	$ 43,700

Deferred tax assets and liabilities consisted of the following:

(in thousands)	2002	2001(1)
Deferred tax assets:		
Net operating loss carryforwards	$ 9,602	$ 11,820
Inventory valuation and reserves	23,630	39,507
Other postretirement benefits	18,721	18,087
Accrued employee benefits	17,962	16,771
FTC carryforward	3,525	--
Other	23,917	10,575
Total	97,357	96,760
Valuation allowance	(6,600)	(7,411)
Total deferred tax assets	$ 90,757	$ 89,349
Deferred tax liabilities:		
Tax depreciation in excess of book	$ 47,321	$ 43,088
Pension benefits	16,827	9,967
Other	7,804	15,914
Total deferred tax liabilities	$ 71,952	$ 68,969

(1) Taxes of $16.8 million in 2001 were previously classified as current and have been reclassified to deferred taxes in the 2001 presentation.

Deferred income taxes were not provided on cumulative undistributed earnings of international subsidiaries and affiliates. At June 30, 2002, unremitted earnings of non-U.S. subsidiaries were determined to be permanently reinvested. It is not practical to estimate the income tax effect that might be incurred if earnings were remitted to the United States.

Included in deferred tax assets at June 30, 2002 are unrealized tax benefits totaling $9.6 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, $2.6 million (net of a $2.1 million valuation allowance) relates to net operating loss carryforwards in the United Kingdom and Germany, which can be carried forward indefinitely. The remaining unrealized tax benefits relate to net operating loss carryforwards in certain other international operations that are fully reserved and the majority of which expire over the next five years.

NOTE 10 PENSION AND OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS We sponsor several pension plans that cover substantially all employees. Pension benefits under defined benefit pension plans are based on years of service and, for certain plans, on average compensation immediately preceding retirement. Pension costs are determined in accordance with SFAS No. 87, "Employers' Accounting for Pensions." We fund pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, for U.S. plans and in accordance with local regulations or customs for non-U.S. plans. In 2000, we made a qualified transfer of pension assets of $2.2 million from a U.S. pension plan to pay for medical benefit claims and administrative expenses incurred for postretirement health care benefits.

We presently provide varying levels of postretirement health care and life insurance benefits to most U.S. employees. Postretirement health care benefits are available to employees and their spouses retiring on or after age 55 with 10 or more years of service after age 40. Beginning with retirements on or after January 1, 1998, our portion of the costs of postretirement health care benefits are capped at 1996 levels.

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

(in thousands)	2002	2001
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 373,695	$ 354,314
Service cost	10,706	11,317
Interest cost	26,286	26,368
Participant contributions	642	722
Actuarial (gains) losses	1,865	4,562
Benefits paid	(19,489)	(18,649)
Effect of curtailment and other	489	305
Foreign currency translation adjustments	5,950	(5,244)
Other	516	-
Benefit obligation, end of year	$ 400,660	$ 373,695
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 443,217	$ 472,208
Actual return on plan assets	(25,245)	(10,433)
Company contributions	1,947	2,501
Participant contributions	642	722
Benefits paid	(19,489)	(18,649)
Other	21	(660)
Foreign currency translation adjustments	2,295	(2,472)
Fair value of plan assets, end of year	$ 403,388	$ 443,217
Funded status of plans	$ 2,728	$ 69,522
Unrecognized transition obligation	963	(1,268)
Unrecognized prior service cost	4,538	4,451
Unrecognized actuarial losses (gains)	20,379	(55,860)
Minimum pension liability	(12,759)	(8,906)
Net accrued benefit	$ 15,849	$ 7,939
Amounts recognized in the balance sheet consist of:		
Prepaid benefit	$ 48,665	$ 32,205
Accrued benefit obligation	(32,816)	(24,266)
Net accrued benefit	$ 15,849	$ 7,939

Prepaid pension benefits are included in other long-term assets. Accrued pension benefit obligations are included in other long-term liabilities. U.S. defined benefit pension plan assets consist principally of common stocks, corporate bonds and U.S. government securities. International defined benefit pension plan assets consist principally of common stocks, corporate bonds and government securities.

To the best of our knowledge and belief, the asset portfolios of our defined benefit plans do not contain our capital stock. We do not issue insurance contracts to cover future annual benefits of defined benefit plan participants. Transactions between us and our defined benefit plans include the reimbursement of plan expenditures incurred by us on behalf of the plans. To the best of our knowledge and belief, the reimbursement of cost is permissible under current ERISA or local government law.

Included in the above information are international pension plans with accumulated benefit obligations exceeding the fair value of plan assets as follows:

(in thousands)	2002	2001
Projected benefit obligation	$ 58,343	$ 54,279
Accumulated benefit obligation	54,534	53,283
Fair value of plan assets	28,709	28,263

The components of net pension (benefit) cost include the following:

(in thousands)	2002	2001	2000
Service cost	$ 10,706	$ 11,317	$ 13,414
Interest cost	26,286	26,368	25,187
Expected return on plan assets	(44,879)	(43,526)	(39,388)
Amortization of transition obligation	(1,998)	(2,052)	(2,030)
Amortization of prior service cost	477	428	514
Recognition of actuarial gains	(2,821)	(2,836)	(1,662)
Other	(488)	-	-
Net benefit	$ (12,717)	$ (10,301)	$ (3,965)

The significant actuarial assumptions used to determine the present value of net pension obligations were as follows:

(in thousands)	2002	2001	2000
Discount rate:			
U.S. plans	7.3%	7.5%	8.0%
International plans	6.0 - 6.8%	5.5 - 6.8%	5.5 - 7.0%
Rates of future salary increases:			
U.S. plans	4.5%	4.5%	4.5%
International plans	3.3 - 4.0%	3.0 - 4.3%	3.5 - 4.3%
Rates of return on plan assets:			
U.S. plans	9.5%	10.0%	10.0%
International plans	6.5 - 7.3%	6.5 - 8.0%	6.5 - 8.0%

The funded status of our other postretirement benefit plan and amounts recognized in the consolidated balance sheets were as follows:

(in thousands)	2002	2001
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 41,122	$ 36,064
Service cost	1,291	1,130
Interest cost	2,950	2,744
Actuarial losses	165	4,667
Benefits paid	(3,408)	(3,483)
Benefit obligation, end of year	$ 42,120	$ 41,122
Funded status of plans	$ (42,120)	$ (41,122)
Unrecognized prior service cost	1,078	1,484
Unrecognized actuarial gains	(4,279)	(4,823)
Net accrued obligation	$ (45,321)	$ (44,461)

The components of other postretirement cost include the following:

(in thousands)	2002	2001	2000
Service cost	$ 1,291	$ 1,130	$ 1,168
Interest cost	2,950	2,744	2,536
Amortization of prior service cost	406	406	406
Recognition of actuarial gains	(247)	(753)	(465)
Net cost	$ 4,400	$ 3,527	$ 3,645

Accrued postretirement benefit obligations of $42.1 million and $41.1 million at June 30, 2002 and 2001, respectively, are included in other long-term liabilities. The discount rate used to determine the present value of the other postretirement benefit obligation was 7.3%, 7.5% and 8.0% in 2002, 2001 and 2000, respectively. The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 10.0% in 2002 and was assumed to decrease gradually to 5.0% in 2007 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the cost components and obligation for the health care plans. A change of one percentage point in the assumed health care cost trend rates would have the following effects on the total service and interest cost components of other postretirement cost and the other postretirement benefit obligation at June 30, 2002:

(in thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 190	$ (170)
Effect on other postretirement benefit obligation	1,750	(1,540)

In addition we maintain a supplemental early retirement plan for various eligible executives. The accrued benefit obligation of $13.9 million related to this plan, is included as a component of other long-term liabilities at June 30, 2002. We do not maintain any assets to fund the obligations under this plan.

