FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Commission File Number 1-5318

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

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

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

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

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

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

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

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

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

As of August 31, 1999, the aggregate market value of the registrant's Capital Stock held by non-affiliates of the registrant, estimated solely for the purposes of this Form 10-K, was approximately $599,500,000. For purposes of the foregoing calculation only, all directors and executive officers of the registrant and each person who may be deemed to own beneficially more than 5% of the registrant's Capital Stock have been deemed affiliates.

As of August 31, 1999, there were 30,116,071 shares of Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1999 Annual Report to Shareowners are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the 1999 Annual Meeting of Shareowners are incorporated by reference into Parts III and IV.

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PART I

ITEM 1. BUSINESS

Overview

Kennametal Inc. was incorporated in Pennsylvania in 1943. Kennametal Inc. and subsidiaries (Kennametal or the company) is a vertically integrated manufacturer and marketer of consumable tools and related supplies for the metalworking, mining and highway construction industries, as well as specially engineered products for a variety of other industries. Kennametal specializes in developing and manufacturing metalcutting tools and wear-resistant parts using a specialized type of powder metallurgy. Kennametal's metalcutting tools are made of cemented tungsten carbides, ceramics, cermets, high-speed steel and other hard materials. Kennametal also manufactures and markets a complete line of toolholders, toolholding systems and rotary cutting tools by machining and fabricating steel bars and other metal alloys. The company, through its subsidiary JLK Direct Distribution Inc., also is one of the largest suppliers of metalworking consumables and related products in the United States. Kennametal also manufactures tungsten carbide products used in engineered applications, mining and highway construction, and other similar applications, including circuit board drills, compacts and metallurgical powders.

During 1998, the company expanded its metalworking focus by acquiring Greenfield Industries, Inc. (Greenfield), a leading worldwide manufacturer of consumable cutting tools and related products used in a variety of industrial, electronics, energy and construction, engineered and consumer markets. Greenfield manufactures a complete line of high-speed steel and tungsten carbide products, including drills; endmills; taps and dies and fixed limit gages; products used in oil and gas drilling; carbide drills, endmills and routers used to make printed circuit boards for the electronics industry; and "made-to-order" tungsten carbide parts for demanding wear applications such as plastics processing, tool and die manufacturing and petroleum flow control. The company also manufactures cutting tools, drill bits, saw blades and other tools for builders, contractors, mechanics and "do-it-yourselfers."

This Form 10-K contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results may materially differ from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific are not sustained, risks associated with integrating businesses, demands on management resources, risks associated with international markets such as currency exchange rates and competition, risks associated with environmental remediation, the effect of third party or company failures to achieve timely remediation of year 2000 issues, and the effect of the conversion to the Euro on the company's operations. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

Business Segment Review

The company reports three worldwide segments consisting of Metalworking; Industrial Supply; and Engineered Products, Mining & Construction and Other (EM&O). Segment selection was based upon the internal organizational structure, the way in which management organizes segments for making operating decisions and assessing performance, the availability of separate financial results, and materiality considerations. The company's sales and operating income by segment are presented on pages 11 through 14 of the 1999 Annual Report to Shareowners, and such information is incorporated herein by reference. Additional information about the company's operations and assets by segment and geographic area is presented on pages 39 through 41 of the 1999 Annual Report to Shareowners, and such information is incorporated herein by reference.

Metalworking

In the Metalworking segment, Kennametal markets, manufactures and distributes a full line of products and services for the metalworking industry. The company provides consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling.

A Kennametal tooling system consists of a steel toolholder and an indexable cutting tool such as an insert or drill made from cemented tungsten carbides, ceramics, cermets, high-speed steel and other hard materials. During a metalworking operation, the toolholder is positioned in a machine tool that provides the turning power. While the workpiece or toolholder is rapidly rotating, the cutting tool insert or drill contacts the workpiece and cuts or shapes the workpiece. The cutting tool insert or drill is consumed during use and must be replaced periodically.

