KENNAMETAL INC (KMT)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/09/2012
Filed Period 03/31/2012

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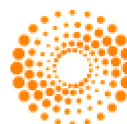

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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) (Zip Code)

Website: **www.kennametal.com**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

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

Title of Each Class	Outstanding at April 30, 2012
Capital Stock, par value $1.25 per share	80,045,908

KENNAMETAL INC.
FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012

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FORWARD-LOOKING INFORMATION

This Form 10-Q contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify 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 or events. Forward-looking statements in this Form 10-Q may concern, among other things, Kennametal's expectations regarding our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position, and product development, all of which are based on current estimates that involve inherent risks and uncertainties. Among the factors that could cause the actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties related to: economic recession; anticipated benefits resulting from our recently completed restructuring activities; availability and cost of the raw materials we use to manufacture our products; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations; our ability to protect and defend our intellectual property; competition; our ability to retain our management and employees; demands on management resources; potential claims relating to our products; integrating acquisitions and achieving the expected savings and synergies; business divestitures; global or regional catastrophic events; energy costs; commodity prices; labor relations; demand for and market acceptance of new and existing products; and implementation of environmental remediation matters. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, actual outcomes could vary materially from those indicated. These and other risks are more fully described in the "Risk Factors" Section of our Annual Report on Form 10-K and in our other periodic filings with the Securities and Exchange Commission. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Sales	$ 696,411	$ 614,830	$ 1,997,030	$ 1,709,756
Cost of goods sold	449,965	384,849	1,267,638	1,091,010
Gross profit	246,446	229,981	729,392	618,746
Operating expense	138,904	138,322	419,459	395,447
Restructuring charges (Note 8)	-	1,046	-	7,697
Amortization of intangibles	4,250	2,836	10,982	8,696
Operating income	103,292	87,777	298,951	206,906
Interest expense	8,003	5,767	18,746	17,294
Other (income) expense, net	(486)	1,413	(1,169)	3,071
Income before income taxes	95,775	80,597	281,374	186,541
Provision for income taxes	19,538	15,394	57,093	41,092
Net income	76,237	65,203	224,281	145,449
Less: Net income attributable to noncontrolling interests	738	520	3,099	2,376
Net income attributable to Kennametal	$ 75,499	$ 64,683	$ 221,182	$ 143,073
PER SHARE DATA ATTRIBUTABLE TO KENNAMETAL SHAREOWNERS				
Basic earnings per share	$ 0.94	$ 0.79	$ 2.76	$ 1.74
Diluted earnings per share	$ 0.93	$ 0.77	$ 2.72	$ 1.72
Dividends per share	$ 0.14	$ 0.12	$ 0.40	$ 0.36
Basic weighted average shares outstanding	80,110	82,138	80,179	82,144
Diluted weighted average shares outstanding	81,535	83,495	81,434	83,164

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

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KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share data)	March 31, 2012	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 125,549	$ 204,565
Accounts receivable, less allowance for doubtful accounts of $18,709 and $20,958	481,821	447,835
Inventories (Note 11)	630,870	519,973
Deferred income taxes	57,380	60,257
Other current assets	51,823	54,955
Total current assets	1,347,443	1,287,585
Property, plant and equipment:		
Land and buildings	383,199	373,971
Machinery and equipment	1,408,431	1,396,306
Less accumulated depreciation	(1,051,971)	(1,073,215)
Property, plant and equipment, net	739,659	697,062
Other assets:		
Investments in affiliated companies	752	829
Goodwill (Note 18)	731,348	511,328
Other intangible assets, less accumulated amortization of $85,700 and $78,712 (Note 18)	254,924	152,279
Deferred income taxes	33,683	29,876
Other	90,765	75,510
Total other assets	1,111,472	769,822
Total assets	$ 3,198,574	$ 2,754,469
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases (Note 12)	$ 333,745	$ 307,304
Notes payable to banks	667	3,659
Accounts payable	223,656	222,678
Accrued income taxes	47,677	38,098
Accrued expenses	94,143	102,576
Other current liabilities (Note 8)	154,321	167,206
Total current liabilities	854,209	841,521
Long-term debt and capital leases, less current maturities (Note 12)	306,459	1,919
Deferred income taxes	124,573	83,310
Accrued pension and postretirement benefits	128,536	134,919
Accrued income taxes	3,093	3,094
Other liabilities	36,005	31,065
Total liabilities	1,452,875	1,095,828
Commitments and contingencies		
EQUITY (Note 16)		
Kennametal Shareowners' Equity:		
Preferred stock, no par value; 5,000 shares authorized; none issued	-	-
Capital stock, $1.25 par value; 120,000 shares authorized; 80,027 and 81,129 shares issued	100,035	101,411
Additional paid-in capital	441,638	470,758
Retained earnings	1,172,222	983,374
Accumulated other comprehensive income	5,341	82,529
Total Kennametal Shareowners' Equity	1,719,236	1,638,072
Noncontrolling interests	26,463	20,569
Total equity	1,745,699	1,658,641
Total liabilities and equity	$ 3,198,574	$ 2,754,469

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

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

Nine months ended March 31 (in thousands)	2012	2011
OPERATING ACTIVITIES		
Net income	$ 224,281	$ 145,449
Adjustments for non-cash items:		
Depreciation	63,163	60,165
Amortization	10,982	8,696
Stock-based compensation expense	17,108	15,727
Restructuring charges	-	2,609
Deferred income tax provision (benefit)	3,827	(2,878)
Other	(11,311)	4,637
Changes in certain assets and liabilities:		
Accounts receivable	(1,478)	(71,692)
Inventories	(85,276)	(74,706)
Accounts payable and accrued liabilities	(56,969)	37,250
Accrued income taxes	2,307	4,378
Other	(2,398)	(4,610)
Net cash flow provided by operating activities	164,236	125,025
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(60,657)	(33,348)
Disposals of property, plant and equipment	4,397	8,063
Business acquisition, net of cash acquired (Note 5)	(382,562)	-
Purchase of technology license	(10,000)	-
Other	400	2,349
Net cash flow used for investing activities	(448,422)	(22,936)
FINANCING ACTIVITIES		
Net decrease in notes payable	(2,708)	(13,844)
Net increase in short-term revolving and other lines of credit	29,200	-
Term debt borrowings	980,926	365,082
Term debt repayments	(683,573)	(366,653)
Purchase of capital stock	(66,786)	(26,457)
Settlement of interest rate swap agreement (Note 7)	(22,406)	-
Dividend reinvestment and the effect of employee benefit and stock plans	23,072	15,081
Cash dividends paid to shareowners	(32,334)	(29,873)
Other	(8,909)	(1,045)
Net cash flow provided by (used for) financing activities	216,482	(57,709)
Effect of exchange rate changes on cash and cash equivalents	(11,312)	21,683
CASH AND CASH EQUIVALENTS		
Net (decrease) increase in cash and cash equivalents	(79,016)	66,063
Cash and cash equivalents, beginning of period	204,565	118,129
Cash and cash equivalents, end of period	$ 125,549	$ 184,192

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

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943. Kennametal Inc. and its subsidiaries (collectively, Kennametal or the Company) are a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. We believe that our reputation for manufacturing excellence, as well as our technological expertise and innovation in our principle products, has helped us to achieve a leading market presence in our primary markets. End users of our products include metalworking manufacturers and suppliers across a diverse array of industries, including the aerospace, defense, transportation, machine tool, light machinery and heavy machinery industries, as well as manufacturers, producers and suppliers in a number of other industries including coal mining, highway construction, quarrying, and oil and gas exploration and production industries. Our end users' products include items ranging from airframes to coal mining, engines to oil wells and turbochargers to construction. We operate two global business segments consisting of Industrial and Infrastructure.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with our 2011 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2011 was derived from the audited balance sheet included in our 2011 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal adjustments. The results for the nine months ended March 31, 2012 and 2011 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. For example, a reference to 2012 is to the fiscal year ending June 30, 2012. When used in this Form 10-Q, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its consolidated subsidiaries.

3. NEW ACCOUNTING STANDARDS

Adopted

As of January 1, 2012, Kennametal adopted changes to fair value measurements and disclosure. Many of the amendments in this guidance represent clarifications to existing guidance or changes in the measurement guidance for determining fair value. The most significant change in disclosures is an expansion of the information required for Level 3 measurements. Disclosures will be required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The adoption of this guidance did not have an impact on our condensed consolidated financial statements.

Issued

In December 2011, the Financial Accounting Standards Board (FASB) deferred the requirement to present reclassifications of other comprehensive income on the face of the income statement. Companies would still be required to adopt the other requirements contained in the accounting guidance on presentation of other comprehensive income. This guidance is effective for Kennametal beginning July 1, 2012.

In June 2011, the FASB issued guidance on presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, would need to be displayed under either alternative. This guidance is effective for Kennametal beginning July 1, 2012.

In September 2011, the FASB issued additional guidance on testing goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for Kennametal beginning July 1, 2012.

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

Nine months ended March 31 (in thousands)	2012	2011
Cash paid during the period for:		
Interest	$ 14,603	$ 14,684
Income taxes	44,715	40,741
Supplemental disclosure of non-cash information:		
Contribution of capital stock to employees' defined contribution benefit plans	-	948

5. ACQUISITION

On March 1, 2012, the Company acquired all of the shares of Deloro Stellite Holdings 1 Limited (Stellite) pursuant to the terms of the Share Sale and Purchase Agreement dated January 13, 2012. The U.K.-based Stellite is a global manufacturer and provider of alloy-based critical wear solutions for extreme environments involving high temperature, corrosion and abrasion. Stellite employs approximately 1,300 people across seven primary operating facilities globally, including locations in the U.S., Canada, Germany, Italy, India and China. Stellite's proprietary metal alloys, materials expertise, engineering design and fabrication capabilities complement Kennametal's current business in the oil and gas, power generation, transportation and aerospace end markets. This acquisition is in alignment with Kennametal's growth strategy and positions us to further achieve geographic and end market balance.

Kennametal acquired Stellite for a purchase price of approximately $383 million; net of cash acquired, and funded the acquisition through existing credit facilities and operating cash flows. As part of the acquisition of Stellite, Kennametal incurred for both the three and nine months ended March 31, 2012, $5.7 million of acquisition related costs, which are included in operating expense.

Purchase Price Allocation

This acquisition was accounted for under the acquisition method of accounting and accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of the acquisition. The Condensed Consolidated Balance Sheet as of March 31, 2012 reflects the preliminary allocation of the purchase price and is subject to revision when appraisals are finalized, which is expected to occur in the June quarter of 2012.

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The preliminary allocation of the total purchase price to the fair values of the assets acquired and liabilities assumed is as follows:

(in thousands)		Total
ASSETS		
Current assets:		
Accounts receivable	$	45,484
Inventories		49,618
Other current assets		4,007
Total current assets		99,109
Property and equipment		72,794
Goodwill		235,883
Other intangible assets		102,721
Deferred income taxes		2,478
Other		70
Total assets	$	513,055
LIABILITIES		
Current liabilities:		
Short term debt and current maturities of long-term debt	$	4,685
Accounts payable		43,534
Accrued income taxes		9,530
Other current liabilities		16,045
Total current liabilities		73,794
Long-term debt and capital leases		5,379
Deferred income taxes		46,109
Total liabilities		125,282
Noncontrolling interest		5,211
Net assets acquired	$	382,562

In connection with this acquisition, we identified and valued certain intangible assets, including existing customer relationships, technologies and trademarks, as further discussed in Note 18. The goodwill recorded of $235.9 million is not deductible for tax purposes and is attributable to the operating synergies we expect to gain from the acquisition. These intangible assets are part of the Infrastructure segment.

Stellite realized net sales of $22.5 million and a net loss of $4.7 million during the month ended March 31, 2012 to the Company, including $5.7 million of acquisition related pre-tax costs.

Unaudited Pro Forma Financial Information

The following unaudited pro forma summary of operating results presents the consolidated results of operations as if the Stellite acquisition had occurred on July 1, 2010. These amounts were calculated after the conversion to U.S. GAAP, applying our accounting policies and adjusting Stellite's results to reflect increased depreciation and amortization expense resulting from recording fixed assets and intangible assets at fair value and decreasing interest expense to reflect Kennametal's more favorable borrowing rate, together with the related tax effects. The pro forma results for the three months ended March 31, 2012 excluded $5.7 million of acquisition related pre-tax costs. The pro forma results for the three and nine months ended March 31, 2011 includes $2.0 million and $8.9 million, respectively, of acquisition related expenses. The pro forma results have been presented for comparative purposes only and are not indicative of future results of operations or what would have occurred had the acquisition been made on July 1, 2010.

Unaudited pro forma summary of operating results of the Company, assuming the acquisition had occurred as of July 1, 2010 are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Pro forma (unaudited):				
Net Sales	$ 733,518	$ 687,121	$ 2,170,532	$ 1,901,888
Net income attributable to Kennametal	$ 83,955	$ 68,819	$ 237,144	$ 145,028
Per share data attributable to Kennametal :				
Basic earnings per share	$ 1.05	$ 0.84	$ 2.96	$ 1.77
Diluted earnings per share	$ 1.03	$ 0.82	$ 2.91	$ 1.74

6. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy consists of three levels to prioritize the inputs used in valuations, as defined below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable.