We also sponsor several defined contribution pension plans. Pension costs for defined contribution plans were $9.1 million, $12.1 million and $9.8 million in 2002, 2001 and 2000, respectively. Effective October 1, 1999, company contributions to U.S. defined contribution pension plans are made primarily in our capital stock, resulting in the issuance of 102,013 and 247,860 shares during 2002 and 2001, respectively, with a market value of $3.8 million and $6.9 million, respectively. We temporarily suspended all company contributions to the defined contribution plans effective January 1, 2002.

We provide for postemployment benefits pursuant to SFAS No. 112, "Employers' Accounting for Postemployment Benefits." We accrue the cost of separation and other benefits provided to former or inactive employees after employment but before retirement. Postemployment benefit costs were not significant in 2002, 2001 and 2000.

NOTE 11 ACCUMULATED OTHER COMPREHENSIVE LOSS The components of accumulated other comprehensive loss consist of the following:

As of June 30, 2002 (in thousands)	Pre-tax	Tax	After-tax
Unrealized loss on marketable equity securities available-for-sale	$ (791)	$ (301)	$ (490)
Unrealized loss on derivatives designated and qualified as cash flow hedges	(9,339)	(3,543)	(5,796)
Minimum pension liability adjustment	(7,195)	(2,730)	(4,465)
Foreign currency translation adjustments	(47,520)	(3,492)	(44,028)
Total accumulated other comprehensive loss	$ (64,845)	$ (10,066)	$ (54,779)

As of June 30, 2001 (in thousands)	Pre-tax	Tax	After-tax
Unrealized gain on marketable equity securities available-for-sale	$ 2,104	$ 820	$ 1,284
Unrealized loss on derivatives designated and qualified			

as cash flow hedges	(4,203)	(1,681)	(2,522)
Minimum pension liability adjustment	(5,819)	(2,299)	(3,520)
Foreign currency translation adjustments	(62,602)	4,530	(67,132)
Total accumulated other comprehensive loss	$ (70,520)	$ 1,370	$ (71,890)

NOTE 12 RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

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

We implemented the measures associated with the closing and consolidation of the Advanced Materials Solutions Group (AMSG) electronics facility in Chicago, Ill., and Metalworking Solutions & Services Group (MSSG) industrial product group's Pine Bluff, Ark. and Monticello, Ind. locations, the production of a particular line of products in Rogers, Ark. and several customer service centers. As a result, we recorded restructuring charges of $14.8 million during 2002 related to exit costs associated with these actions, including severance for substantially all 337 employees at the closed facilities. We also recorded a charge of $2.5 million related to severance for 84 individuals, primarily in the MSSG segment. The total charge to date of $17.3 million includes non-cash items of $5.4 million. The components of the charges and the accrual at June 30, 2002 for this program are as follows:

(in thousands)	2002 Expense	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2002
Facility rationalizations	$ 14,801	$ (5,387)	$ (6,437)	$ 2,977
Employee severance	2,525	-	(1,305)	1,220
Total	$ 17,326	$ (5,387)	$ (7,742)	$ 4,197

The restructuring accrual at June 30, 2002 represents future cash payments for these obligations, of which the majority are expected to occur over the next 12 months. Additionally, as part of these actions, we recorded a non-cash charge of $1.0 million, net of salvage value, associated with the abandonment and scrapping of inventory. This charge was recorded as a component of cost of goods sold. We also incurred period costs associated with these actions of $1.5 million during 2002, which were expensed as incurred as a component of cost of goods sold.

2002 AND 2001 J&L AND FSS BUSINESS IMPROVEMENT PROGRAM In the J&L segment for 2001, we recorded a restructuring and asset impairment charge of $2.5 million for severance of 115 individuals, $1.8 million associated with the closure of 11 underperforming satellite locations, including the German operations, and $0.7 million for the exiting of three warehouses. This includes a $0.4 million non-cash write-down of the book value of certain property, plant and equipment, net of salvage value, that _we determined would no longer be utilized in ongoing operations. In the Full Service Supply (FSS) segment for 2001, we recorded restructuring charges of $0.6 million for severance related to eight individuals.

In 2002, we continued our J&L and FSS business improvement programs initiated in 2001. In the J&L segment during 2002, we recorded restructuring and asset impairment charges of $5.3 million related to the write-down of a portion of the value of a business system, $2.5 million for severance for 81 individuals and $1.7 million related to the closure of 10 satellites and two call centers. In anticipation of migrating to a new business system, we capitalized costs associated with the development of system functionality specifically designed for the J&L business. In the December 2001 quarter, after further evaluation of the development of the system, we determined it was no longer feasible that J&L would use this portion of the business system because the vendor ceased supporting the system. Therefore, we recorded the non-cash charge of $5.3 million representing the portion of costs capitalized in connection with system enhancements specifically for the J&L business. In the FSS segment for 2002, we recorded restructuring charges of $0.7 million for severance related to 34 individuals.

All initiatives under this business improvement program have been implemented and completed and all charges have been taken. The components of the 2002 and 2001 charges and the restructuring accrual at June 30, 2002 and 2001, are as follows:

(in thousands)	2001 Expense	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2001
J&L business improvement program:				
Employee severance	$ 2,475	$ -	$ (2,224)	$ 251
Facility closures	2,453	(987)	(526)	940
FSS business improvement program	571	-	(430)	141
Total	$ 5,499	$ (987)	$ (3,180)	$ 1,332

(in thousands)	Accrual at June 30, 2001	2002 Expense	Expense Adjustments	Asset Write-Downs	Cash Expenditures	Accrual at June 30, 2002
J&L business improvement program:						
Employee severance	$ 251	$ 2,479	$ 6	$ -	$ (2,370)	$ 366
Facility closures	940	1,731	93	(572)	(1,398)	794
Business system	-	5,257	-	(5,257)	-	-
FSS business improvement program	141	706	(71)	-	(548)	228
Total	$ 1,332	$ 10,173	$ 28	$ (5,829)	$ (4,316)	$ 1,388

The expense adjustments for the facility closures were due to incremental costs incurred to exit these facilities. The other expense adjustments relate to reductions in actual amounts paid for severance costs compared to what was initially anticipated. We recorded expense adjustments as a component of restructuring and asset impairment charges.

In connection with the 2001 J&L charge for exiting the warehouses and the satellite closures, we recorded a non-cash write-down, net of salvage value, of $0.6 million primarily related to inventory that was abandoned and not relocated. J&L also finalized and implemented a program to optimize the overall catalog product offering. We identified certain products that would no longer be offered to customers and scrapped these products, resulting in a non-cash charge of $3.0 million, net of salvage value. These charges were recorded as a component of cost of goods sold.

As a part of the J&L facility closures, in 2002 we recorded a charge of $0.6 million, net of salvage value, associated with the abandonment and scrapping of inventory at these locations. This charge was recorded as a component of cost of goods sold.