With a multi-channel, global marketing organization and operations worldwide, the company believes it is the largest North American and the second largest global provider of consumable metalcutting tools and supplies. The company also manufactures cutting tools, drill bits, saw blades and other tools for the consumer market which are marketed under private label and other proprietary brands.

Industrial Supply

This segment represents the sales of industrial supply products through Kennametal's subsidiary, JLK Direct Distribution Inc. (JLK). JLK distributes a broad range of metalworking consumables and related products to customers in the United States, offering a full line of metalcutting tools, abrasives, drills, machine tool accessories, hand tools and other supplies used in metalcutting operations. The majority of industrial supplies distributed by JLK are purchased from other manufacturers, although the industrial supply product offering does include Kennametal-manufactured items.

To meet the varying needs of small-, medium- and large-sized customers, sales of metalworking consumable products are derived through a direct-marketing program, including mail-order catalogs and retail showrooms, a direct field sales force, and integrated supply programs or Full Service Supply (FSS) programs. The direct-marketing program and the direct field sales force serve customers of any size. Through FSS programs, medium- and large-sized industrial manufacturers engage JLK to carry out all aspects of complex metalworking supply processes, including needs assessment, cost analysis, procurement planning, supplier selection, "just-in-time" restocking of supplies and ongoing technical support. JLK also conducts its direct-marketing program for small- and medium-sized customers in the United Kingdom and Germany.

Engineered Products, Mining & Construction and Other

This segment's principal business is the production and sale of tungsten carbide products used in engineered applications, mining and highway construction and other similar applications, including circuit board drills, compacts and metallurgical powders. These products have technical commonality to the company's core metalworking products.

The company is a leading manufacturer of carbide products used in engineered product applications. The company also makes industrial wear-resistant parts for use in abrasive environments and specialty applications such as plastics processing, tool and die manufacturing and petroleum flow control.

Mining and highway construction cutting tools are fabricated from steel parts and tipped with cemented carbide. Mining tools, used primarily in the coal industry, include longwall shearer and continuous miner drums, blocks, conical bits, drills, pinning rods, augers and a wide range of mining tool accessories. Highway construction cutting tools include carbide-tipped bits for ditching, trenching and road planing, grader blades for site preparation and routine roadbed control, and snowplow blades and shoes for winter road plowing.

The company manufactures and distributes compacts for mining, quarrying, water-well drilling and oil and gas exploration. The company believes that it is the largest independent supplier of oil field compacts in the world. Compacts are the cutting edges of oil well drilling bits, which are commonly referred to as "rock bits."

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

International Operations

The company's principal international operations are conducted in Western Europe, Canada, South Africa and Mexico. In addition, the company has joint ventures in China, Poland and Russia, manufacturing and/or sales subsidiaries in Israel, South America and in the Asia Pacific region, and sales agents and distributors in Eastern Europe and other areas of the world.

The company's international operations are subject to the usual risks of doing business in those countries, including currency fluctuations and changes in social, political and economic environments. In management's opinion, the company's business is not materially dependent upon any one international location involving significant risk.

The company's international assets and sales are presented on page 41 of the 1999 Annual Report to Shareowners, and such information is incorporated herein by reference. Information pertaining to the effects of foreign currency fluctuations is contained under the caption "Market Risk" in Management's Discussion and Analysis on pages 18 and 19 of the 1999 Annual Report to Shareowners and under the caption "Foreign Currency Translation" in the notes to the consolidated financial statements on page 28 of the 1999 Annual Report to Shareowners. Such information is incorporated herein by reference.

Information pertaining to the effects of the conversion to the European Union's common currency, the Euro, is contained under the caption "Conversion to the Euro Currency" in Management's Discussion and Analysis on page 20 of the 1999 Annual Report to Shareowners, and such information is incorporated herein by reference.