As of March 31, 2012, the fair values of the Company's financial assets and financial liabilities measured at fair value on a recurring basis are categorized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Derivatives[1]	$ -	$ 487	$ -	$ 487
Total assets at fair value	$ -	$ 487	$ -	$ 487
Liabilities:				
Derivatives[1]	$ -	$ 58	$ -	$ 58
Total liabilities at fair value	$ -	$ 58	$ -	$ 58

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2011, the fair value of the Company's financial assets and financial liabilities measured at fair value on a recurring basis are categorized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Derivatives[(1)]	$ -	$ 896	$ -	$ 896
Total assets at fair value	$ -	$ 896	$ -	$ 896
Liabilities:				
Derivatives[(1)]	$ -	$ 3,330	$ -	$ 3,330
Total liabilities at fair value	$ -	$ 3,330	$ -	$ 3,330

(1) Foreign currency derivative and interest rate swap contracts are valued based on observable market spot and forward rates and are classified within Level 2 of the fair value hierarchy.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As part of our financial risk management program, we use certain derivative financial instruments. We do not enter into derivative transactions for speculative purposes and therefore hold no derivative instruments for trading purposes. We use derivative financial instruments to provide predictability to the effects of changes in foreign currency 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. Our objective in managing foreign exchange exposures with derivative instruments is to reduce volatility in cash flow, allowing us to focus more of 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. We measure hedge effectiveness by assessing the changes in the fair value or expected future cash flows of the hedged item. The ineffective portions are recorded in other (income) expense, net.

The fair value of derivatives designated in the condensed consolidated balance sheet are as follows:

(in thousands)	March 31, 2012	June 30, 2011
Derivatives designated as hedging instruments		
Other current assets - range forward contracts	$ 435	$ 87
Other current liabilities - range forward contracts	(4)	(159)
Other assets - forward starting interest rate swap contracts	-	772
Other liabilities - forward starting interest rate swap contracts	-	(3,169)
Total derivatives designated as hedging instruments	431	(2,469)
Derivatives not designated as hedging instruments		
Other current assets - currency forward contracts	52	37
Other current liabilities - currency forward contracts	(54)	(2)
Total derivatives not designated as hedging instruments	(2)	35
Total derivatives	$ 429	$ (2,434)

Certain currency forward contracts that hedge significant cross-border intercompany loans are considered as other derivatives and therefore do not qualify for hedge accounting. These contracts are recorded at fair value in the balance sheet, with the offset to other (income) expense, net. (Gains) losses related to derivatives not designated as hedging instruments have been recognized as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Other (income) expense, net - currency forward contracts	$ (747)	$ 56	$ 33	$ (1,963)

FAIR VALUE HEDGES

In February 2009, we terminated interest rate swap contracts to convert $200.0 million of our fixed rate debt to floating rate debt. These contracts were originally set to mature in June 2012. Upon termination, we received a cash payment of $13.2 million. This gain is being amortized as a component of interest expense over the remaining term of the related debt using the effective interest rate method. During the three and nine months ended March 31, 2012, $1.5 million and $4.4 million, respectively, were recognized as a reduction in interest expense. During the three and nine months ended March 31, 2011, $1.5 million and $4.4 million, respectively, were recognized as a reduction in interest expense.

CASH FLOW HEDGES

Currency forward contracts 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 products and services. Gains and losses realized on these contracts at maturity are recorded in accumulated other comprehensive income, net of tax, and are recognized as a component of other (income) expense, net when the underlying sale of products or services is recognized into earnings. The notional amount of the contracts translated into U.S. dollars at March 31, 2012 and June 30, 2011, was $43.1 million and $37.6 million, respectively. The time value component of the fair value of range forward contracts is excluded from the assessment of hedge effectiveness. Assuming the market rates remain constant with the rates at March 31, 2012, we expect to recognize a gain of $0.3 million in the next 12 months on outstanding derivatives.

We enter into floating-to-fixed interest rate swap contracts, designated as cash flow hedges, from time to time to hedge our exposure to interest rate changes on a portion of our floating rate debt. These interest rate swap contracts convert a portion of our floating rate debt to fixed rate debt. We record the fair value of these contracts as an asset or a liability, as applicable, in the balance sheet, with the offset to accumulated other comprehensive income, net of tax.

In February 2012, we settled forward starting interest rate swap contracts to convert $150.0 million of our floating rate debt to fixed rate debt. Upon settlement, we made a cash payment of $22.4 million. The loss is being amortized as a component of interest expense over the term of the related debt using the effective interest rate method. During the three and nine months ended March 31, 2012, $0.3 million was recognized as interest expense. As of June 30, 2011, we recorded a liability of $2.4 million on these contracts which was recorded as a decrease to other comprehensive income, net of tax.

Amounts related to cash flow hedges have been recognized as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Gains (losses) recognized in other comprehensive income, net	$ 155	$ (57)	$ 11,742	$ (2,286)
Losses reclassified from accumulated other comprehensive income into other (income) expense, net	$ 11	$ 182	$ 177	$ 374

No portion of the gains or losses recognized in earnings was due to ineffectiveness and no amounts were excluded from our effectiveness testing for the three and nine months ended March 31, 2012 and 2011.

8. RESTRUCTURING AND RELATED CHARGES

During fiscal year 2011, we completed our restructuring plans to reduce costs and improve operating efficiencies. These actions related to the rationalization of certain manufacturing and service facilities as well as other employment cost reduction programs. There were no restructuring and related charges for the nine months ended March 31, 2012.

Restructuring and related charges recorded during the nine months ended March 31, 2011 amounted to $14.9 million, including $8.7 million of restructuring charges of which $1.0 million were related to inventory disposals and recorded in cost of goods sold. Restructuring-related charges of $3.0 million and $3.2 million were recorded in cost of goods sold and operating expense, respectively, during the same period.

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The restructuring accrual is recorded in other current liabilities in our condensed consolidated balance sheet and the amount attributable to each segment is as follows:

(in thousands)	June 30, 2011	Expense	Asset Write-down	Cash Expenditures	Translation	March 31, 2012
Industrial						
Severance	$ 7,811	$ -	$ -	$ (6,136)	$ (179)	$ 1,496
Facilities	525	-	-	(500)	(25)	-
Other	1,604	-	-	(790)	(102)	712
Total Industrial	9,940	-	-	(7,426)	(306)	2,208
Infrastructure						
Severance	1,650	-	-	(1,573)	(77)	-
Facilities	269	-	-	(226)	(10)	33
Other	852	-	-	(339)	(44)	469
Total Infrastructure	2,771	-	-	(2,138)	(131)	502
Total	$ 12,711	$ -	$ -	$ (9,564)	$ (437)	$ 2,710

(in thousands)	June 30, 2010	Expense	Asset Write-down	Cash Expenditures	Translation	June 30, 2011
Industrial						
Severance	$ 18,327	$ 4,363	$ -	$ (16,510)	$ 1,631	$ 7,811
Facilities	508	2,318	(1,857)	(444)	-	525
Other	403	2,031	-	(931)	101	1,604
Total Industrial	19,238	8,712	(1,857)	(17,885)	1,732	9,940
Infrastructure						
Severance	7,637	2,484	-	(9,399)	928	1,650
Facilities	211	1,319	(1,057)	(204)	-	269
Other	168	1,156	-	(530)	58	852
Total Infrastructure	8,016	4,959	(1,057)	(10,133)	986	2,771
Total	$ 27,254	$ 13,671	$ (2,914)	$ (28,018)	$ 2,718	$ 12,711

9. STOCK-BASED COMPENSATION

On October 26, 2010, the Company's shareowners approved the Kennametal Inc., Stock and Incentive Plan of 2010 (the 2010 Plan). The 2010 Plan authorizes the issuance of up to 3,500,000 shares of the Company's common stock plus the remaining shares from the Kennametal Inc., Stock Incentive Plan of 2002, as amended (the 2002 Plan). Shares can be issued in the form of incentive stock options, non-statutory stock options, stock appreciation rights, performance share awards, performance unit awards, restricted stock awards, restricted unit awards and share awards.

Stock Options

The assumptions used in our Black-Scholes valuation related to grants made during the nine months ended March 31, 2012 and 2011 were as follows:

	2012	2011
Risk-free interest rate	1.2%	1.4%
Expected life (years) [2]	4.5	4.5
Expected volatility [3]	47.5%	47.0%
Expected dividend yield	1.5%	2.0%

[2] Expected life is derived from historical experience.
[3] Expected volatility is based on the historical volatility of our common stock.

Changes in our stock options for the nine months ended March 31, 2012 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic value (in thousands)
Options outstanding, June 30, 2011	3,388,003	$ 26.50		
Granted	354,618	38.95		
Exercised	(730,000)	24.89		
Lapsed and forfeited	(50,675)	30.22		
Options outstanding, March 31, 2012	2,961,946	$ 28.32	6.0	$ 48,000
Options vested and expected to vest, March 31, 2012	2,895,598	$ 28.28	5.9	$ 47,056
Options exercisable, March 31, 2012	1,775,085	$ 27.76	4.8	$ 29,774

During the nine months ended March 31, 2012 and 2011, compensation expense related to stock options was $4.6 million and $4.2 million, respectively. As of March 31, 2012, the total unrecognized compensation cost related to options outstanding was $4.5 million and is expected to be recognized over a weighted average period of 2.0 years.

Weighted average fair value of options granted during the nine months ended March 31, 2012 and 2011 was $13.84 and $9.22, respectively. Fair value of options vested during the nine months ended March 31, 2012 and 2011 was $4.6 million and $4.4 million, respectively.

Tax benefits, relating to excess stock-based compensation deductions, are presented in the statement of cash flow as financing cash inflows. Tax benefits resulting from stock-based compensation deductions exceeded amounts reported for financial reporting purposes by $3.9 million and $2.4 million for the nine months ended March 31, 2012 and 2011, respectively.

The amount of cash received from the exercise of capital stock options during the nine months ended March 31, 2012 and 2011 was $17.9 million and $11.3 million, respectively. The related tax benefit for the nine months ended March 31, 2012 and 2011 was $4.0 million and $2.6 million, respectively. The total intrinsic value of options exercised during the nine months ended March 31, 2012 and 2011 was $13.2 million and $8.0 million, respectively.

Under the provisions of the 2010 Plan participants may deliver 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 market value of shares delivered during the nine months ended March 31, 2012 and 2011 was $0.4 million and $0.6 million, respectively.

Restricted Stock Awards

Changes in our restricted stock awards for the nine months ended March 31, 2012 were as follows:

	Shares	Weighted Average Fair Value
Unvested restricted stock awards, June 30, 2011	89,315	$ 32.90
Vested	(64,412)	34.46
Forfeited	(582)	29.60
Unvested restricted stock awards, March 31, 2012	24,321	$ 28.85

During the nine months ended March 31, 2012 and 2011, compensation expense related to restricted stock awards was $0.8 million and $1.6 million, respectively. As of March 31, 2012, the total unrecognized compensation cost related to unvested restricted stock awards was $0.2 million and is expected to be recognized over a weighted average period of 0.4 years.

Restricted Stock Units – Time Vesting and Performance Vesting

Performance vesting restricted stock units (performance units) were granted to certain individuals. These performance units are earned pro rata each year if certain performance goals are met over a 3-year period, and are also subject to a service condition that requires the individual to be employed by the Company at the payment date after the 3-year performance period, with the exception of retirement eligible grantees, who upon retirement are entitled to receive payment for any units that have been earned, including a prorated portion in the partially completed fiscal year in which the retirement occurs.

Changes in our time vesting and performance vesting restricted stock units for the nine months ended March 31, 2012 were as follows:

	Performance Vesting Stock Units	Performance Vesting Weighted Average Fair Value	Time Vesting Stock Units	Time Vesting Weighted Average Fair Value
Unvested performance vesting and time vesting restricted stock units, June 30, 2011	116,368	$ 26.89	906,082	$ 25.81
Granted	129,977	38.95	335,327	38.95
Vested	-	-	(239,824)	25.89
Forfeited	-	-	(38,511)	31.12
Unvested performance vesting and time vesting restricted stock units, March 31, 2012	246,345	$ 31.27	963,074	$ 30.16

During the nine months ended March 31, 2012 and 2011, compensation expense related to time vesting and performance vesting restricted stock units was $11.6 million and $8.6 million, respectively. As of March 31, 2012, the total unrecognized compensation cost related to unvested time vesting and performance vesting restricted stock units was $17.7 million and is expected to be recognized over a weighted average period of 2.3 years.

Restricted Stock Units – STEP

On November 26, 2007, the Company adopted a one-time, long-term equity program, the Kennametal Inc. 2008 Strategic Transformational Equity Program, under the 2002 Plan (STEP). The STEP was designed to compensate participating executives for achievement of certain performance conditions during the period which began on October 1, 2007 and ended on September 30, 2011. Each participant was awarded a maximum number of restricted stock units, each representing a contingent right to receive one share of capital stock of the Company to the extent the unit was earned during the performance period and would have become payable under the STEP. The performance conditions were based on the Company's total shareholder return (TSR) which governed 35 percent of the awarded restricted stock units, and cumulative adjusted earnings per share (EPS), which governed 65 percent of the awarded restricted stock units. The performance period for the STEP ended on September 30, 2011 and the minimum threshold levels of performance were not achieved. Therefore, all outstanding restricted stock units were forfeited by participating executives. As of March 31, 2012, no restricted stock units had been earned or paid under the STEP. There were no voting rights or dividends associated with restricted stock units under the STEP.

Changes to the EPS performance-based portion of the STEP restricted stock units for the nine months ended March 31, 2012 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested EPS performance-based restricted stock units, June 30, 2011	431,789	$ 35.23
Forfeited	(431,789)	35.23
Unvested EPS performance-based restricted stock units, March 31, 2012	-	$ -

Changes to the TSR performance-based portion of the STEP restricted stock units for the nine months ended March 31, 2012 were as follows:

	Stock Units	Weighted Average Fair Value
Unvested TSR performance-based restricted stock units, June 30, 2011	232,497	$ 8.21
Forfeited	(232,497)	8.21
Unvested TSR performance-based restricted stock units, March 31, 2012	-	$ -

During the nine months ended March 31, 2012 and 2011, compensation expense related to STEP restricted stock units was $0.2 million and $0.3 million, respectively.