2001 CORE-BUSINESS RESIZE PROGRAM In 2001, we took actions to reduce our salaried workforce in response to the weakened U.S. manufacturing sector. As a result of implementing this core-business resize program, we recorded a restructuring charge of $4.6 million related to severance for 209 individuals. All employee benefit initiatives under these programs have been implemented. Cash expenditures were $1.9 million and $2.2 million in 2002 and 2001, respectively. The restructuring accrual at June 30, 2002 of $0.4 million represents projected payments, the majority of which are expected to occur over the next 12 months.

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

The asset impairment charges of $4.8 million consisted of a charge of $1.7 million related to a metalworking manufacturing operation in Shanghai, China. This operation became fully operational in 1998 and at the time of review, had not generated the performance that was expected at the time we entered into this market. We performed an in-depth review of the operations, capacity utilization and the local management team, and engaged a consultant to perform an independent review of the same. These reviews enabled us to determine that the market served by this operation is not expected to develop to the extent originally anticipated, but that the operations were in good working order, utilized modern technology, and the management team in place was competent. We also determined that this facility had excess capacity given the level of market demand. In addition, we recorded an asset

impairment charge of $2.8 million related to the write-down of equipment in our North American metalworking operations and $0.3 million in our engineered products operations. In connection with the repositioning of the company, we completed an assessment of the assets currently being used in these operations and determined that these assets were not going to be further utilized in conducting these operations. This amount represents the write-down of the book value of the assets, net of salvage value.

The $7.4 million in employee severance related to severance packages provided to 171 hourly and salaried employees terminated in connection with a global workforce reduction. Included in this charge is an incremental pension obligation of $0.8 million, incurred as a result of the severance packages provided.

The $6.3 million charge for facility rationalizations relates to employee severance for 153 employees and other exit costs associated with the closure or downsizing of a metalworking manufacturing operation in Kingswinford, United Kingdom; a circuit board drill plant in Janesville, Wisc.; a German warehouse facility; and several offices in the Asia Pacific region and South America. Included in this charge is an incremental pension obligation of $0.2 million due to a plan curtailment. The charge also includes $3.4 million for employee severance for 41 employees and other exit costs associated with the closure of a mining and construction manufacturing operation in China and the exit of the related joint venture.

The product rationalization charge of $0.1 million represents the write-down of certain discontinued product lines manufactured in these operations. We manufactured these products specifically for the market served by these operations and we determined that these products are no longer salable. This charge has been recorded as a component of cost of goods sold.

In 2001, we incurred period costs of $0.3 million related to these initiatives which were included in cost of goods sold as incurred. In 2000, we incurred period costs of $0.8 million related to these initiatives, and costs of $1.7 million associated with the implementation of lean manufacturing techniques, both of which were included in cost of goods sold as incurred. As of June 30, 2002, $0.3 million remains accrued for facility rationalizations and is expected to be paid within the next 12 months. Adjustments to the original amounts accrued were immaterial.

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

NOTE 13 FINANCIAL INSTRUMENTS The fair values of our financial instruments at June 30, 2002 and 2001 approximate the carrying values of such instruments. The methods used to estimate the fair value of our financial instruments are as follows:

CASH AND EQUIVALENTS, CURRENT MATURITIES OF LONG-TERM DEBT AND NOTES PAYABLE TO BANKS The carrying amounts approximate their fair value because of the short maturity of the instruments.

MARKETABLE EQUITY SECURITIES The fair value is estimated based on the quoted market price of this security, as adjusted for the currency exchange rate at June 30.

LONG-TERM DEBT Fair value was determined using discounted cash flow analysis and our incremental borrowing rates for similar types of arrangements.

FOREIGN EXCHANGE CONTRACTS The notional amount of outstanding foreign exchange contracts, translated at current exchange rates, was $197.7 million and $109.7 million at June 30, 2002 and 2001, respectively. We would have received $2.5 million and $1.6 million at June 30, 2002 and 2001, respectively, to settle these contracts, representing the fair value of these agreements. Under SFAS No. 133, the carrying value equals the fair value for these contracts at June 30, 2002 and 2001. Fair value was estimated based on quoted market prices of comparable instruments.

INTEREST RATE SWAP AGREEMENTS At June 30, 2002 and 2001, we had interest rate swap agreements outstanding that effectively convert a notional amount of $150.0 million and $200.0 million, respectively, of debt from floating to fixed interest rates. The agreements outstanding at June 30, 2002 mature at various times between July 2002 and June 2003. At June 30, 2002 and 2001, we would have paid $5.5 million and $6.6 million, respectively, to settle these interest rate swap agreements, which represents the fair value of these agreements. Additionally, at June 30, 2002, we had interest rate swap agreements outstanding that effectively convert a notional amount of $200 million of the ten-year Senior Unsecured Notes from fixed to floating interest rates. These agreements mature in June 2012 but provide for a one time optional early termination by the bank counterparty in June 2007 at the then prevailing market value of the swap agreements. At June 30, 2002, we would have received $0.9 million to settle these interest rate swap agreements, which represents the fair value of these agreements.

Under SFAS No. 133, the carrying value equals the fair value for these contracts at June 30, 2002 and 2001. Fair value was estimated based on the mark-to-market value of the contracts which closely approximates the amount that we would receive or pay to terminate the agreements at year end.

CONCENTRATIONS OF CREDIT RISK Financial instruments that potentially subject us to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. By policy, we make temporary cash investments with high credit quality financial institutions. With respect to trade receivables, concentrations of credit risk are significantly reduced because we serve numerous customers in many industries and geographic areas.

We are exposed to counterparty credit risk for nonperformance of derivatives and, in the unlikely event of nonperformance, to market risk for changes in interest and currency rates. We manage exposure to counterparty credit risk through credit standards, diversification of counterparties and procedures _to monitor concentrations of credit risk. We do not anticipate nonperformance by any of the counterparties. As of June 30, 2002 and 2001, we had no significant concentrations of credit risk.

NOTE 14 STOCK OPTIONS, AWARDS AND PURCHASE PLAN Stock options generally are granted to eligible employees at fair market value at the date of grant. Options are exercisable under specified conditions for up to 10 years from the date of grant. We have four plans under which options may be granted: the 1992 plan, the 1996 plan and two 1999 plans. No options may be granted under the 1992 plan after October 2002, no options may be granted under the 1996 plan after October 2006 and no options may be granted under the 1999 plans after April and October 2009. No charges to income have resulted from grants under any of the plans.

Under provisions of the plans, participants may deliver our stock, owned by the holder for at least six months, in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. The fair value of shares delivered in each of 2002 and 2001 was $0.2 million. Shares delivered in 2000 were not significant.

We measure compensation expense related to stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, at the time options are granted, no compensation expense was recognized in the accompanying consolidated financial statements due to the option strike price being greater than or equal to the market value of the stock on the grant date. If compensation expense was determined based on the estimated fair value _of options granted in 2002, 2001 and 2000, consistent with the methodology in SFAS No. 123, "Accounting for Stock Based Compensation," our 2002, 2001 and 2000 net income and earnings per share would be reduced to the pro forma amounts indicated below:

(in thousands, except per share data)	2002	2001	2000
Net (loss) income:			
As reported	$ (211,908)	$ 53,288	$ 51,710
Pro forma	(215,511)	50,802	50,287
Basic (loss) earnings per share:			
As reported	(6.80)	1.74	1.71
Pro forma	(6.91)	1.66	1.66
Diluted (loss) earnings per share:			
As reported	(6.70)	1.73	1.70
Pro forma	(6.86)	1.65	1.66

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

	2002	2001	2000
Risk-free interest rate	4.6%	5.9%	6.6%
Expected life (years)	5	5	5
Expected volatility	34.0%	33.2%	31.1%
Expected dividend yield	1.8%	2.4%	2.5%

Stock option activity for 2002, 2001 and 2000 is set forth below:

(number of options)	2002 Options	2002 Weighted Average Exercise Price	2001 Options	2001 Weighted Average Exercise Price	2000 Options	2000 Weighted Average Exercise Price
Options outstanding, beginning of year	2,913,436	$ 32.08	2,856,298	$ 33.05	2,635,256	$ 33.84
Granted	964,025	38.67	726,850	25.51	317,600	27.01
Exercised	(382,542)	28.54	(263,719)	22.48	(20,808)	19.81
Lapsed and forfeited	(187,065)	45.24	(405,993)	34.40	(75,750)	38.86
Options outstanding, end of year	3,307,854	$ 33.75	2,913,436	$ 32.08	2,856,298	$ 33.05
Options exercisable, end of year	1,882,539	$ 33.37	1,959,311	$ 34.99	2,025,723	$ 35.30
Weighted average fair value of options granted during the year		$ 12.24		$ 7.95		$ 8.30

Stock options outstanding at June 30, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 20.63 - $23.94	330,733	6.90	$ 22.88	300,733	$ 22.79
24.47	438,839	8.06	24.47	132,574	24.47
24.75 - 26.41	421,644	7.21	25.98	350,145	26.04
26.88 - 31.69	450,113	6.50	30.48	369,953	30.69
31.84 - 38.30	360,800	4.72	36.81	303,334	38.86
38.44	640,850	9.08	38.44	2,000	38.44
38.51 - 48.56	528,875	7.22	44.89	287,800	48.56
49.25 - 53.97	136,000	5.50	51.61	136,000	51.61
	3,307,854	7.22	$ 33.75	1,882,539	$ 33.37

In addition to stock option grants, several plans permit the award of restricted stock to directors, officers and key employees. During 2002, 2001 and 2000, we granted restricted stock awards of 124,298, 75,790 and 34,800 shares, respectively, which vest over periods of one to six years from the grant date. For some grants, vesting may accelerate due to achieving certain performance goals. Accordingly, a portion of the total cost of these awards of $4.7 million, $1.9 million and $1.1 million for 2002, 2001 and 2000, respectively, is considered unearned compensation. Unearned compensation is amortized to expense over the vesting period. Compensation expense related to these awards was $2.0 million, $2.6 million and $1.6 million in 2002, 2001 and 2000, respectively.

On October 24, 2000, our shareowners approved the Employee Stock Purchase Plan (ESPP), which provides for the purchase by employees of up to 1.5 million shares of capital stock through payroll deductions. Employees who choose to participate in the ESPP receive an option to purchase capital stock at a discount equal to the lower of 85 percent of the fair market value of the capital stock on the first or last day of a purchase period. The ESPP was launched on February 1, 2001 and employees purchased 24,944 and 9,241 shares under the ESPP during 2002 and 2001, respectively.

NOTE 15 ENVIRONMENTAL MATTERS We are involved in various environmental cleanup and remediation activities at several of our manufacturing facilities. In addition, we are currently named as a potentially responsible party (PRP) at the Li Tungsten Superfund site in Glen Cove, New York. In December 1999, we recorded a remediation reserve of $3.0 million with respect to our involvement in these matters, which is recorded as a component of operating expense. This represents our best estimate of the undiscounted future obligation based on our evaluations and discussions with outside counsel and independent consultants, and the current facts and circumstances related to these matters. We recorded this liability because certain events occurred, including the identification of other PRPs, an assessment of potential remediation solutions and direction from the government for the remedial action plan, that clarified our level of involvement in these matters and our relationship to other PRPs. This led us to conclude that it was probable that a liability had been incurred.

In addition to the amount currently reserved, we may be subject to loss contingencies related to these matters estimated to be up to an additional $3.0 million. We believe that such undiscounted unreserved losses are reasonably possible but are not currently considered to be probable of occurrence. The reserved and unreserved liabilities for all environmental concerns could change substantially in the near term due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by the government on these matters. At June 30, 2002, we have an accrual of $2.8 million recorded relative to this environmental issue.

Additionally, we also maintain reserves for other potential environmental issues associated with our Greenfield operations and a location operated by our German subsidiary. At June 30, 2002, the total of these accruals was $1.4 million and represents anticipated costs associated with the remediation of these issues.

We maintain a Corporate Environmental, Health and Safety (EH&S) Department, as well as an EH&S Policy Committee, to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, we have established an EH&S administrator at each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we establish or adjust financial provisions and reserves for environmental contingencies in accordance with SFAS No. 5, "Accounting for Contingencies."

NOTE 16 COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS Various lawsuits arising during the normal course of business are pending against us. In our opinion, the ultimate liability, if any, resulting from these matters will have no significant effect on our consolidated financial positions or results of operations.

LEASE COMMITMENTS We lease a wide variety of facilities and equipment under operating leases, primarily for warehouses, production and office facilities and equipment. Lease expense under these rentals amounted to $23.5 million, $24.2 million and $22.3 million in 2002, 2001 and 2000, respectively. Future minimum lease payments for non-cancelable operating leases are $18.8 million, $14.7 million, $11.5 million, $9.6 million and $5.4 million for the years 2003 through 2007 and $12.6 million thereafter.

PURCHASE COMMITMENTS We have purchase commitments for materials, supplies, and machinery _and equipment as part of the ordinary conduct of business. A few of these commitments extend beyond one year and are based on minimum purchase requirements. In the aggregate, we believe these commitments are not at prices in excess of current market.

OTHER CONTRACTUAL OBLIGATIONS We do not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect our liquidity.

RELATED PARTY TRANSACTIONS We do not have any related party transactions that affect our operations, results of operations, cash flow or financial condition.

NOTE 17 RIGHTS PLAN On July 24, 2000, our Board of Directors adopted a new shareowner rights plan to replace our previous plan, which had been in effect since 1990. The new plan became effective upon the expiration of the previous plan on November 2, 2000 and provided for the distribution to shareowners of one stock purchase right for each share of capital stock held as of September 5, 2000. Each right entitles a shareowner to buy 1/100th of a share of a new series of preferred stock at a price of $120 (subject to adjustment).

The rights are exercisable only if a person or group of persons acquires or intends to make a tender offer for 20 percent or more of our capital stock. If any person acquires 20 percent of the capital stock, each right will entitle the other shareowners to receive that number of shares of capital stock having a market value of two times the exercise price. If we are acquired in a merger or other business combination, each right will entitle the shareowners 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, 2010 and are subject to redemption at $0.01 per right.

NOTE 18 SEGMENT DATA We operate four global business units consisting of Metalworking Solutions & Services Group (MSSG), Advanced Materials Solutions Group (AMSG), J&L Industrial Supply (J&L) and Full Service Supply (FSS), and corporate functional shared services. The presentation of segment information reflects the manner in which we organize segments for making operating decisions and assessing performance.