10. BENEFIT PLANS

We sponsor several defined benefit pension plans. Additionally, we provide varying levels of postretirement health care and life insurance benefits to some U.S. employees.

The table below summarizes the components of net periodic pension cost:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Service cost	$ 1,728	$ 1,927	$ 5,178	$ 5,748
Interest cost	10,402	10,319	31,113	30,776
Expected return on plan assets	(12,752)	(12,074)	(38,168)	(36,146)
Amortization of transition obligation	16	13	48	39
Amortization of prior service credit	(46)	(70)	(139)	(211)
Settlement loss	268	277	787	810
Recognition of actuarial losses	2,066	3,076	6,190	9,208
Net periodic pension cost	$ 1,682	$ 3,468	$ 5,009	$ 10,224

The table below summarizes the components of the net periodic other postretirement benefit cost:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Service cost	$ 19	$ 19	$ 56	$ 57
Interest cost	257	259	772	777
Amortization of prior service cost	(22)	-	(67)	-
Recognition of actuarial gains	(14)	(47)	(42)	(142)
Net periodic other postretirement benefit cost	$ 240	$ 231	$ 719	$ 692

11. INVENTORIES

We used the last-in, first-out (LIFO) method of valuing inventories for approximately 49 percent and 50 percent of total inventories at March 31, 2012 and June 30, 2011, respectively. Because inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

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Inventories consisted of the following:

(in thousands)	March 31, 2012	June 30, 2011
Finished goods	$ 349,671	$ 303,716
Work in process and powder blends	256,215	202,940
Raw materials	147,590	109,683
Inventories at current cost	753,476	616,339
Less: LIFO valuation	(122,606)	(96,366)
Total inventories	$ 630,870	$ 519,973

12. LONG-TERM DEBT AND CAPITAL LEASES

On February 14, 2012, we issued $300 million of 3.875 percent Senior Unsecured Notes due in 2022. Interest will be paid semi-annually on February 15 and August 15 of each year. We settled forward starting interest rate swap contracts related to the bond issuance as further discussed in Note 7. We intend to apply the net proceeds from this notes offering to the repayment of our outstanding 7.20 percent Senior Unsecured Notes at their June 15, 2012 maturity. Pending such use, proceeds will be utilized to repay outstanding indebtedness under our credit facility and for general corporate purposes.

The 7.20 percent 10 year Senior Unsecured Notes issued in June 2002 with an aggregate face amount of $300 million were reclassified to current maturities of long-term debt as of June 30, 2011.

On October 21, 2011, we entered into an amendment to our 2010 Credit Agreement, which is used to augment cash from operations and as an additional source of funds. The five-year, multi-currency, revolving credit facility (2011 Credit Agreement) permits revolving credit loans of up to $600.0 million for working capital, capital expenditures and general corporate purposes. The 2011 Credit Agreement allows for borrowings in U.S. dollars, euro, Canadian dollars, pound sterling and Japanese yen. Interest payable under the 2011 Credit Agreement is based upon the type of borrowing under the facility and may be (1) LIBOR plus an applicable margin, (2) the greater of the prime rate or the Federal Funds effective rate plus an applicable margin, or (3) fixed as negotiated by us.

The 2011 Credit Agreement requires us to comply with various restrictive and affirmative covenants, including two financial covenants: a maximum leverage ratio and a minimum consolidated interest coverage ratio (as those terms are defined in the agreement). We were in compliance with these financial covenants as of March 31, 2012. We had $29.2 million of borrowings outstanding under the 2011 Credit Agreement as of March 31, 2012. We had no borrowings outstanding under the 2010 Credit Agreement as of June 30, 2011.

Borrowings under the 2011 Credit Agreement are guaranteed by our significant domestic subsidiaries.

Fixed rate debt had a fair market value of $604.6 million and $315.8 million at March 31, 2012 and June 30, 2011, respectively. The fair value is determined based on the quoted market price of this debt as of March 31, 2012 and June 30, 2011, respectively.

13. ENVIRONMENTAL MATTERS

The operation of our business has exposed us to certain liabilities and compliance costs related to environmental matters. We are involved in various environmental cleanup and remediation activities at certain of our locations.

Superfund Sites We are involved as a Potentially Responsible Party (PRP) at various sites designated by the U.S. Environmental Protection Agency (USEPA) as Superfund sites. For certain of these sites, we have evaluated the claims and potential liabilities and have determined that neither are material, individually or in the aggregate. For certain other sites, proceedings are in the very early stages and have not yet progressed to a point where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities or the amount of our liability alone or in relation to that of any other PRPs.

Other Environmental Matters We establish and maintain reserves for other potential environmental costs, which amounted to $4.3 million and $5.4 million as of March 31, 2012 and June 30, 2011, respectively. This accrual represents anticipated costs associated with the remediation of these issues. For the nine months ended March 31, 2012 we recorded favorable foreign currency translation adjustments of $0.4 million, an adjustment of $0.4 million and cash payments of $0.3 million against the reserve.

The reserves we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and taking into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies, and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved exposures for all environmental concerns could change substantially 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.

We maintain a Corporate Environmental, Health and Safety (EHS) Department, as well as an EHS Steering Committee, to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

14. INCOME TAXES

The effective income tax rate for the three months ended March 31, 2012 and 2011 was 20.4 percent and 19.1 percent, respectively. The current year rate was unfavorably impacted by non-deductible acquisition related costs. These drivers were partially offset by favorable adjustments to certain tax reserves and the impact of stronger earnings in our pan European business model.

The effective income tax rate for the nine months ended March 31, 2012 and 2011 was 20.3 percent and 22.0 percent, respectively. The current year rate was favorably impacted by a $5.6 million reduction of a valuation allowance in the Netherlands, as well as the favorable impact of stronger operating results under our pan-European business strategy.

15. EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of shares outstanding during the period, while diluted earnings per share are calculated to reflect the potential dilution that may occur related to the issuance of capital stock through grants of capital stock options, restricted stock awards and restricted stock units. The difference between basic and diluted earnings per share relates solely to the effect of capital stock options, restricted stock awards and restricted stock units.

For purposes of determining the number of diluted shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased due solely to the dilutive effect of unexercised capital stock options, unvested restricted stock awards and unvested restricted stock units by 1.4 million shares for both the three months ended March 31, 2012 and 2011, respectively, and 1.3 million shares and 1.0 million shares for the nine months ended March 31, 2012 and 2011, respectively. Unexercised capital stock options, restricted stock units and restricted stock awards of 0.2 million shares for the three months ended March 31, 2012 and for the nine months ended March 31, 2012 and 2011 of 0.4 million and 0.7 million shares, respectively, were not included in the computation of diluted earnings per share because the inclusion would have been anti-dilutive. For the three months ended March 31, 2011 anti-dilutive shares were immaterial.

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16. EQUITY

A summary of the changes in the carrying amounts of total equity, Kennametal shareowners' equity and equity attributable to noncontrolling interests as of March 31, 2012 and 2011 is as follows:

	Kennametal Shareowners' Equity					
(in thousands)	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Non-controlling interests	Total equity
Balance as of June 30, 2011	$ 101,411	$ 470,758	$ 983,374	$ 82,529	$ 20,569	$ 1,658,641
Net income	-	-	221,182	-	3,099	224,281
Other comprehensive loss	-	-	-	(77,188)	(2,249)	(79,437)
Dividend reinvestment	8	195	-	-	-	203
Capital stock issued under employee benefit and stock plans	1,124	34,963	-	-	-	36,087
Purchase of capital stock	(2,508)	(64,278)	-	-	-	(66,786)
Cash dividends paid	-	-	(32,334)	-	(167)	(32,501)
Noncontrolling interest acquisition	-	-	-	-	5,211	5,211
Total equity, March 31, 2012	$ 100,035	$ 441,638	$ 1,172,222	$ 5,341	$ 26,463	$ 1,745,699

	Kennametal Shareowners' Equity					
(in thousands)	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Non-controlling interests	Total equity
Balance as of June 30, 2010	$ 102,379	$ 492,454	$ 793,448	$ (72,781)	$ 17,943	$ 1,333,443
Net income	-	-	143,073	-	2,376	145,449
Other comprehensive income	-	-	-	108,896	2,030	110,926
Dividend reinvestment	9	225	-	-	-	234
Capital stock issued under employee benefit and stock plans	762	28,035	-	-	-	28,797
Purchase of capital stock	(883)	(25,574)	-	-	-	(26,457)
Cash dividends paid	-	-	(29,873)	-	(132)	(30,005)
Total equity, March 31, 2011	$ 102,267	$ 495,140	$ 906,648	$ 36,115	$ 22,217	$ 1,562,387

The amounts of comprehensive income attributable to Kennametal shareowners and noncontrolling interests are disclosed in Note 17.

17. COMPREHENSIVE INCOME

Comprehensive income is as follows:

(in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Net income	$ 76,237	$ 65,203	$ 224,281	$ 145,449
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges, net of income tax (benefit) expense of ($0.0) million, $0.1 million, ($7.3) million and $1.4 million, respectively	(57)	98	(11,591)	2,285
Reclassification of unrealized (gain) loss on expired derivatives designated and qualified as cash flow hedges, net of income tax expense (benefit) of $0.1 million, ($0.1) million, ($0.0) million and ($0.2) million, respectively	(88)	142	35	365
Unrecognized net pension and other postretirement benefit (loss) gain, net of income tax (benefit) expense of ($0.2) million, ($0.3) million, $0.2 million and ($0.8) million, respectively	(672)	(1,294)	393	(2,916)
Reclassification of net pension and other postretirement benefit loss, net of income tax benefit of $0.7 million, $1.0 million, $2.2 million and $2.9 million, respectively	1,291	1,868	3,864	5,588
Foreign currency translation adjustments, net of income tax expense (benefit) of $17.2 million, $29.0 million, ($42.8) million and $ 11.3 million, respectively	28,603	38,646	(72,138)	105,604
Total comprehensive income	105,314	104,663	144,844	256,375
Comprehensive income attributable to noncontrolling interests	1,323	1,258	850	4,406
Comprehensive income attributable to Kennametal Shareowners	$ 103,991	$ 103,405	$ 143,994	$ 251,969

18. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of cost over the fair value of the net assets of acquired companies. Goodwill and other intangible assets with indefinite lives are tested at least annually for impairment. We perform our annual impairment tests during the June quarter in connection with our annual planning process, unless there are impairment indicators that warrant a test prior to that. We have noted no impairment indicators warranting additional testing.

A summary of the carrying amount of goodwill attributable to each segment, as well as the changes in such, is as follows:

(in thousands)	Industrial	Infrastructure	Total
Goodwill	$ 411,945	$ 250,225	$ 662,170
Accumulated impairment losses	(150,842)	-	(150,842)
Balance as of June 30, 2011	$ 261,103	$ 250,225	$ 511,328
Acquisition	$ -	$ 235,883	$ 235,883
Translation	(10,679)	(5,184)	(15,863)
Change in goodwill	(10,679)	230,699	220,020
Goodwill	401,266	480,924	882,190
Accumulated impairment losses	(150,842)	-	(150,842)
Balance as of March 31, 2012	$ 250,424	$ 480,924	$ 731,348

KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The components of our other intangible assets were as follows:

	Estimated	March 31, 2012		June 30, 2011	
(in thousands)	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	4 to 15	$ 21,089	$ (5,659)	$ 6,349	$ (5,380)
Technology-based and other	4 to 15	38,405	(24,693)	39,743	(25,442)
Customer-related	10 to 20	182,527	(41,867)	113,977	(38,275)
Unpatented technology	15 to 30	47,529	(6,319)	19,540	(4,740)
Trademarks	5 to 20	14,236	(7,162)	10,902	(4,875)
Trademarks	Indefinite	36,838	-	40,480	-
Total		$ 340,624	$ (85,700)	$ 230,991	$ (78,712)

As of March 1, 2012 we acquired Stellite in our Infrastructure segment. As a result we increased goodwill by $235.9 million and other intangible assets by $102.7 million based on preliminary purchase price allocations. These allocations are subject to revision based upon the finalization of the valuation of net assets expected to be completed in the fourth quarter of 2012. We recorded customer-related intangible assets of $72.7 million with an estimated useful life of 20 years, technology-based intangible assets of $28.3 million with an estimated useful life of 15 - 17 years and trademarks of $1.7 million with an estimated useful life of 5 years. These intangible assets will be amortized using the straight-line method over their respective estimated useful lives.

During the nine months ended March 31, 2012, we entered into a technology license agreement in our Infrastructure segment. This resulted in a $15.0 million increase of contract-based intangible assets. The technology license agreement will be amortized using the straight-line method over an estimated useful life of 10 years.

During the nine months ended March 31, 2012, we recorded amortization expense of $11.0 million related to our other intangible assets and unfavorable foreign currency translation adjustments of $4.1 million.

19. SEGMENT DATA

Kennametal delivers productivity to customers seeking peak performance in demanding environments by providing innovative custom and standard wear-resistant solutions, enabled through our advanced materials sciences, application knowledge and commitment to a sustainable environment. Our product offering includes a wide array of standard and custom solution products in metalworking, such as metalcutting tools and tooling systems, and advanced materials, such as cemented tungsten carbide products, to address customer demands. These products are offered through a variety of channels via an enterprise approach to customers in both of our operating segments.

The Industrial segment serves customers that operate in industrial end markets such as aerospace, defense, transportation and general engineering. The customers in these end markets manufacture engines, airframes, automobiles, trucks, ships and various industrial goods. The technology needs and level of customization vary by customer and industry served. We deliver value to our Industrial segment customers through our application expertise and diverse product offering.