Intersegment sales 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.

Sales to a single customer did not aggregate 10 percent or more of total sales in 2002, 2001 or 2000. Export sales from U.S. operations to unaffiliated customers were $65.1 million, $78.7 million and $75.8 million in 2002, 2001 and 2000, respectively.

METALWORKING SOLUTIONS & SERVICES GROUP In the MSSG segment, we provide consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. Our tooling systems consist of a steel toolholder and a cutting tool such as an indexable insert or drill made from cemented tungsten carbides, high-speed steel and other hard materials. We also provide solutions to our customers' metalcutting needs through engineering services aimed at improving their competitiveness.

ADVANCED MATERIALS SOLUTIONS GROUP In the AMSG segment, the principal business is the production and sale of cemented tungsten carbide products used in mining, highway construction, engineered applications, including circuit board drills, compacts and other similar applications. These products have technical commonality to our core metalworking products. We also sell metallurgical powders to manufacturers of cemented tungsten carbide products.

J&L INDUSTRIAL SUPPLY In this segment, we provide metalworking consumables and related products to small- and medium-sized manufacturers in the United States and the United Kingdom. J&L markets products and services through annual mail-order catalogs and monthly sale flyers, telemarketing, the Internet and field sales.

FULL SERVICE SUPPLY In the FSS segment, we provide metalworking consumables and related products to medium- and large-sized manufacturers in the United States and Canada. FSS offers integrated supply programs that provide inventory management systems, just-in-time availability and programs that focus on total cost savings.

Segment detail is summarized as follows:

(in thousands)	2002	2001	2000
External sales:			
MSSG	$ 897,157	$ 999,813	$ 1,029,395
AMSG	307,668	352,933	345,447
J&L	226,010	296,264	333,061
FSS	152,907	158,886	158,675
Total external sales	$ 1,583,742	$ 1,807,896	$ 1,866,578
Intersegment sales:			
MSSG	$ 116,467	$ 111,780	$ 134,398
AMSG	24,167	28,167	25,263
J&L	2,083	3,823	5,038
FSS	2,747	5,278	7,827
Total intersegment sales	$ 145,464	$ 149,048	$ 172,526
Total sales:			
MSSG	$ 1,013,624	$ 1,111,593	$ 1,163,793
AMSG	331,835	381,100	370,710
J&L	228,093	300,087	338,099
FSS	155,654	164,164	166,502
Total sales	$ 1,729,206	$ 1,956,944	$ 2,039,104

Segment detail (continued)

(in thousands)	2002	2001	2000
Operating income (loss):			
MSSG	$ 97,323	$ 130,558	$ 131,676
AMSG	26,781	43,270	41,204
J&L	(681)	3,689	17,208
FSS	2,014	7,541	12,021
Corporate	(34,120)	(28,658)	(43,330)
Total operating income	91,317	156,400	158,779
Interest expense	32,627	50,381	55,079
Other (income) expense, net	(361)	11,690	3,289
Income before income taxes and minority interest	$ 59,051	$ 94,329	$ 100,411
Depreciation and amortization:			
MSSG	$ 51,897	$ 62,374	$ 64,727
AMSG	12,065	21,024	21,892
J&L	2,398	8,400	9,044
FSS	1,852	804	342
Corporate	5,417	4,695	5,641
Total depreciation and amortization	$ 73,629	$ 97,297	$ 101,646
Equity income (loss):			
MSSG	$ 629	$ 470	$ 615
AMSG	(16)	(15)	(18)
Total equity income	$ 613	$ 455	$ 597
Total assets:			
MSSG	$ 738,654	$ 937,863	$ 978,188
AMSG	361,122	429,981	475,741
J&L	178,728	224,939	218,247
FSS	56,078	63,056	69,435
Corporate	189,029	169,603	199,510
Total assets	$ 1,523,611	$ 1,825,442	$ 1,941,121
Capital expenditures:			
MSSG	$ 26,257	$ 32,913	$ 35,125
AMSG	8,168	7,947	7,235
J&L	2,537	2,679	6,939
FSS	437	439	760
Corporate	6,641	15,951	604
Total capital expenditures	$ 44,040	$ 59,929	$ 50,663
Investments in affiliated companies:			
MSSG	$ 8,354	$ 3,688	$ 3,006
AMSG	3,327	187	(435)
Total investments in affiliated companies	$ 11,681	$ 3,875	$ 2,571

During 2002, all operating segments experienced lower operating income as a result of reduced sales levels as compared to the prior year. Additionally, MSSG and AMSG operating income was reduced by $10.2 million and $8.0 million, respectively, in restructuring charges associated with the closing and consolidation of various facilities (see Note 12). The operating income for J&L and FSS reflects $10.1 million and $0.6 million, respectively, in charges related to those segments' business improvement programs and $1.0 million of restructuring charges were included in the corporate operating loss (see Note 12).

Total assets of both MSSG and AMSG are lower due to the effects of the goodwill impairment charges of $170.7 million and $82.1 million, respectively, recognized in 2002 (see Note 2).

J&L operating income for 2001 was reduced by $5.0 million related to restructuring and asset impairment charges, $3.0 million related to product pruning initiatives (see Note 12), and $2.1 million of costs primarily related to the tender offer to acquire the minority shares of JLK (see Note 3). MSSG, AMSG, FSS and Corporate operating income for 2001 was reduced by $3.3 million, $0.9 million, $0.6 million and $0.4 million, respectively, related to restructuring charges (see Note 12).

MSSG operating income for 2000 was reduced by $11.0 million related to asset impairment charges, costs associated with facility and product rationalizations, and employee severance (see Note 12). AMSG operating income for 2000 was reduced by $4.8 million related to costs associated with facility rationalizations including costs to exit a related joint venture, employee severance and asset impairment charges (see Note 12). J&L operating income for 2000 was reduced by $0.6 million related to employee severance costs (see Note 12) and $0.2 million related to the evaluation of strategic alternatives _(see Note 3). Corporate operating income for 2000 was reduced by $3.0 million related to environmental remediation costs (see Note 15), $2.2 million related to employee severance costs (see Note 12), and $0.6 million related to the evaluation of strategic alternatives (see Note 3).

Geographic information for sales, based on country of origin, and assets is follows:

(in thousands)	2002	2001	2000
External sales:			
United States	$1,085,297	$1,267,506	$1,318,806
Germany	171,199	192,283	196,533
United Kingdom	79,906	86,670	96,220
Canada	51,814	61,335	60,823
Other	195,526	200,102	194,196
Total external sales	$1,583,742	$1,807,896	$1,866,578
Total assets:			
United States	$1,087,716	$1,368,055	$1,485,695
Germany	162,900	166,259	154,534
United Kingdom	91,548	93,432	92,463
Canada	20,776	33,982	28,203
Other	160,671	163,714	180,226
Total assets	$1,523,611	$1,825,442	$1,941,121

NOTE 19 SUBSEQUENT EVENT

On August 30, 2002, we completed the acquisition of the Widia Group from Milacron, Inc. for approximately EUR 188 million (approximately $185 million) in cash, subject to a purchase price adjustment based upon the change in the net assets of Widia from December 31, 2001 to the closing date.

Widia, with approximately $240 million in sales in calendar 2001, is a leading manufacturer and marketer of metalworking tools, engineered products and related services in Europe and India. Widia has an extensive product line of metalworking consumables, and is a recognized leader in milling applications. Widia employs approximately 3,400 employees, and operates eight manufacturing facilities in Europe and two in India. We currently intend on integrating the operations of the Widia Group with existing operations. Widia sells primarily through direct sales and service personnel in many European countries.

The funding of the Widia acquisition was taken into consideration as part of the recently completed comprehensive refinancing of our capital structure.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
(in thousands, except per share data)	Sep. 30	Dec. 31	Mar. 31	Jun. 30
Fiscal 2002				
Net sales	$ 406,654	$ 380,338	$ 393,852	$ 402,898
Gross profit	129,839	116,465	127,647	136,873
Income (loss) before cumulative effect of change in accounting principle	12,444	(2,460)	13,144	15,370
Net (loss) income	(237,962)	(2,460)	13,144	15,370
Basic earnings (loss) per share before cumulative effect of change in accounting principle	0.40	(0.08)	0.42	0.49
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	0.40	(0.08)	0.42	0.48
Basic (loss) earnings per share	(7.68)	(0.08)	0.42	0.49
Diluted (loss) earnings per share	(7.57)	(0.08)	0.42	0.48
Fiscal 2001				
Net sales	$ 453,635	$ 443,565	$ 468,191	$ 442,505
Gross profit	152,616	151,416	164,507	147,181
Net income	9,342	13,524	20,394	10,028
Basic earnings per share	0.30	0.44	0.67	0.32
Diluted earnings per share	0.30	0.44	0.66	0.32

Earnings per share amounts for each quarter are required to be computed independently and, therefore, may not equal the amount computed for the year.

The first quarter loss in 2002 reflects the charge for the recognition of $250.4 million ($7.97 per share), net of tax, of goodwill impairment resulting from the adoption of SFAS No. 142. December 2001 earnings were reduced by special charges of $18.3 million ($0.40 per share) related to business improvement plans and asset impairment charges. March 2002 earnings were lower due to reduced revenue, as compared to the prior year, partially offset by lower operating expense, interest costs and the elimination of goodwill amortization. June 2002 earnings included $2.4 million less in special charges than did the same quarter of 2001, primarily associated with the J&L business improvement program.

September 2000 earnings were reduced by pretax charges of $3.3 million ($0.06 per share), including $1.6 million ($0.03 per share) related to restructuring charges and $1.7 million ($0.03 per share) primarily related to the tender offer to acquire the minority shares of JLK Direct Distribution Inc., and an after-tax charge of $0.6 million ($0.02 per share) related to a change in accounting principle. December 2000 earnings were reduced by pretax charges of $1.1 million ($0.03 per share) primarily related to restructuring charges. March 2001 earnings were reduced by pretax charges of $3.2 million ($0.06 per share) primarily related to restructuring and asset impairment charges. June 2001 earnings were reduced by pretax charges of $13.9 million ($0.27 per share) primarily related to a loss on divestiture and restructuring and product pruning charges.

STOCK PRICE RANGES AND DIVIDENDS PAID (UNAUDITED) Our common stock is traded on the New York Stock Exchange (symbol KMT). The number of shareowners of record as of August 9, 2002 was 3,206. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended			
	Sep. 30	Dec. 31	Mar. 31	Jun. 30
Fiscal 2002				
High	$ 39.79	$ 41.37	$ 42.70	$ 43.00
Low	28.43	30.12	35.15	34.65
Dividends	0.17	0.17	0.17	0.17
Fiscal 2001				
High	$ 26.44	$ 30.69	$ 33.00	$ 37.37
Low	21.19	24.44	25.30	26.67
Dividends	0.17	0.17	0.17	0.17

REPORT OF MANAGEMENT

TO THE SHAREOWNERS OF KENNAMETAL INC. We are responsible for the integrity of all information contained in this report. We prepared these financial statements and related information in accordance with accounting principles generally accepted in the United States of America and, as such, amounts contained in this report are based on our best judgment and estimates.

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

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

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

/s/ Markos I. Tambakeras	/s/ F. Nicholas Grasberger III
Markos I. Tambakeras Chairman of the Board, President and Chief Executive Officer Shareowner	F. Nicholas Grasberger III Vice President and Chief Financial Officer Shareowner

July 26, 2002

REPORT OF AUDIT COMMITTEE

TO THE SHAREOWNERS OF KENNAMETAL INC. The Audit Committee of the Board of Directors, composed of four independent directors, met seven times during the year ended June 30, 2002.

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

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

/s/ Kathleen J. Hempel

Kathleen J. Hempel
Chairperson, Audit Committee
Shareowner

July 22, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREOWNERS OF KENNAMETAL INC. In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareowners' equity and cash flows present fairly, in all material respects, the financial position of Kennametal Inc. and its subsidiaries at June 30, 2002, and the results of their operations and their cash flows for the year ended June 30, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Kennametal Inc.'s management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of Kennametal Inc. as of June 30, 2001, and for each of the two years in the period ended June 30, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements, before the revision described in Note 2, in their report dated July 20, 2001.

As discussed above, the financial statements of Kennametal Inc. as of June 30, 2001, and for each of the two years in the period ended June 30, 2001, were audited by other independent accountants who have ceased operations. As described in Note 2, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by Kennametal Inc. as of July 1, 2001. We audited the transitional disclosures described in Note 2. In our opinion, the transitional disclosures for 2001 and 2000 in Note 2 are appropriate. However, we were not engaged to audit, review or apply any procedures to the 2001 or 2000 financial statements of Kennametal Inc. other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 or 2000 financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
July 26, 2002, except for Note 19 as to which the date is August 30, 2002

THE FOLLOWING REPORT IS A COPY OF A PREVIOUSLY ISSUED REPORT BY ARTHUR ANDERSEN LLP AND IT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. ARTHUR ANDERSEN LLP HAS NOT CONSENTED TO ITS INCLUSION; THEREFORE, AN INVESTOR'S ABILITY TO RECOVER ANY POTENTIAL DAMAGE MAY BE LIMITED.

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREOWNERS OF KENNAMETAL INC. We have audited the accompanying consolidated balance sheets of Kennametal Inc. (a Pennsylvania corporation) and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended June 30, 2001. 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 auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of Kennametal Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 20, 2001