The Infrastructure segment, which includes the Stellite acquisition, serves customers that operate in the earthworks and energy end markets. These customers support primary industries such as oil and gas, power generation, underground mining, surface and hard rock mining, highway construction and road maintenance. Generally, our Infrastructure segment customers are served through a customer intimacy model that allows us to offer full system solutions by gaining an in-depth understanding of our customers' engineering needs. Our product offering promotes value by bringing enhanced performance and productivity to our customers' processes and systems.

Corporate expenses related to executive retirement plans, the Company's Board of Directors and strategic initiatives, as well as certain other costs, are reported as Corporate.

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Our external sales and operating income by segment are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
External sales:				
Industrial	$ 418,554	$ 391,763	$ 1,246,261	$ 1,091,560
Infrastructure	277,857	223,067	750,769	618,196
Total external sales	$ 696,411	$ 614,830	$ 1,997,030	$ 1,709,756
Operating income:				
Industrial	$ 71,195	$ 54,145	$ 206,778	$ 132,410
Infrastructure	34,060	35,639	99,927	83,708
Corporate	(1,963)	(2,007)	(7,754)	(9,212)
Total operating income	$ 103,292	$ 87,777	$ 298,951	$ 206,906
Interest expense	$ 8,003	$ 5,767	$ 18,746	$ 17,294
Other (income) expense, net	(486)	1,413	(1,169)	3,071
Income before income taxes	$ 95,775	$ 80,597	$ 281,374	$ 186,541

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

OVERVIEW

Kennametal Inc. is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. We believe that our reputation for manufacturing excellence, as well as our technological expertise and innovation in our principal products, has helped us to achieve a leading market presence in our primary markets. We believe we are one of the largest global providers of consumable metalcutting tools and tooling supplies. End users of our products include metalworking manufacturers and suppliers across a diverse array of industries, including the aerospace, defense, transportation, machine tool, light machinery and heavy machinery industries, as well as manufacturers, producers and suppliers in a number of other industries including coal mining, highway construction, quarrying, and oil and gas exploration and production industries. Our end users' products include items ranging from airframes to coal mining, engines to oil wells and turbochargers to construction.

On March 1, 2012, we acquired all of the shares of Deloro Stellite Holdings 1 Limited (Stellite) pursuant to the terms of the Share Sale and Purchase Agreement dated January 13, 2012. The UK-based Stellite is a global manufacturer and provider of alloy-based critical wear solutions for extreme environments involving high temperature, corrosion and abrasion. Stellite employs approximately 1,300 people across seven primary operating facilities globally, including locations in the U.S., Canada, Germany, Italy, India and China. Stellite's proprietary metal alloys, materials expertise, engineering design and fabrication capabilities complement Kennametal's current business in the oil and gas, power generation, transportation and aerospace end markets. This acquisition is in alignment with our growth strategy and positions us to further achieve geographic and end market balance.

We acquired Stellite for a purchase price of approximately $383 million and funded the acquisition through existing credit facilities and operating cash flows, and remain committed to maintaining our investment grade ratings. The transaction is expected to be accretive to earnings in the fiscal year ending June 30, 2013.

We experienced strong growth for the March quarter across both business segments and all regions. Our sales of $696.4 million for the quarter ended March 31, 2012 grew 13 percent compared to sales for the March quarter one year ago. Sales growth was primarily due to organic growth which includes both volume and price and the impact of the Stellite acquisition.

We consumed higher cost raw materials in the quarter, while price levels remained unchanged. We had previously executed appropriate pricing actions and have continued to maintain our cost discipline during the quarter. We continue to monitor changes in raw material costs to ensure appropriate pricing.

Operating income was $103.3 million, an increase of $15.5 million compared to operating income of $87.8 million in the prior year quarter. The increase in operating income was driven by higher sales volume and price, partially offset by higher raw material costs and acquisition related charges.

We delivered a record March quarter earnings per diluted share of $0.93.

We had cash inflow from operating activities of $164.2 million during the nine months ended March 31, 2012, driven by our operating performance. Capital expenditures were $60.7 million during the nine months ended March 31, 2012.

In addition, we invested further in technology and innovation to continue delivering a high level of new products to our customers. Research and development expenses included in operating expense totaled $9.1 million for the three months ended March 31, 2012.

The following narrative provides further discussion and analysis of our results of operations, liquidity and capital resources, as well as other pertinent matters.

RESULTS OF CONTINUING OPERATIONS

SALES

Sales for the three months ended March 31, 2012 were $696.4 million, an increase of $81.6 million, or 13 percent, from $614.8 million in the prior year quarter. Sales increased due to organic growth of 8 percent and the impacts of acquisition of 4 percent and more business days of 3 percent, partially offset by an unfavorable impact from foreign currency. The improvement in sales was driven by better performance in both business segments and across all regions. Organic sales growth drivers were aerospace and defense of 14 percent, earthworks market of 12 percent, energy markets of 12 percent, general engineering of 7 percent while the transportation end market sales remained at a relatively similar level as the prior year.

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

Sales for the nine months ended March 31, 2012 were $1,997.0 million, an increase of $287.2 million or 17 percent, from $1,709.8 million in the prior year quarter. Sales increased due to organic growth of 13 percent, the impact of more business days of 2 percent and a slightly favorable impact due to both acquisition and foreign currency effects. The improvement in sales was driven by better performance in both business segments and across all regions. Organic sales growth drivers were energy markets of 18 percent, earthworks market of 14 percent, general engineering of 13 percent, aerospace and defense of 13 percent and transportation of 7 percent.

GROSS PROFIT

Gross profit for the three months ended March 31, 2012 was $246.4 million, an increase of $16.4 million from $230.0 million in the prior year quarter. This increase was primarily due to an organic sales increase of $52 million, partially offset by higher raw material costs. The gross profit margin for the three months ended March 31, 2012 was 35.4 percent, as compared to 37.4 percent generated in the prior year quarter.

Gross profit for the nine months ended March 31, 2012 was $729.4 million, an increase of $110.7 million from $618.7 million in the prior year quarter. This increase was primarily due to an organic sales increase of $226.2 million, partially offset by higher raw material costs. The gross profit margin for the nine months ended March 31, 2012 was 36.5 percent, as compared to 36.2 percent generated in the prior year quarter.

OPERATING EXPENSE

Operating expense for the three months ended March 31, 2012 increased $0.6 million or less than 1 percent to $138.9 million compared to $138.3 million in the prior year quarter. The increase is primarily due to acquisition related costs of $5.7 million and Stellite operating expenditures of $2.5 million, partially offset by lower professional fees of $3.4 million, a decrease in restructuring and related charges of $2.5 million and favorable currency effects of $1.8 million.

Operating expense for the nine months ended March 31, 2012 increased $24.1 million or 6.1 percent to $419.5 million compared to $395.4 million in the prior year quarter. The increase is primarily due to an increase in employment costs of $13.5 million, including higher sales compensation of $8.1 million due to better operating performance, acquisition related costs of $5.7 million, Stellite operating expenditures of $2.5 million and an unfavorable impact of foreign currency effects of $6.9 million, partially offset by a decrease in restructuring and related charges of $3.2 million.

RESTRUCTURING CHARGES

During fiscal year 2011, we completed our restructuring plans to reduce costs and improve operating efficiencies. These actions related to the rationalization of certain manufacturing and service facilities as well as other employment cost reduction programs. As the restructuring programs were completed in fiscal 2011, there were no restructuring and related charges for the three and nine months ended March 31, 2012. The Company's restructuring programs are delivering annual ongoing pre-tax savings of approximately $170 million now that all programs are fully implemented.

Restructuring and related charges recorded during the three months ended March 31, 2011 amounted to $5.5 million, including $1.6 million of restructuring charges, of which $0.6 million were related to inventory disposals and recorded in cost of goods sold. Restructuring related charges of $1.5 million and $2.4 million were recorded in cost of goods sold and operating expense, respectively, during the three months ended March 31, 2011.

Restructuring and related charges recorded during the nine months ended March 31, 2011 amounted to $14.9 million, including $8.7 million of restructuring charges, of which $1.0 million were related to inventory disposals and recorded in cost of goods sold. Restructuring related charges of $3.0 million and $3.2 million were recorded in cost of goods sold and operating expense, respectively, during the nine months ended March 31, 2011.

INTEREST EXPENSE

Interest expense for the three months ended March 31, 2012 of $8.0 million increased $2.2 million or 38.8 percent, from $5.8 million in the prior year quarter due to increased borrowings. Interest expense for the nine months ended March 31, 2012 of $18.7 million increased $1.4 million or 8.4 percent, from $17.3 million in the prior year quarter due to increased borrowings

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

OTHER (INCOME) EXPENSE, NET

Other income, net for the three months ended March 31, 2012 was $0.5 million compared to other expense, net of $1.4 million for the prior year quarter. The increase was primarily driven by favorable foreign currency transaction results of $1.5 million.

Other income, net for the nine months ended March 31, 2012 was $1.2 million compared to other expense, net of $3.1 million for the prior year quarter. The increase was primarily driven by favorable foreign currency transaction results of $3.9 million.

INCOME TAXES

The effective income tax rate for the three months ended March 31, 2012 and 2011 was 20.4 percent and 19.1 percent, respectively. The current year rate was unfavorably impacted by non-deductible acquisition related costs. These drivers were partially offset by favorable adjustments to certain tax reserves and the impact of stronger earnings in our pan European business model.

The effective income tax rate for the nine months ended March 31, 2012 and 2011 was 20.3 percent and 22.0 percent, respectively. The current year rate was favorably impacted by a $5.6 million reduction of a valuation allowance in the Netherlands as well as the favorable impact of stronger operating results under our pan-European business strategy.

During the quarter, we implemented a strategy that would provide incremental taxable income in the Netherlands. Based on this assessment, we believe that it is more likely than not that we will be able to realize an additional portion of the net deferred tax assets in this jurisdiction. With respect to the other jurisdictions, we will continue to monitor our ability to realize the net deferred tax assets in these jurisdictions, and if appropriate, will adjust the valuation allowance. Such an adjustment may result in a material reduction to tax expense in the period the adjustment occurs.

BUSINESS SEGMENT REVIEW

We operate two reportable segments consisting of Industrial and Infrastructure. Expenses that are not allocated are reported in Corporate. Segment determination is 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.

INDUSTRIAL

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
External sales	$ 418,554	$ 391,763	$ 1,246,261	$ 1,091,560
Operating income	71,195	54,145	206,778	132,410

For the three months ended March 31, 2012, Industrial external sales increased by 6.8 percent driven by organic sales growth of 5 percent and the impact of more business days of 4 percent, partially offset by unfavorable foreign currency effects. On an organic basis, sales growth was led by aerospace and defense growth of 14 percent and general engineering growth of 7 percent, while transportation end market sales remained at a relatively similar level as the prior year. The aerospace and defense end markets' growth is due to the significant increase in commercial aircraft production. Growth in the general engineering end markets is attributable to new orders for industrial machinery as manufacturers have increased their capital spending, as well as increased metalworking machinery production driven by a modest reacceleration of the global economy. On a regional basis, organic sales increased by approximately 12 percent in the Americas, 11 percent in Europe and were relatively flat in Asia due to strong comparisons to the prior year. The increase in the Americas and Europe was driven by growth in the general engineering end markets. For comparison purposes, organic sales increased by approximately 32 percent in Asia, 29 percent in Europe and 23 percent in the Americas during the three months ended March 31, 2011.

For the three months ended March 31, 2012, Industrial operating income increased $17.1 million. The primary drivers of the increase in operating income were higher organic sales of $21.3 million, partially offset by an increase in raw material costs.

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

For the nine months ended March 31, 2012, Industrial external sales increased by 14.2 percent, driven by organic sales growth of 12 percent, favorable foreign currency effects and the impact of more business days. On an organic basis, sales increased in all served market sectors led by strong growth in general engineering of 13 percent, aerospace and defense of 13 percent and transportation of 7 percent. Growth in the general engineering end markets is attributable to new orders for industrial machinery as manufacturers have increased their capital spending as well as increased metalworking machinery production driven by a reaccelerating economy. The aerospace and defense end markets' growth is due to a significant increase in commercial aircraft production and the growth in the transportation end markets was due to an overall increase in global vehicles sales and production. On a regional basis, organic sales increased by approximately 15 percent in Europe, 15 percent in the Americas and 2 percent in Asia. The increase in the Americas and Europe was driven by growth in the general engineering end markets, and the growth in Asia was driven by the transportation end markets.

For the nine months ended March 31, 2012, Industrial operating income increased $74.4 million. The primary drivers of the increase in operating income were organic sales growth of $126.3 million, partially offset by higher raw material costs.

INFRASTRUCTURE

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
External sales	$ 277,857	$ 223,067	$ 750,769	$ 618,196
Operating income	34,060	35,639	99,927	83,708

For the three months ended March 31, 2012, Infrastructure external sales increased by 24.6 percent, driven by organic sales growth of 13 percent, 10 percent growth from acquisition and business days also favorably impacted sales by 3 percent, partially offset by unfavorable foreign currency effects. The organic increase was driven by higher sales in the energy and earthworks markets of 12 percent each. Energy related product sales increased due to increased drilling activity. Sales in the earthworks end markets increased due to an increase in construction machinery production. On a regional basis, organic sales increased by approximately 24 percent in Asia, 16 percent in Europe and 13 percent in the Americas. The increase in Asia and the Americas was driven by the performance in the earthworks markets, while the European increase was more evenly split between both the earthworks and energy markets. For comparison purposes, organic sales increased by approximately 20 percent in the Americas, 15 percent in Asia and 11 percent in Europe during the three months ended March 31, 2011.

For the three months ended March 31, 2012, Infrastructure operating income decreased $1.6 million. Operating income included $5.7 million of acquisition related costs. Operating income benefited from higher organic sales of $28.8 million, partially offset in part by an increase in raw material costs and $5.7 million of acquisition related costs.