ELEVEN-YEAR FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)		2002	2001	2000
OPERATING RESULTS				
Net sales	(1)	$ 1,583,742	$ 1,807,896	$ 1,866,578
Cost of goods sold	(1)	1,072,918	1,192,176	1,228,685
Operating expense	(1)	389,396	425,641	434,136
Interest expense		32,627	50,381	55,079
Restructuring, asset impairment and other special charges	(2)	30,189	21,458	22,412
Income taxes		18,900	37,300	43,700
Accounting changes, net of tax	(3)	250,406	599	-
Net (loss) income	(4)	(211,908)	53,288	51,710
FINANCIAL POSITION				
Net working capital		$ 375,284	$ 386,711	$ 397,403
Inventories		345,076	373,221	410,885
Property, plant and equipment, net		435,116	472,874	498,784
Total assets		1,523,611	1,825,442	1,941,121
Long-term debt, including capital leases		387,887	582,585	637,686
Total debt, including capital leases		411,367	607,115	699,242
Total shareowners' equity	(5)	713,962	796,769	780,254
PER SHARE DATA				
Basic (loss) earnings		$ (6.80)	$ 1.74	$ 1.71
Diluted (loss) earnings	(4)	(6.70)	1.73	1.70
Dividends		0.68	0.68	0.68
Book value (at June 30)		20.51	25.84	25.56
Market price (at June 30)		36.60	36.90	21.44
OTHER DATA				
Capital expenditures		$ 44,040	$ 59,929	$ 50,663
Number of employees (at June 30)		11,660	12,570	13,210
Average sales per employee	(1)	$ 131	$ 139	$ 140
Basic weighted average shares outstanding (000)	(5)	31,169	30,560	30,263
Diluted weighted average shares outstanding (000)	(5)	31,627	30,749	30,364
KEY RATIOS				
Sales growth	(1)	(12.4)%	(3.1)%	(2.5)%
Gross profit margin	(1)	32.3	34.1	34.2
Operating profit margin	(1)	5.8	8.7	8.5
Return on sales	(1)(4)	(13.4)	2.9	2.8
Return on average shareowners' equity	(4)	(38.3)	6.8	6.9
Total debt to total capital		36.2	42.9	45.6
Inventory turnover	(1)	2.9x	3.1x	2.9x

n.m. - Not meaningful

NOTES

(1) Amounts and percentages for 2000, 1999, 1998 and 1997 were adjusted to reclassify shipping and handling fees to net sales and shipping and handling costs to cost of goods sold as required by Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs." It was not practicable to restate periods prior to 1997.

(2) In 2002, unusual or nonrecurring items primarily reflect restructuring charges incurred related to operational improvement programs and a loss on divestiture. Unusual or nonrecurring items reflect costs associated with restructuring and asset impairment charges related to operational improvement programs, a loss on divestiture and costs primarily associated with the JLK tender offer in 2001; costs associated with environmental remediation, strategic alternatives and restructuring and asset impairment charges related to operational improvement programs initiated in 2000; costs associated with the acquisition of shares of Toshiba Tungaloy and restructuring and asset impairment charges related to operational improvement programs initiated in 1999; deferred financing costs related to a postponed public offering intended to have been offered in connection with the acquisition of Greenfield in 1998; restructuring costs for the relocation of the North America Metalworking Headquarters from Raleigh, N.C. to Latrobe, Pa., and to close a manufacturing facility in 1996; restructuring and integration costs associated with the acquisition of Hertel AG in 1994; and settlement and partial reversal of accrued patent litigation costs in 1993.

(3) Accounting changes in 2002 reflect the non-cash charge related to goodwill impairment recorded as a result of the adoption of SFAS No. 142. In 2001, this charge reflect the change in the method of accounting for derivative financial instruments (SFAS No. 133) and in 1994, the changes in the methods of accounting for postretirement health care and life insurance benefits (SFAS No. 106) and income taxes (SFAS No. 109) are reflected.

1999	1998	1997	1996	1995	1994	1993	1992
$1,914,961	$1,687,516	$1,160,452	$1,079,963	$ 983,873	$ 802,513	$ 598,496	$ 594,533
1,272,090	1,057,089	713,182	625,473	560,867	472,533	352,773	362,967
455,903	419,182	317,315	328,377	293,868	263,300	200,912	196,992
68,594	59,536	10,393	11,296	12,793	13,811	9,549	10,083
24,617	4,595	-	2,666	-	24,749	(1,738)	-
32,900	53,900	44,900	43,900	45,000	15,500	14,000	8,100
-	-	-	-	-	15,003	-	-
39,116	71,197	72,032	69,732	68,294	(4,088)	20,094	12,872
$ 373,582	$ 447,992	$ 175,877	$ 217,651	$ 184,072	$ 130,777	$ 120,877	$ 108,104
434,462	436,472	210,111	204,934	200,680	158,179	115,230	118,248
539,800	525,927	300,386	267,107	260,342	243,098	192,305	200,502
2,000,480	2,091,520	851,243	799,491	781,609	697,532	448,263	472,167
717,852	840,932	40,445	56,059	78,700	90,178	87,891	95,271
861,291	967,667	174,464	131,151	149,730	147,295	110,628	127,954
745,131	735,460	459,608	438,949	391,885	322,836	255,141	251,511
$ 1.31	$ 2.61	$ 2.71	$ 2.62	$ 2.58	$ (0.17)	$ 0.93	$ 0.60
1.31	2.58	2.69	2.60	2.56	(0.17)	0.92	0.60
0.68	0.68	0.66	0.60	0.60	0.58	0.58	0.58
24.78	24.66	17.61	16.44	14.75	12.25	11.64	11.64
31.00	41.75	43.00	34.00	34.50	24.63	16.75	17.13
$ 94,993	$ 104,774	$ 73,779	$ 57,556	$ 43,371	$ 27,313	$ 23,099	$ 36,555
13,640	14,380	7,550	7,260	7,030	6,600	4,850	4,980
$ 137	$ 153	$ 159	$ 152	$ 146	$ 125	$ 122	$ 116
29,917	27,263	26,575	26,635	26,486	24,304	21,712	21,452
29,960	27,567	26,786	26,825	26,640	24,449	21,753	21,551
13.5%	45.4%	7.5%	9.8%	22.6%	34.1%	0.7%	(3.8)%
33.6	37.4	38.5	42.1	43.0	41.1	41.1	38.9
7.7	11.6	10.9	11.3	12.9	4.7	7.2	5.2
2.0	4.2	6.2	6.5	6.9	n.m.	3.4	2.2
5.3	12.2	15.8	17.0	19.3	n.m.	8.1	5.2
51.9	55.4	27.1	22.5	27.0	30.6	30.2	33.7
2.8x	3.2x	3.4x	3.0x	3.1x	3.1x	3.1x	3.0x

(4) Excluding unusual or nonrecurring items in 2002 and the charge for the SFAS No. 142 accounting principle change of $250.4 million, net of tax, net income was $61.6 million; diluted earnings per share were $1.95; return on sales was 3.9 percent; and return on average shareowners' equity was 11.1 percent. All periods prior to 2002 include goodwill amortization. Excluding unusual or nonrecurring items in 2001 and the charge for the accounting principle change of $0.6 million, net of tax, net income was $66.6 million; diluted earnings per share were $2.17; return on sales was 3.7 percent; and return on average shareowners' equity was 8.4 percent. Excluding unusual or nonrecurring items in 2000 and an extraordinary loss of $0.3 million, net of tax, net income was $64.7 million; diluted earnings per share were $2.13; return on sales was 3.5 percent; and return on average shareowners' equity was 8.6 percent. Excluding unusual or nonrecurring items in 1999, net income was $54.3 million; diluted earnings per share were $1.82; return on sales was 2.8 percent; and return on average shareowners' equity was 7.3 percent. Excluding unusual or nonrecurring items in 1998 and the effects of the Greenfield acquisition, net income was $88.7 million; diluted earnings per share were $3.23; return on sales was 5.3 percent; and return on average shareowners' equity was 15.2 percent. Excluding unusual or nonrecurring items in 1996, net income was $71.4 million; diluted earnings per share were $2.66; return on sales was 6.6 percent; and return on average shareowners' equity was 17.4 percent.