For the nine months ended March 31, 2012, Infrastructure external sales increased by 21.4 percent, driven by organic sales growth of 16 percent, 4 percent growth from acquisition and favorable foreign currency effects. The organic increase was driven by higher sales in the energy and earthworks markets of 18 percent and 14 percent, respectively. Energy related product sales increased due to higher U.S. and international rig counts, as well as increased shale production and increased natural gas inventories. Sales in the earthworks end markets increased due to mining capacity expansion and the increase in construction machinery production. On a regional basis, organic sales increased by approximately 25 percent in Asia, 15 percent in the Americas and 13 percent in Europe. The increase in Asia and the Americas was driven by the performance in the earthworks markets, while the European increase was more evenly split between both the earthworks and energy markets.

For the nine months ended March 31, 2012, Infrastructure operating income increased $16.2 million. Operating income grew primarily due to higher organic sales of $99.8 million, partially offset by increase in raw material costs.

CORPORATE

	Three Months Ended March 31,		Nine Months Ended March 31,	
(in thousands)	2012	2011	2012	2011
Corporate unallocated expense	$ (1,963)	$ (2,007)	$ (7,754)	$ (9,212)

For the three months ended March 31, 2012, unallocated expense remained relatively flat.

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

For the nine months ended March 31, 2012, unallocated expense decreased $1.5 million to $7.8 million. The decrease was primarily due to lower strategic project spending of $4.7 million, offset by an increase in professional fees of $1.0 million and the timing of certain other charges.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations is our primary source of funding for capital expenditures and internal growth.

On October 21, 2011, we entered into an amendment to our five year, multi-currency, revolving credit facility (2010 Credit Agreement), which is used to augment cash flow from operations and as an additional source of funds. The five-year, multi-currency, revolving credit facility (2011 Credit Agreement) extends to October 2016. The 2011 Credit Agreement permits revolving credit loans of up to $600.0 million for working capital, capital expenditures and general corporate purposes. The 2011 Credit Agreement allows for borrowings in U.S. dollars, euro, Canadian dollars, pound sterling and Japanese yen. Interest payable under the 2011 Credit Agreement is based upon the type of borrowing under the facility and may be (1) LIBOR plus an applicable margin, (2) the greater of the prime rate or the Federal Funds effective rate plus an applicable margin, or (3) fixed as negotiated by us.

The 2011 Credit Agreement requires us to comply with various restrictive and affirmative covenants, including two financial covenants: a maximum leverage ratio and a minimum consolidated interest coverage ratio (as those terms are defined in the agreement). We were in compliance with these financial covenants as of March 31, 2012. We had $29.2 million of borrowings outstanding under the 2011 Credit Agreement as of March 31, 2012. For the nine months ended March 31, 2012 average borrowings outstanding under the 2010 and 2011 Credit Agreements were approximately $117.1 million.

Borrowings under the 2011 Credit Agreement are guaranteed by our significant domestic subsidiaries.

On February 14, 2012, we issued $300 million of 3.875 percent Senior Unsecured Notes due in 2022. Interest will be paid semi-annually on February 15 and August 15 of each year. We intend to apply the net proceeds from this notes offering to the repayment of our outstanding 7.20 percent Senior Unsecured Notes at their June 15, 2012 maturity. Pending such use, proceeds will be utilized to repay outstanding indebtedness under our credit facility and for general corporate purposes.

Our 7.20 percent 10 year Senior Unsecured Notes issued in June 2002 with an aggregate face amount of $300 million were reclassified to current maturities of long-term debt as of June 30, 2011.

We consider the unremitted earnings of our non-U.S. subsidiaries that have not previously been taxed in the U.S., to be permanently reinvested. As of March 31, 2012, cash and cash equivalents of $125 million and short term intercompany advances made by our foreign subsidiaries to our United States parent of $216 million would not be available for use in the United States on a long term basis, without incurring U.S. federal and state income tax consequences. These short term intercompany advances are in the form of intercompany loans made over quarter end to repay borrowings under our revolving credit agreement and have duration of not more than fourteen days. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

At March 31, 2012, cash and cash equivalents were $125.5 million, total debt, including notes payable and capital lease obligations, was $640.9 million and total Kennametal shareowners' equity was $1,719.2 million. Our current senior credit ratings are at investment grade levels. We believe that our current financial position, liquidity and credit ratings provide access to the capital markets. We continue to closely monitor our liquidity position and the condition of the capital markets, as well as the counterparty risk of our credit providers.

On March 1, 2012 we acquired Stellite from Duke Street Capital for $382.6 million. We funded the acquisition through existing facilities and operating cash flow, and remain committed to maintaining our investment grade ratings.

There have been no other material changes in our contractual obligations and commitments since June 30, 2011.

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

Cash Flow Provided by Operating Activities

During the nine months ended March 31, 2012, cash flow provided by operating activities was $164.2 million, compared to $125.0 million for the prior year period. Cash flow provided by operating activities for the current year period consisted of net income and non-cash items amounting to an inflow of $308.1 million, partially offset by changes in certain assets and liabilities netting to $143.9 million. Contributing to the changes in certain assets and liabilities was an increase in inventory of $85.3 million driven by higher inventory levels to meet higher demand, a decrease in accounts payable and accrued liabilities of $57.0 million primarily driven by accounts payable payments of $35.1 million and payment of $27.0 million of incentive compensation, a decrease in other of $2.4 million and an increase in accounts receivable of $1.5 million, offset by an increase in accrued income taxes of $2.3 million.

During the nine months ended March 31, 2011, cash flow provided by operating activities consisted of net income and non-cash items amounting to an inflow of $234.4 million, partially offset by changes in certain assets and liabilities netting to $109.4 million. Contributing to the changes in certain assets and liabilities was an increase in inventory of $74.7 million driven by an increase in production to meet higher demand and an increase in accounts receivable of $71.7 million due to higher sales volumes, partially offset by an increase in accounts payable and accrued liabilities of $37.3 million.

Cash Flow Used for Investing Activities

Cash flow used for investing activities was $448.4 million for the nine months ended March 31, 2012, compared to $22.9 million in the prior year period. During the current year period, cash flow used for investing activities included the acquisition of Stellite for $382.6 million and capital expenditures, net of $56.3 million, which consisted primarily of equipment upgrades and $10.0 million for the purchase of a technology license intangible in our Infrastructure segment.

During the nine months ended March 31, 2011, cash flow used for investing activities included capital expenditures, net of $25.3 million, which consisted primarily of an Enterprise Resource Planning system and equipment upgrades.

Cash Flow Provided by (Used for) Financing Activities

Cash flow provided by financing activities was $216.5 million for the nine months ended March 31, 2012 compared to cash flow used for financing activities of $57.7 million in the prior year period. During the current year period, cash flow provided by financing activities included $323.8 million net increase in borrowings, which included the issuance of $300 million of 3.875 percent Senior Unsecured Notes due in 2022 and $29.2 million of borrowings outstanding on our revolving credit facility, and $23.1 million of dividend reinvestment and the effect of employee benefit and stock plans. These cash flows were partially offset by $66.8 million used for the purchase of capital stock, $32.3 million of cash dividends paid to shareowners and $22.4 million payment related to the settlement of forward starting interest rate swap contracts.

During the nine months ended March 31, 2011, cash flow used for financing activities included $29.9 million of cash dividends paid to shareowners, $26.5 million used for the purchase of capital stock and $15.4 million net decrease in borrowings, partially offset by $15.1 million of dividend reinvestment and the effect of employee benefit and stock plans.

FINANCIAL CONDITION

Working capital was $493.2 million at March 31, 2012, an increase of $47.1 million from $446.1 million at June 30, 2011. The increase in working capital was driven primarily by an increase in inventories of $110.9 million due to higher business activity, an increase in accounts receivable of $34.0 million, a decrease in other current liabilities of $12.9 million driven primarily by the payout of incentive compensation and a decrease in accrued expenses of $8.4 million due to the timing of payments, partially offset by a decrease in cash and cash equivalents of $79.0 million driven primarily by the acquisition of Stellite and purchase of capital stock, partially offset by net increase in borrowings due to the issuance of $300 million of 3.875 percent Senior Unsecured Notes, an increase in current maturities of long-term debt and capital leases of $26.4 million, primarily due to the $29.2 million outstanding on the revolving credit facility, an increase in accrued income taxes of $9.6 million and a decrease in other current assets of $3.1 million. Foreign currency effects and the impact of the Stellite acquisition accounted for $39.6 million and $45.8 million of the working capital change, respectively.

Property, plant and equipment, net increased $42.6 million from $697.1 million at June 30, 2011 to $739.7 million at March 31, 2012, primarily due to the Stellite acquisition of $72.8 million and capital additions of $60.7 million, partially offset by depreciation expense of $63.2 million, unfavorable foreign currency impact of $20.7 million and capital disposals of $4.4 million.

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

At March 31, 2012, other assets were $1,111.5 million, an increase of $341.7 million from $769.8 million at June 30, 2011. The driver for the increase was an increase in goodwill of $220.0 million, an increase in other intangible assets of $102.6 million, an increase in other assets of $15.3 million and an increase in deferred income taxes of $3.8 million. The change in goodwill was primarily due to an increase of $235.9 million related to the acquisition of Stellite and unfavorable foreign currency effects of $15.9 million. The change in other intangible assets was due to an increase of $102.7 million related to the to the intangibles acquired as part of the of Stellite acquisition, technology license intangible asset acquisition in our Infrastructure segment for $15.0 million, offset by amortization expense of $11.0 million and unfavorable foreign currency translation adjustments of $4.1 million. The increase in other assets was primarily due to increase in pension assets due to higher return on plan assets, higher deferred financing fees related to the issuance of $300 million of 3.875 percent Senior Unsecured Notes due in 2022 and higher prepaid charges.

Kennametal shareowners' equity was $1,719.2 million at March 31, 2012, an increase of $81.1 million from $1,638.1 million at June 30, 2011. The increase was primarily due to net income attributable to Kennametal of $221.2 million and capital stock issued under employee benefit and stock plans of $36.1 million, partially offset by foreign currency translation adjustments of $72.1 million, purchase of capital stock of $66.8 million and cash dividends paid to shareowners of $32.3 million.

ENVIRONMENTAL MATTERS

The operation of our business has exposed us to certain liabilities and compliance costs related to environmental matters. We are involved in various environmental cleanup and remediation activities at certain of our locations.

Superfund Sites We are involved as a PRP at various sites designated by the USEPA as Superfund sites. For certain of these sites, we have evaluated the claims and potential liabilities and have determined that neither are material, individually or in the aggregate. For certain other sites, proceedings are in the very early stages and have not yet progressed to a point where it is possible to estimate the ultimate cost of remediation, the timing and extent of remedial action that may be required by governmental authorities or the amount of our liability alone or in relation to that of any other PRPs.

Other Environmental Matters We establish and maintain reserves for other potential environmental costs, which amounted to $4.3 million and $5.4 million as of March 31, 2012 and June 30, 2011, respectively. This accrual represents anticipated costs associated with the remediation of these issues. For the nine months ended March 31, 2012 we recorded favorable foreign currency translation adjustments of $0.4 million, an adjustment of $0.4 million and cash payments of $0.3 million against the reserve.

The reserves we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and taking into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies, and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved exposures for all environmental concerns could change substantially 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.

We maintain a Corporate EHS Department, as well as an EHS Steering Committee, to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

There have been no changes to our critical accounting policies since June 30, 2011.

NEW ACCOUNTING STANDARDS

See Note 3 to our condensed consolidated financial statements set forth in Part I Item 1 of this Form 10-Q for a description of new accounting standards.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk exposure since June 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The SEC's general guidance permits the exclusion of an assessment of the effectiveness of a registrant's disclosure controls and procedures as they relate to its internal controls over financial reporting for an acquired business during the first year following such acquisition, if among other circumstances and factors there is not adequate time between the acquisition date and the date of assessment. As previously noted in this Form 10-Q, the Company completed the acquisition of Stellite on March 1, 2012. Stellite represents approximately 16 percent of the Company's total assets as of March 31, 2012. Management's assessment and conclusion on the effectiveness of the Company's disclosure controls and procedures as of March 31, 2012 excluded an assessment of the internal control over financial reporting of Stellite.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [2]
January 1 through January 31, 2012	18,798	$ 39.14	-	4,505,100
February 1 through February 29, 2012	1,410	47.36	-	4,505,100
March 1 through March 31, 2012	607	46.86	-	4,505,100
Total	20,815	$ 39.93	-	

[1] During the current period, 1,410 shares were purchased on the open market on behalf of Kennametal to fund the Company's dividend reinvestment program. Also, during the current period employees delivered 11,995 shares of restricted stock to Kennametal, upon vesting, to satisfy tax withholding requirements and 7,410 shares of Kennametal stock as payment for the exercise price of stock options.

[2] On October 26, 2010, the Company publicly announced a repurchase program for up to 8 million shares of its outstanding common stock.

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ITEM 6. EXHIBITS

(2)	**Plan of acquisition, reorganization, arrangement, liquidation or succession**	
(2.1)	Tax Deed Covenant relating to Deloro Stellite Holdings 1 Limited dated March 1, 2012	Filed herewith.
(4)	**Instruments defining the rights of security holders, including indentures**	
(4.1)	Indenture, dated as of February 14, 2012, by and between Kennametal Inc., as Issuer, and U.S. Bank National Association, as Trustee	Exhibit 4.1 of the Form 8-K filed February 14, 2012 is incorporated herein by reference.
(4.2)	First Supplemental Indenture, dated as of February 14, 2012, by and between Kennametal Inc., as Issuer, and U.S. Bank National Association, as Trustee	Exhibit 4.2 of the Form 8-K filed February 14, 2012 is incorporated herein by reference.
(31)	**Rule 13a-14(a)/15d-14(a) Certifications**	
(31.1)	Certification executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc.	Filed herewith.
(31.2)	Certification executed by Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.
(32)	**Section 1350 Certifications**	
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Carlos M. Cardoso, Chairman, President and Chief Executive Officer of Kennametal Inc., and Frank P. Simpkins, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.
(101)	**XBRL**	
(101.INS)**	XBRL Instance Document	Filed herewith.
(101.SCH)**	XBRL Taxonomy Extension Schema Document	Filed herewith.
(101.CAL)**	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
(101.DEF)**	XBRL Taxonomy Definition Linkbase	Filed herewith.
(101.LAB)**	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
(101.PRE)**	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

** The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed "filed" or part of a registration statement or prospects for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of these sections.

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SIGNATURES

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

		KENNAMETAL INC.
Date: May 9, 2012	By:	/s/ Martha A. Bailey
		Martha A. Bailey
		Vice President Finance and Corporate Controller

Exhibit 2.1

Tax Deed of Covenant
relating to Deloro Stellite
Holdings 1 Limited

Dated 1 March 2012

The Persons whose names and addresses are set out in Schedule 1 of this Deed (1)
The Buyer (2)
John Stephenson (3)
Eric Priestley (4)

sjberwin

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DATE 1 MARCH 2012

PARTIES

(1) THE PERSONS whose names and addresses are set out in the Schedule (the "Warrantors", and each a "Warrantor");

(2) KENNAMETAL INC. a company incorporated in Pennsylvania whose registered office is at 1600 Technology Way, Latrobe, PA 15650 USA (the "Buyer");

(3) JOHN RICHARD STEPHENSON of Primrose House, Primrose Road, Clitheroe, Lancashire, BB7 1DR; and

(4) ERIC PRIESTLEY of In Der Hinterzelg 4, CH8700 Kusnacht, Switzerland.

INTRODUCTION

(A) This Deed is supplemental to an agreement dated 13 January 2012 between amongst others the Sellers and the Buyer, in which the Buyer agreed to purchase the shares in the Company from the Sellers (the "Agreement").

(B) In accordance with the Agreement, the Sellers are required on Completion to deliver to the Buyer this duly executed deed of covenant.

OPERATIVE PROVISIONS

1 Definitions and interpretation

1.1 In this Deed, except where a different interpretation is necessary in the context, the words and expressions set out below shall have the following meanings:

Actual Taxation Liability	a payment by or liability of any of the Companies to make any payment (or increased payment) of, or on account of, Taxation whether or not presently payable, whether satisfied or unsatisfied at Completion
Balancing Payment	a payment made pursuant to sections 195 to 198 of TIOPA 2010
Buyer's Group	the Buyer and any person, other than the Companies, from time to time treated as being a member of the same group as the Buyer for any Taxation purpose
Buyer's Relief	any Relief: (i) which is not available on or before Completion and arises in respect of any Transaction occurring after Completion or; (ii) which arises in respect of a period after Completion or; (iii) which arises in respect of any Transaction occurring after the Locked Box Date in the ordinary course of business of any of the Companies
CTA	Corporation Tax Act

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Claim	any notice, demand, determination, assessment, letter or other document issued, or action taken, by or on behalf of any Taxing Authority (including the imposition of any withholding) or any form of return, computation or self-assessment from which it appears that a Taxation Liability exists or may exist or may be imposed which, if it exists or were imposed, would give rise to a claim under this Deed (having regard to the exclusions in clause 3 of this Deed) or to a claim under the Tax Warranties or to a claim under clause 11.1 or 11.2 of this Deed
Companies	the Company and the Subsidiaries or any one or more of them as the context requires, and the "relevant Company" or "relevant Companies" means such of the Companies as is relevant in the particular context
Deemed Taxation Liability	the use or set off of all or part of a Buyer's Relief to reduce an Actual Taxation Liability in respect of which, but for that use or set off, a valid claim could have been made under clause 2 of this Deed, in which case the amount of the Deemed Taxation Liability shall be equal to the amount by which the Actual Taxation Liability is reduced by such use or set off
FA	Finance Act
IHT Liability	(a) any amount of inheritance tax in respect of which, as at Completion, HM Revenue & Customs or any other person has a charge on or a power to sell, mortgage or charge any of the Share or assets of the Company; or (b) any amount of inheritance tax for which the Company becomes primarily or secondarily liable after Completion as a result of the death of any person or which gives rise after Completion to a charge on or to a power to sell, mortgage or charge any of the Shares or assets of the Company in relation to any transfer of value taking place prior to Completion; and in determining for the purposes of this Deed whether a charge on or power to sell, mortgage or charge any of the Shares or assets of the Company exists at any time the fact that any inheritance tax is not yet payable or may be paid by installments shall be disregarded and such inheritance tax shall be treated as becoming due and a charge or power to sell, mortgage or charge as arising, on the date of the transfer of value or other date or event on or in respect of which it becomes payable or arises and the provisions of section 213 of the Inheritance Tax Act 1984 shall not apply;
Group Payment Arrangement	an arrangement entered into pursuant to section 36 FA 1998 or any similar arrangement under any other provision
Manager Warrantors	the Warrantors and John Stephenson and Eric Priestley

Relief	any loss, relief, allowance, exemption, set off, deduction or credit in computing or against income, profits, gains or Taxation and any right to a repayment of Taxation or any right to payment in consideration for the surrender of ACT or group relief or made as a Balancing Payment
Seller Group Company	any person from time to time treated as being a member of the same group or otherwise associated with a Warrantor for any Taxation purpose other than a Company
Tax or Taxation	any form of taxation and any levy, duty, charge, contribution, withholding or impost in the nature of taxation (including any related fine, penalty, surcharge or interest)
Taxation Liability	an Actual Taxation Liability or a Deemed Taxation Liability
Taxing Authority	means any governmental, state or municipality and any local, state, federal or other authority body or official anywhere in the world exercising a fiscal, revenue, customs or excise function
TIOPA 2010	Taxation (International and Other Provisions) Act 2010
Transaction	any transaction, act, circumstance, omission, agreement, arrangement or event of whatever nature, including entering into the Agreement, Completion, any change in the residence of any person or the death, winding up or dissolution of any person and any change in accounting reference date
TCGA	Taxation of Chargeable Gains Act 1992
VATA	Value Added Tax Act 1994

1.2 In this Deed, except where a different interpretation is necessary in the context, words and expressions not expressly defined in clause 1.1 shall have the respective meanings given to them in the Agreement and the Warranty Deed, and the rules of interpretation contained in clause 32 of the Agreement shall apply to this Deed as if they had been set out in this Deed with references to the Agreement being references to this Deed.

1.3 In this Deed:

(a) any reference to any form of Taxation or Relief or statutory provision or fiscal concept in the United Kingdom shall include a reference to the equivalent or substantially equivalent form of Taxation or Relief or statutory provision or fiscal concept in any other relevant taxing jurisdiction;

(b) references to the Buyer shall, where the benefit of this Deed has been assigned under clause 10 of the Warranty Deed (as incorporated into this Deed by clause 12.3), mean the person or the persons for the time being entitled to the benefit of this Deed PROVIDED THAT where the Buyer has assigned any of its rights under such clause, the liability of the Warrantors and the Manager Warrantors under this Deed shall in no circumstances be greater than their liability would have been had no such assignment taken place;

(c) any reference to the occurrence or existence of a Transaction on or before a particular date (including Completion) shall include Transactions which are for the purposes of any Taxation deemed as a matter of law to have occurred or existed or treated or regarded as having occurred on or before or existed at or before that date;

(d) any reference to "Profits" includes income, profits or gains of any kind and reference to Profits arising, earned, accrued, received on or before a particular date shall include income, profits or gains which are for the purposes of any Taxation deemed as a matter of law to have been or treated or regarded as arising, earned, accrued or received;

(e) any reference to "includes" or "including" shall be read as "includes, without limitation," or "including, without limitation,"

(f) in the case of any conflict between the provisions of the Agreement and this Deed, the provisions of this Deed shall prevail.

2 Covenant to pay

2.1 Subject as provided in this Deed, the Warrantors agree to pay to the Buyer an amount equal to:

(a) any Actual Taxation Liability of any of the Companies arising from any of the following:

(i) any Transaction or Transactions occurring on or before Completion; or

(ii) any Profits arising, earned, accrued or received on or before Completion;

(b) any Deemed Taxation Liability;

(c) any IHT Liability;

(d) any Actual Taxation Liability for which the Company would not have been liable but for being treated as being or having been a member of the same group as or associated with any person or company prior to Completion for the purposes of any Tax;

(e) all reasonable costs and expenses properly incurred and payable (including VAT but only to the extent that it is irrecoverable by the Buyer or the Companies) by the Buyer or any of the Companies in connection with (i) an Actual Taxation Liability or a Deemed Taxation Liability in respect of which the Warrantors are liable under this clause 2.1 and (b) successfully taking or defending any action under this Deed.

2.2 Any amount paid to the Buyer or at the Buyer's direction under clause 2 and clause 11 of this Deed shall, to the extent possible, be treated as a reduction in the Consideration.

3 Exclusions

3.1 The Warrantors shall be under no liability under clause 2 of this Deed or under the Tax Warranties in respect of any Taxation Liability or other liability to the extent that:

(a) provision (not including any provision for deferred Taxation) has been made in the Locked Box Accounts in respect of such Taxation Liability or it has otherwise been taken into account as a liability in the preparation of or reflected in the Locked Box Accounts; or

(b) it arises in respect of or in consequence of a Transaction undertaken or Profits arising, earned, accrued or received after the Locked Box Date by any of the Companies in the ordinary course of its business and, for the purpose of this clause 3.1(b), without limitation, a Transaction undertaken or Profits arising, earned, accrued or received outside the ordinary course of business of any of the Companies includes the following:

(i) anything which involves, or leads directly or indirectly to the receipt by any of the Companies of a Claim in respect of any liability to Taxation of, or properly attributable to, another person (other than any of the Companies);

(ii) anything which relates to or involves a Transaction which is not entered into at arm's length (including the acquisition or disposal of an asset or the supply of

services or the lending of money or the hiring or licensing of tangible or intangible property);

(iii) anything which relates to or involves a distribution for Taxation purposes, the creation, cancellation or reorganisation of share or loan capital, the creation, cancellation or repayment of any intra-group debt or any company becoming or ceasing to be or being treated as ceasing to be a member of a group of companies or as becoming or ceasing to be associated or connected with any other company for any Taxation purposes;

(iv) any failure to deduct and/or account for Taxation;

(v) any Transaction which gives rise to a Taxation Liability in respect of deemed (as opposed to actual) profits;

(vi) any Transaction which gives rise to a Taxation Liability under sections 124 to 129 (inclusive) FA 1995 (change of residence and non-residents) or sections 696 to 698 ITEPA (PAYE);

(vii) any Transaction which requires disclosure pursuant to Part 7 FA 2004 (disclosure of tax avoidance schemes); or

(viii) any fine, penalty, surcharge, interest or other imposition arising as a result of a failure by any of the Companies duly to pay, deduct, charge, recover and/or account for Taxation; or

(c) the Warrantors were not aware at the date of this Deed of the facts, matters, events or circumstances which are the subject matter of the claim under this Deed;

(d) it has been discharged on or prior to the Locked Box Date (whether by payment or by utilisation of a Relief, other than a Buyer's Relief) and such payment is reflected in the Locked Box Accounts;

(e) such Taxation Liability would not have arisen but for, or has been increased by:

(i) a failure or omission otherwise than at the request in writing of the Warrantors or in accordance with clause 5 (Tax Computations) by any of the Companies to make any valid claim, election, surrender or disclaimer for Tax purposes or give any notice or consent for Tax purposes or do any other thing permitted by law after Completion and where the making, giving or doing of which was taken into account or assumed in computing the provision for Taxation in the Locked Box Accounts provided that the Buyer or the relevant Company has been notified in writing of the need to so make, give or do within a reasonable amount of time; or

(ii) the making (otherwise than at the request in writing of the Warrantors or in accordance with clause 5 (Tax Computations) of any claim, election, surrender or disclaimer for Tax purposes or the giving of any notice or consent for Tax purposes, the making or giving of which was not taken into account in computing (and so reducing) any provision for Taxation (not including any provision for deferred Taxation) which appears in the Locked Box Accounts (or in eliminating any provision for Taxation (not including any provision for deferred Taxation) which would otherwise have appeared in the Locked Box Accounts); or

(f) it arises or is increased as a result of a change after Completion in any accounting policy or practice of any of the Companies except where such change is required in order to

comply with any regulatory, financial reporting or legal requirement or generally accepted accountancy practice applicable to the relevant Company and in force on Completion; or

(g) it arises or is increased as a result of:

(i) any increase in the rates of Taxation coming into force after Completion; or

(ii) the introduction of new Taxation not in force at the date hereof and coming into force after Completion; or

(iii) any change in the law or in the generally published concession or practice of any Taxing Authority which relates to arrangements specified for the purposes of Part 7 FA 2004 (disclosure of tax avoidance schemes) coming into force after Completion; or

(h) it arises or is increased as a result of any voluntary act or omission carried out by any of the Companies or the Buyer after Completion which the Buyer knew or ought reasonably to have known would give rise to or increase such Taxation Liability and which could reasonably have been avoided provided that an act or omission:

(i) required by law; or

(ii) carried out pursuant to a legally binding obligation of the relevant Company entered into prior to Completion; or

(iii) carried out in the ordinary course of business of the Buyer or the relevant Company as carried on at Completion

shall not constitute a voluntary act or omission for the purposes of this clause 3.1(h); or