(5) During 2002 and 1998, we issued 3.5 million and 3.45 million shares of capital stock for net proceeds of $120.6 million and $171.4 million, respectively.

EXHIBIT 21

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries of Kennametal Inc.	
Kennametal Argentina S.A.	Argentina
Kennametal Australia Pty. Ltd.	Australia
Kennametal Foreign Sales Corporation	Barbados
Kennametal do Brasil Ltda.	Brazil
Kennametal Ltd.	Canada
Kennametal Chile Ltda.	Chile
Kennametal (Shanghai) Ltd.	China
Kennametal Hardpoint (Shanghai) Ltd.	China
Kennametal (Xuzhou) Company Ltd.	China
Kennametal Hardpoint H.K. Ltd.	Hong Kong
Kennametal Japan Ltd.	Japan
Kennametal (Malaysia) Sdn. Bhd.	Malaysia
Kennametal de Mexico, S.A. de C.V.	Mexico
Kennametal SP. zo.o	Poland
Kennametal (Singapore) Pte. Ltd.	Singapore
Kennametal South Africa (Proprietary) Limited	South Africa
Kennametal Korea Ltd.	South Korea
Kennametal Hardpoint (Taiwan) Inc.	Taiwan
Kennametal Co., Ltd.	Thailand
Circle Machine Company	California, United States
Greenfield Industries, Inc.	Delaware, United States
Kennametal Financing II	California, United States
Kennametal Holdings Europe Inc.	Delaware, United States
Adaptive Technologies Corp.	Michigan, United States
Consolidated Subsidiaries of Kennametal Financing II	
Kennametal PC Inc.	California, United States
Kennametal TC Inc.	California, United States
Kennametal Receivables Corporation	Delaware, United States
Consolidated Subsidiaries of Kennametal Holdings Europe Inc.	
JLK Direct Distribution Inc.	Pennsylvania, United States
Kennametal W Holdings Inc.	Delaware, United States
Consolidated Subsidiaries of Kennametal W Holdings Inc.	
KH Holding (DE) Gmbh	Germany
Kennametal Europe Holdings Gmbh	Germany
Kennametal Deutschland Gmbh & Co. KG	Germany
Consolidated Subsidiaries of KH Holding (DE) Gmbh	
Widia Gmbh	Germany
V & S Werkzeuge Gmbh	Germany
Consolidated Subsidiaries of Widia Gmbh	
Metruit AG	Switzerland
Widia Vetriebsgesellschaft mbH	Austria
Consolidated Subsidiaries of Metruit AG	
Widia India Ltd.	India
Consolidated Subsidiaries of Kennametal Europe Holdings G.m.b.H.	
Cirbo Limited	England
Kennametal Hertel Europe Holding G.m.b.H.	Germany

PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries of JLK Direct Distribution Inc.	
J&L America, Inc.	Michigan, United States
Full Service Supply Inc.	Pennsylvania, United States
Consolidated Subsidiaries of Kennametal Hertel Europe Holding G.m.b.H.	
Kennametal Hertel AG	Germany
Kemmer Hartmetallwerkzeuge G.m.b.H.	Germany
Kemmer Prazision G.m.b.H.	Germany
Kennametal Hertel Hungaria Kft.	Hungary
Kemmer Cirbo S.r.L.	Italy
Consolidated Subsidiaries of Kennametal Hertel AG	
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel Limited	England
Kennametal Hertel France S.L.	France
Kennametal Hertel Beteiligungs G.m.b.H.	Germany
Kennametal Europe G.m.b.H.	Germany
Kennametal Hertel Deutschland G.m.b.H.	Germany
Kennametal Hertel International G.m.b.H.	Germany
Kennametal Hertel GmbH & Co. K.G.	Germany
Kennametal Korea G.m.b.H.	Germany
Rubig G.m.b.H. & Co. K.G.	Germany
Kennametal Hertel S.p.A.	Italy
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands
Kennametal Hertel Kesici Takimlar ve Sistemler Anonim Sirketi	Turkey
Kennametal Hertel International Gmbh	Germany
Kennametal Hertel Iberica S.L.	Spain
Consolidated Subsidiaries of Kennametal Hertel Limited	
Widia UK Ltd.	England and Wales
Consolidated Subsidiaries of Kennametal Hertel Nederland B.V.	
Widia Nederland B.B.	Netherlands
Consolidated Subsidiaries of Kennametal Hertel France S.L.	
Widia France SAS	France
Consolidated Subsidiaries of Kennametal Hertel Iberica S.L.	
Widia Iberica S.L.	Spain
Consolidated Subsidiaries of Kennametal Hertel International Gmbh	
Kennametal Hertel Italia S.r.l.	Italy
Consolidated Subsidiaries of Kennametal Hertel Italia S.r.L.	
Widia Italia S.r.l.	Italy
Consolidated Subsidiaries of J&L America, Inc.	
J&L Industrial Supply Ltd.	Canada
J&L Industrial Supply UK (branch)	England
GRS Industrial Supply Company	Michigan, United States
Production Tools Sales, Inc.	Texas, United States

PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries of Greenfield Industries, Inc.	
Greenfield Industries Canada Incorporated	Canada
Hanita Metal Works, Ltd.	Israel
Cleveland Twist Drill de Mexico, S.A. de C.V.	Mexico
Greenfield Tools de Mexico, S.A. de C.V.	Mexico
Herramientas Cleveland, S.A. de C.V.	Mexico
Carbidie Corporation	Delaware, United States
Kemmer International, Inc.	Delaware, United States
Rogers Tool Works, Inc.	Delaware, United States
TCM Europe, Inc.	Delaware, United States
South Deerfield Industrial, Inc.	Massachusetts, United States
Hanita Cutting Tools, Inc.	New Jersey, United States
Consolidated Subsidiaries of Rogers Tool Works Inc.	
Kennametal Hungary Holdings Inc.	Delaware, United States
Kennametal Hungary Finance Services Kft.	Hungary

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-25331, No. 33-55768, No. 33-55766, No. 33-65023, No. 333-18423, No. 333-18429, No. 333-18437, No. 333-77411, No. 333-88049, No. 333-30454, No. 333-30448, No. 333-53562), and Form S-3 (No. 33-61854, No. 333-40809), of our report dated July 26, 2002, except for Note 19 as to which the date is August 30, 2002, relating to the financial statements, which appears in the Annual Report to Shareowners, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated July 26, 2002, except for Note 19 as to which the date is August 30, 2002, relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
September 25, 2002

EXHIBIT 99.1

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

In connection with the Annual Report of Kennametal Inc. (the "Corporation") on Form 10-K for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

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

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

September 25, 2002

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

September 25, 2002

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

Portions of the 2002 Annual Report to Shareowners were filed as an exhibit with the Form 10-K filed with the Securities and Exchange Commission. A copy of the 2002 Annual Report to Shareowners can be obtained by writing to the Vice President, Chief Financial Officer, Kennametal Inc., 1600 Technology Way, P.O. Box 231, Latrobe, Pa. 15650-0231.

Other exhibits not included herein have been filed with the Securities and Exchange Commission and can be obtained at a reasonable copying charge per page by writing to the Vice President, Chief Financial Officer, Kennametal Inc., 1600 Technology Way, P.O. Box 231, Latrobe, Pa. 15650-0231.