(i) any Profits to which the Taxation Liability is attributable were actually earned, received or otherwise recognised by or actually accrued to the Company on or before the Locked Box Date but were not reflected in the Locked Box Accounts; or

(j) such Taxation Liability would not have arisen but for a Transaction occurring at the written request of the Buyer;

(k) such Taxation Liability arises or is increased as a consequence of any failure by the Buyer to comply with any of its obligations (including any obligation to procure that the Company does or omits to do anything) under clause 5 (Tax Computations) or 6 (Disputes) of this Deed; or

(l) it relates to any interest and penalties attributable to the unreasonable delay by any member of the Buyer's Group or, after Completion, any of the Companies in making payments in respect of a Tax Liability after receipt of a payment under this deed in respect of such Tax Liability; or

(m) it relates to interest and penalties under the Corporation Tax (Instalment Payments) Regulations 1998 which arise as a consequence of an underpayment, prior to Completion, of an instalment attributed to any of the Companies, which, at the time the instalment was paid, was based on a reasonable bona fide estimate at that time of the final tax liability of the whole accounting period; or

(n) the Buyer or any of the Companies has fully recovered an amount in respect of such Taxation Liability at no net cost to the Buyer or any of the Companies; or

(o) such Taxation Liability would not have arisen or been increased but for any amendments made to the Loan Notes prior to the sale of the Loan Notes pursuant to the Agreement;

(p) such Taxation Liability would not have arisen but for the payment of the LTIP Amount by the Company to the relevant individual participants in the LTIP pursuant to clause 7.5 of the Agreement; or

(q) such Taxation Liability would not have arisen but for the payment of the Management Bonuses pursuant to clause 7.4 of the Agreement;

3.2 The Buyer shall not be entitled to recover an amount under clause 2 this Deed in respect of a Taxation Liability if and to the extent that the amount of that Taxation Liability or the facts, matters, events or circumstances which are the subject matter of the claim under this Deed has been Disclosed in the First Disclosure Letter, the Second Disclosure Letter, the Data Room Documents, or the Disclosure Documents PROVIDED THAT nothing in the Second Disclosure Letter that relates to any Transaction or Transactions occurring on or before the date of the Agreement or any Profits arising, earned, accrued or received on or before the date of the Agreement in respect of which a Warrantor is aware at the date of the Agreement shall so operate so as to restrict the Buyer's entitlement to recover an amount under this Deed from such Warrantor.

3.3 The Buyer shall not be entitled to recover an amount under this Deed in respect of a Taxation Liability if and to the extent that the amount of that Taxation Liability has been the subject of a claim under this Deed or for breach of the Warranties or under any other provision of the Agreement and that claim has been satisfied in full.

3.4 The individual liability of each Warrantor in connection with any single claim under clause 2 of this Deed shall be limited to the proportion of the claims which is equal to his Relevant Proportion. For the avoidance of doubt, in the event that an individual Warrantor does not satisfy a claim made against him, the Buyer shall not be entitled to bring a claim against any of the other Warrantors in respect of such non-satisfaction. For the avoidance of doubt, this clause 3.4 does not apply to clause 11 of this Deed.

3.5 The following paragraphs of Schedule 3 (Limitations on Liability) of the Warranty Deed shall apply to clause 2 of this Deed (but for the avoidance of doubt, do not apply to clause 11 of this Deed) to the extent that they specifically refer to claims under this Deed with modifications made as necessary:

(a) paragraph 2 (Cap on liability);

(b) paragraph 5 (Time limits for making claims);

(c) paragraph 6 (threshold and de minimis);

(d) paragraph 13 (Buyer's Knowledge);

(e) paragraph 14 (Allowance Provision or Reserve in the Accounts) and

(f) paragraph 17.1 (Net Benefit).

4 Buyer's Undertaking

4.1 The Buyer agrees to pay the Warrantors on the due date for payment an amount equal to the amount of Taxation for which any Seller Group Company or any director or former director of any Seller Group Company or of any of the Companies (other than a person who is or was a director of any of the Companies after Completion) is or becomes liable due to the failure of a Company to account for Taxation for which it is primarily liable, except to the extent that such Taxation:

(a) is or could be subject to a valid claim by the Buyer under the Tax Warranties or this Deed and in respect of which the Warrantors have not previously made payment; or

(b) has been recovered by any member of the Sellers' Group or any such director or former director under any relevant statutory provision (and the Warrantors shall procure that no such recovery is sought to the extent that payment is made hereunder).

4.2 The covenant contained in clause 4.1 shall extend to all such proportion of the reasonable costs and expenses incurred by the Warrantors or any Seller Group Company in connection with such Tax or a claim under clause 4.1.

4.3 Clauses 6 (Disputes), 8 (Third party recovery) and 9 (Date for payment) shall apply to the covenant contained in clause 4.1 as they apply to the covenants contained in clause 2, replacing references to the Warrantors by the Buyer (and vice versa) and making any other necessary modifications.

5 Tax Computations

5.1 Subject to clause 11.7 of this Deed, it is hereby agreed that the Buyer shall at its own cost be responsible for the preparation, submission and negotiation of the Tax computations and returns of the Companies for accounting periods current at Completion or ending on or before Completion (to the extent they are not already prepared, submitted or negotiated), and, in relation to such accounting periods, the Buyer shall at least one month prior to submitting such computations and returns to the relevant Taxing Authority, submit them, or the parts of them relevant to any Taxation Liability that might give rise to a claim under this Deed or the Tax Warranties, (together with such information as is reasonably necessary to enable the Sellers to review the same) to the Management Sellers" Representatives and their professional advisers for their comments (such comments not to be unreasonably withheld or delayed), and the Buyer shall incorporate any such comments before sending or transmitting such computations and returns to the Taxing Authority to the extent that such comments relate to matters which could potentially give rise to a liability for the Warrantors under this Deed or the Tax Warranties.

5.2 The Warrantors shall give the Buyer, the Companies and their respective professional advisers all such information and assistance (at the cost of the relevant Company) that may be reasonably requested of them to allow the Buyer to comply with its obligations contained in clause 5.1.

6 Disputes

6.1 If the Buyer or any of the Companies becomes aware of any Claim, the Buyer shall give notice to the Management Sellers' Representatives of that Claim (including full details of such Claim, the due date for any payment, the time limits for any appeal and, so far as practicable, the amount of the Claim under this deed in respect of such Claim) as soon as possible (and in any event not more than 14 days after the Buyer or the relevant Company becomes aware of such Claim).

6.2 Subject to clause 6.3 below, if the Warrantors indemnify the Company and/or (as the case shall require) the Buyer to the Buyer's reasonable satisfaction against all liabilities, costs, damages or expenses which may be incurred thereby (including any additional Taxation Liability, the Buyer shall take (or procure that the relevant Company shall take) such action as the Management Sellers' Representatives may reasonably request to avoid, dispute, resist, appeal, compromise or defend the Claim and any adjudication in respect of the Claim. The Management Sellers' Representatives shall be kept fully informed and shall be provided with copies of all correspondence and documentation in relation to such Claim or action.

6.3 Subject to clause 6.4, the Warrantors shall have the right (at the request of the Management Sellers' Representatives) to take over conduct of any proceedings taken in connection with such Claim or action on giving the Buyer written notice of their wish to do so. In that case:

(a) all material communications (written or otherwise) pertaining to such proceedings which are to be transmitted to the relevant Taxing Authority shall first be submitted to the Buyer

and the relevant Company for approval and shall only be finally transmitted if such approval is given, such approval not to be unreasonably withheld or delayed;

(b) the Warrantors shall take account of all reasonable comments made by the Buyer in relation to the conduct of such proceedings;

(c) the Warrantors shall keep the Buyer fully and promptly informed of the progress of any such proceedings and the Buyer shall be sent as soon as reasonably practicable copies of all material correspondence to the extent that they relate to such proceedings;

(d) the Warrantors shall take all reasonable steps and use their best endeavours to agree such proceedings with the applicable Taxing Authority within a reasonable time;

(e) the Warrantors shall make no settlement or compromise of such proceedings or agree any matter in the conduct of such proceedings which is likely to affect the amount thereof or the future liability to Taxation of any member of the Buyer's Group or any Company without the prior approval of the Buyer (not to be unreasonably withheld or delayed); and

(f) the Buyer shall, and shall procure that the relevant Company shall (at the cost of the Warrantors), provide all such co-operation and access to all such personnel, information and documentation as the Management Sellers' Representatives may reasonably require in connection with the conduct of the Claim or action.

6.4 Subject to clause 6.5, the Buyer shall procure that no Claim, action or issue in respect of which the Warrantors may be required to make a payment under this Deed is settled or otherwise compromised without the Management Sellers' Representatives' prior written consent, such consent not to be unreasonably withheld.

6.5 The Warrantors' rights under this clause 6 shall cease and the Buyer shall have the conduct of any action related to a Claim absolutely (without prejudice to its rights under this Deed) and shall be free to pay or settle any Claim on such terms as the Buyer or the Company may in its absolute discretion consider fit if:

(i) the Management Sellers' Representatives' neither request that conduct of a Claim be delegated to the Warrantors in accordance with sub-clause 6.3 or that the Buyer or the Company take any action under sub-clause 6.2 of this Deed (or if the Warrantors fail to indemnify the Buyer and the Company to the Buyer's reasonable satisfaction) within a period of time that is reasonable having regard to the nature of the Claim and the existence of any time limit in relation to avoiding, disputing, defending, resisting, appealing or compromising such Claim and which period shall not in any event:

(A) exceed a period of 30 Business Days commencing with the date of the notice given pursuant to sub-clause 6.1; or

(B) end later than 5 Business Days prior to the last date on which an appeal may be made in relation to the Claim in question PROVIDED THAT the Warrantors had at least 10 Business Days notice of the Claim in question;

(ii) the Management Sellers' Representatives notify the Buyer or the Company in writing that none of them wish to dispute the Claim in question;

(iii) a Taxing Authority alleges in writing that (prior to Completion) there was any action or omission by the Warrantors which constitutes fraudulent conduct;

(iv) in the reasonable opinion of the Buyer the Warrantors are in material non-remediable breach of their obligations under sub-clause 6.3 or are in material

remediable breach and fail to remedy such breach within 20 Business Days following service by the Buyer of a written notice specifying the breach and requiring it to be remedied.

6.6 Save as required by law, the Buyer shall not, and shall procure that the relevant Company and their respective advisers shall not, submit any correspondence or return or send any other document to any Taxing Authority without first offering the Management Sellers' Representatives a reasonable opportunity to comment and without taking account of such comments so far as it is reasonable to do so, where the Buyer or any such person is aware or could reasonably be expected to be aware that the effect of submitting such correspondence or return or sending such document would or could be to put such Taxing Authority on notice of any matter which could give rise to, or could increase, a Claim under this deed.

7 Savings and Over-Provisions

7.1 If the auditors for the time being of any of the Companies certify in writing (at the request and expense of the Warrantors) to the Warrantors and the Buyer that:

(a) any provision for Taxation (other than a provision for deferred Tax) contained in the Locked Box Accounts is found to be an over-provision (an "Over-provision"); or

(b) the Taxation Liability which has resulted in a payment by the Warrantors being made or falling due and payable under clause 2 of this Deed or the Tax Warranties has given rise to a corresponding repayment of or a reduction in Taxation (the "Saving") for a Company or the Buyer and such Saving has been realised

then the amount of the Saving or Over-provision which is so certified shall be dealt with in accordance with clause 7.2.

7.2 Where pursuant to clause 7.1 any amount (the "Relevant Amount") is to be dealt with in accordance with this clause 7.2:

(a) the Relevant Amount shall first be set off against any payment then due from the Warrantors under this Deed or the Tax Warranties; and

(b) to the extent that there is an excess, a refund shall be made within 5 Business Days of such amount being certified to the Warrantors of any previous payment or payments made by the Warrantors under this Deed or the Tax Warranties and not previously refunded, up to the amount of such excess; and

(c) to the extent that there remains any excess, such excess shall be carried forward and set against future payments due from the Warrantors under this Deed or the Tax Warranties.

7.3 If the Companies or the Buyer shall discover any fact that indicates there might have been an Over-provision or Saving the Buyer shall or shall procure that the relevant Company shall promptly notify the Management Sellers' Representatives thereof and the Buyer shall or shall procure that the relevant Company shall (in either case, at the cost of the Warrantors) supply to the Management Sellers" Representatives such information as they may reasonably require to verify the amount of the Over-provision or Saving.

7.4 An Over-provision resulting from any of the following matters shall not be an Over-provision within this clause 7 and a repayment of or a reduction in Taxation shall not be treated as a Saving for the purposes of this clause 7 if and to the extent that it arises as a consequence of:

(a) the use or set off of:

(i) any Buyer's Relief; or

(ii) any Relief which has been taken into account in computing the liability of any of the Warrantors under the Tax Warranties or this Deed; or

(b) any change in the rates of Taxation made after Completion, the coming into force after Completion of, or any introduction or change after Completion in, any law, rule, regulation or published practice of any Taxing Authority of general application.

8 Third party recovery

8.1 If the Warrantors shall have paid an amount in respect of any Taxation under clause 2 or the Manager Warrantors have paid an amount under clause 11 (which has not been repaid and any of the Companies or the Buyer is entitled or may be entitled either immediately or at some subsequent date to recover from some other person (not being any of the Companies or any member of the Buyer's Group or any employee of them but including any Taxing Authority) any sum in respect of such Taxation (and otherwise than by the utilisation of the whole or any part of any Buyer's Relief), the Buyer shall or shall procure that the relevant Company shall notify the Management Sellers' Representatives within a reasonable period of that fact and (if so required by the Management Sellers' Representatives and if the Warrantors indemnify the Buyer and the Companies against any Taxation that may be suffered on receipt of that sum and any costs and expenses incurred in recovering that sum to the reasonable satisfaction of the Buyer) take such reasonable steps to enforce such recovery as the Management Sellers' Representatives may reasonably require. Following such recovery, the Buyer shall pay to the Warrantors whichever is the lesser of:

(a) the amount so recovered by the relevant Company or the Buyer in respect of that liability to Taxation less any Taxation chargeable on the amount recovered and less any costs and expenses incurred in such recovery; or

(b) the amount paid by the Warrantors under clause 2 or the Manager Warrantors under clause 11 in respect of that liability to Taxation.

8.2 For the avoidance of doubt, any Saving as defined in clause 7.1 shall be dealt with in accordance with clause 7 and not in accordance with this clause 8.

9 Date for payment

9.1 Where the Warrantors or the Manager Warrantors become liable to make any payment under this Deed, the due date for the making of that payment shall be the later of the date falling ten (10) Business Days after service by the Buyer or the Company of a notice containing a written demand in respect of the matters for which the Warrantors or the Manager Warrantors have a liability for a determinable amount under this Deed together with reasonably satisfactory proof that they have become due and payable and details of the bank account to which payment should be made, and:

(a) where that payment relates to a liability on the part of the Buyer or any of the Companies to pay an amount of Taxation, the date that is five (5) Business Days prior to the date on which that amount must be paid to the Taxing Authority concerned in order to avoid incurring a liability to interest or a charge or penalty in respect of such Taxation;

(b) where that payment relates to a liability on the part of the Buyer or any of the Companies to pay an amount of Taxation in respect of which there is provision for payment by instalments, the date that is five (5) Business Days prior to each date on which an instalment of such Taxation becomes payable (and so that on each such date an appropriate proportion of the amount claimed shall be paid);

(c) in any case involving the use or set off of all or any part of any other Relief within the definition of Deemed Taxation Liability, the date on which the Taxation saved thereby would otherwise have become due and payable to the relevant Taxing Authority.

9.2 In any other case, including where any payment of Taxation has already been made, the due date for making the payment shall be the date falling ten (10) Business Days after service by the Buyer or the Company of a notice containing a written demand in respect of the matters for which the Sellers have a liability for a determinable amount under this Deed together with reasonably satisfactory proof that they have become due and payable and details of the bank account to which payment should be made.

9.3 If any sum required to be paid by the Warrantors under clause 2 of this Deed or the Manager Warrantors under clause 11 of this Deed or by the Buyer under clause 4.2 of this Deed is not paid on the date prescribed by this clause 9, then such sum shall bear interest (which shall accrue after as well as before any judgment for the same) at the rate of 2 per cent per annum over the base rate from time to time of Barclays Bank plc or (in the absence thereof) at such similar rate as the Buyer shall select acting reasonable. The interest will accrue from day to day on the basis of the actual number of days elapsed and a 365-day year and shall be payable on demand and compounded quarterly.

10 Gross-Up

10.1 Any sum payable by the Warrantors to the Buyer under clause 2 of this Deed or by the Manager Warrantors to the Buyer under clause 11 of this Deed or payable by the Buyer to the Warrantors under clause 4.2 of this Deed shall be paid free and clear of any deduction or withholding whatsoever, save only as may be required by law.

10.2 If any deduction or withholding is required by law to be made from any payment by the Warrantors to the Buyer under clause 2 of this Deed or by the Manager Warrantors to the Buyer under clause 11 of this Deed or payable by the Buyer to the Warrantors under clause 4.2 of this Deed (other than a payment of interest made pursuant to clause 9), the payer shall increase the amount of the payment by such additional amount as is necessary to ensure that the net amount received and retained by the payee (after taking account of any deduction or withholding) is equal to the amount which it would have received and retained had the payment in question not been subject to any deduction or withholding.

10.3 If the payee is subject to Taxation in respect of any payment made by the Warrantors to the Buyer under clause 2 of this Deed or by the Manager Warrantors to the Buyer under clause 11 of this Deed or by the Buyer to the Warrantors under clause 4.2 of this Deed (other than a payment of interest made pursuant to sub-clause 4.3) or if the Purchaser would have been subject to Taxation but for the availability to the Purchaser of any Purchaser's Relief, the Warrantors shall increase the amount of the payment by such additional amount as is necessary to ensure that the net amount received and retained by the Purchaser (after taking account of all Taxation) (or the net amount that would have been received and retained but for the availability of the Purchaser's Relief) is equal to the amount which it would have received and retained had the payment in question not been subject to Taxation.

11 Specific tax indemnity

11.1 Each of the Manager Warrantors severally agrees to pay to the Buyer an amount equal to any income tax and social security contributions (employee and employer) payable by any of the Companies as a result of the acquisition by him of shares and/or loan notes in the Companies on or before Completion (the "Relevant Securities") together with any interest and penalties and reasonable costs properly incurred.

11.2 If any payment requested to be made by any of the Manager Warrantors pursuant to clause 11.1 of this Deed is not made within the period specified in s222(1)(c) ITEPA 2003, the relevant Manager Warrantor shall in addition pay to the Buyer an amount equal to all income tax and social security contributions (employee and employer) and any related interest or penalties arising as a

consequence of a charge having been imposed under s222 ITEPA 2003 together with any reasonable costs properly incurred.

11.3 For the purposes of this Deed, an amount payable under clauses 11.1 and 11.2 of this Deed shall be reduced by the amount of Taxation (but not more than once by the same amount) that may reasonably be expected to be saved or reclaimed by the Buyer or any of the Companies as a result of or in consequence of the income tax and social security contributions (employee and employer) payable by any of the Companies in respect of which the Manager Warrantors are liable under clause 11.1.

11.4 A Manager Warrantor's liability under clauses 11.1 and 11.2 of this Deed shall cease on 31 December 2014 except in respect of matters which on or before that date have been the subject of a bona fide written claim made by or on behalf of the Buyer to the Management Sellers' Representative.

11.5 Clauses 3.1(g), 3.1(h), 3.1(l) (exclusions), and 6 (Disputes) of this Deed shall apply to the covenant contained in clauses 11.1 and 11.2 of this Deed as they apply to the covenants contained in clause 2 replacing references to the Warrantors with the Manager Warrantors (and vice versa) and making any other necessary modifications.

11.6 A Manager Warrantor shall not be liable under clause 11.1 and/or 11.2 of this Deed if the total amount which the Manager Warrantors together are required to pay under clauses 11.1 and/or 11.2 is less than Euro 150,000. Any liability for costs under clauses 11.1 and 11.2 shall not be included for the purposes of calculating whether or not the Euro 150,000 threshold within this clause has been exceeded.

11.7 The Buyer shall not and shall procure that the Companies shall not disclose any information to any Taxing Authority or account to any Taxing Authority in relation to any matter relating to the Relevant Securities unless a Taxing Authority approaches the Buyer or Company requesting such information.

11.8 If the Buyer considers, without any approach from a Taxing Authority that the Buyer or the relevant Company is legally obliged to disclose to the Taxing Authority any matter relating to the sale or acquisition of any of the Relevant Securities the Buyer shall, or shall procure that the relevant Company, shall promptly notify the relevant Manager Warrantor that they consider that there is such a legal obligation to disclose. If the relevant Manager Warrantor agrees that the Buyer or the relevant Company is legally obliged to disclose to the Taxing Authority such matter, the Buyer or the relevant Company can disclose such matter but all material communications (written or otherwise) pertaining to such matter which are to be transmitted to the relevant Taxing Authority shall first be submitted to the Manager Warrantor for approval. If the Buyer and the Manager Warrantor cannot agree whether or not there is a legal obligation to disclose, tax Counsel (to be agreed between the Buyer and the Manager Warrantor, such agreement not to be unreasonably withheld by either party) of between 6 to 8 years call (inclusive) shall be appointed. If after disclosure of all relevant information and documents tax Counsel advises, in writing, that the Buyer or the relevant Company is legally obliged to disclose to the Taxing Authority any matter relating directly to the sale or acquisition of any such Relevant Securities the cost of the Counsel shall be at the expense of the Manager Warrantor and the Buyer or the relevant Company can disclose such matter. If after disclosure of all relevant information and documents tax Counsel advises, in writing, that the Buyer or the relevant Company is not legally obliged to disclose to the Taxing Authority any matter relating directly to the sale or acquisition of the Relevant Securities the cost of the Counsel shall be at the expense of the Buyer and the Buyer or the relevant Company cannot disclose such matter.

11.9 A Manager Warrantor shall have no liability under clause 11.1 and/or 11.2 of this Deed if the Buyer is in breach of clause 11.7 and/or 11.8 in respect of any claim arising against that Manager Warrantor.

11.10 For the avoidance of doubt, in the event that an individual Manager Warrantor does not satisfy a claim made against him under clauses 11.1 and/or 11.2, the Buyer shall not be entitled to bring a claim against any of the other Manager Warrantors in respect of such non-satisfaction.

12 General

12.1 Any liability of the Warrantors or any of them or the Buyer under this Deed may be released, compounded or compromised in whole or in part and time or indulgence may be given by the Buyer or the Warrantors in its or their absolute discretion, as applicable, without in any way prejudicing or affecting its rights against the Warrantors or any of them or the Buyer in respect of any other liability under this Deed or against any other Warrantor under the same or a similar liability.

12.2 The rights under this Deed of the Buyer shall be without prejudice to their respective rights and remedies under or resulting from the Agreement and the Warranty Deed and shall continue to be in full force and effect notwithstanding Completion.

12.3 The provisions of clauses 9 (Assignment), 6 (Notices), 7 (Governing Law and Jurisdiction) of the Warranty Deed and clauses 27 (Counterparts) and 33 (Execution) of the Agreement shall apply to this Deed as if they had been set out in this Deed with references to the Agreement being references to this Deed.

12.4 Unless expressly stated to the contrary nothing in this Deed confers on anyone other than the parties to it any right under the Contracts (Rights of Third Parties) Act 1999.

12.5 For the purposes of determining whether a Taxation Liability or a Relief relates to a pre or post Completion period, an accounting period of the Company shall be deemed to have ended on Completion.

This Deed is executed as a deed by the parties and is delivered and takes effect on the date at the beginning of this Deed.

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The Schedule

The Warrantors

NAME	ADDRESS
Timothy Dobson Allen	Carmel 5, Maes-y-Felin Llandow Vale of Glamorgan CF71 7PD
Andrew Caffyn	Brookside High Street Upton Oxon OX11 9JE
John Neil Fleming	Nethercote House Nethercote Warwickshire CV23 8AS
Song Ling	N.216 Lane 285 Ju Jin Road Pu Dong New District Shanghai 201208 China
Joseph Overton	355-2 Dundas Street East Belleville K8P 1B3 Canada
Michael Ruenz	Ulmenweg 17 Urmitz 56220 Germany
Daniel de Wet	3866 Middle Woodland Dr. Inverary Ontario K0H 1XO

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SIGNATURES

Executed as a deed by
/s/ Timothy Dobson Allen
TIMOTHY DOBSON ALLEN

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood, Close

Occupation

Trainee Solicitor

[Table of Contents]

Executed as a deed by
/s/ Andrew David Caffyn
ANDREW DAVID CAFFYN

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood, Close

Occupation

Trainee Solicitor

Table of Contents

Executed as a deed by
/s/ John Neil Fleming
JOHN NEIL FLEMING

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood, Close

Occupation

Trainee Solicitor

Table of Contents

Executed as a deed by
/s/ Song Ling
SONG LING

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood, Close

Occupation

Trainee Solicitor

Table of Contents

Executed as a deed by

/s/ Joseph Overton

JOSEPH OVERTON

in the presence of:

/s/ Emilia Valvano

signature of witness

Emilia Valvano

print name of witness

Address

8 Denewood

Close

Occupation

Trainee Solicitor

Table of Contents

Executed as a deed by
/s/ Michael Ruenz
MICHAEL RUENZ

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood
Close

Occupation

Trainee Solicitor

Table of Contents

Executed as a deed by
/s/ Daniel de Wet
DANIEL DE WET

in the presence of:

/s/ Emilia Valvano
signature of witness

Emilia Valvano
print name of witness

Address
8 Denewood
Close

Occupation

Trainee Solicitor

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Executed as a deed by

/s/ John Richard Stephenson
JOHN RICHARD STEPHENSON

in the presence of:

signature of witness /s/ Emilia Valvano

print name of witness Emilia Valvano

Address 8 Denewood, Close

Occupation Trainee Solicitor

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Executed as a deed by

/s/ Eric Priestley
ERIC PRIESTLEY

in the presence of:

signature of witness /s/ Emilia Valvano

print name of witness Emilia Valvano

Address 8 Denewood, Close

Occupation Trainee Solicitor

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Executed as a deed by KENNAMETAL INC.
acting by:
/s/ John R. Tucker
[signature of director]

JOHN R. TUCKER
[print name of director]

Director

in the presence of:

/s/ Martin Mendelssohn
[signature of witness]

MARTIN MENDELSSOHN
[print name of witness]

Address
MITRE HOUSE, LONDON EC1A, 4DD

Occupation

Solicitor

Exhibit 31.1

I, Carlos M. Cardoso, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:

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

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2012

/s/ Carlos M. Cardoso
Carlos M. Cardoso
Chairman, President and Chief Executive Officer

Exhibit 31.2

I, Frank P. Simpkins, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2012

/s/ Frank P. Simpkins
Frank P. Simpkins
Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended March 31, 2012, 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. § 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/ Carlos M. Cardoso
Carlos M. Cardoso
Chairman, President and Chief Executive Officer

May 9, 2012

/s/ Frank P. Simpkins
Frank P. Simpkins
Vice President and Chief Financial Officer

May 9, 2012

*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.