Marketing and Distribution

The company's products are sold primarily through the following distinct sales channels: (i) a direct sales force, (ii) JLK's FSS programs, (iii) retail showrooms, (iv) mail-order catalogs, (v) a network of independent distributors and sales agents in the United States and certain international markets, and (vi) the Internet. The company's manufactured products are sold to end users through a direct sales force and a network of independent distributors. Service engineers and technicians directly assist customers with product design, selection and application. In addition, Kennametal-manufactured products, together with a broad range of purchased products, are sold through JLK's FSS programs, retail showrooms, mail-order catalogs and the Internet.

The company's products are marketed under various trademarks and tradenames, such as Kennametal*, Hertel*, the letter K combined with other identifying letters and/or numbers*, Block Style K*, Kendex*, Kenloc*, KennaMAX*, Top Notch*, Erickson*, Kyon*, KM*, Drill-Fix*, Fix-Perfect*, Disston*, Chicago Latrobe*, Putnam*, Greenfield*, RTW* and Cleveland*. The company also sells products to customers who resell such products under the customers' names or private labels.

Raw Materials and Supplies

Major metallurgical raw materials consist of ore concentrates, compounds and secondary materials containing tungsten, tantalum, titanium, niobium and cobalt. Although these raw materials are in relatively adequate supply, major sources are located abroad and prices at times have been volatile. For these reasons, the company exercises great care in the selection, purchase and inventory availability of these materials. The company also purchases steel bars and forgings for making toolholders, high-speed steel and other tool parts, rotary cutting tools and accessories. Products purchased for use in manufacturing processes and for resale are obtained from thousands of suppliers located in the United States and abroad.

Research and Development

The company is involved in research and development of new products and processes. Research and development expenses totaled $18.8 million, $20.4 million and $24.1 million in 1999, 1998 and 1997, respectively. Additionally, certain costs associated with improving manufacturing processes are included in cost of goods sold. The company holds a number of patents and licenses, which, in the aggregate, are not material to the operation of the business.

The company has brought a number of new products to market during the past few years. These include metalcutting inserts and drills that incorporate innovative tool geometries or compositions for improved chip control and productivity as well as new mining and highway construction tools and toolholders. In 1999, the company introduced five new turning geometry families, representing over 150 specific insert sizes and shapes for the machining of low carbon, alloy, and stainless steels along with various high temp alloys. These inserts carry unique features indicating application ranges and size designations making selection of the proper insert customer friendly. New compositions introduced in the past year include KC5410*, an aluminum and magnesium alloy turning insert, KC9315*, a cast and ductile iron turning insert, and KC9215*, a turning insert used for finishing stainless steels.

Other metalworking products introduced by Kennametal include new grooving systems, zero-degree milling cutters and associated inserts, roughing and finishing carbide endmills for faster machining of steel, titanium and aluminum, and airframe milling cutters designed to improve machining dynamics and increase metalcutting rates for machining aluminum and titanium. In 1999, mining and construction introduced a quick-change toolholding system, which increases customer productivity by reducing part replacement while mining or asphalt milling.

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

Seasonality

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

Backlog

The company's backlog of orders generally is not significant to its operations. Approximately 90 percent of all orders are filled from stock, and the balance generally is filled within short lead times.

Competition

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

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

Regulation

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

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

The company maintains a Corporate Environmental, Health and Safety (EH&S) Department as well as an EH&S Policy Committee to ensure compliance with environmental regulations and to monitor and oversee remediation activities. In addition, the company has established an EH&S administrator at each of its domestic manufacturing facilities. The company's financial management team periodically meets with members of the Corporate EH&S Department and the Corporate Legal Department to review and evaluate the status of environmental

projects and contingencies. On a quarterly and annual basis, management establishes or adjusts financial provisions and reserves for environmental contingencies in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

Stock Issuances

On March 20, 1998, the company sold 3.45 million shares of common stock resulting in net proceeds of $171.4 million. The proceeds were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield.

On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of Class A Common Stock of JLK was consummated at a price of $20.00 per share. JLK operates the industrial supply operations consisting of the company's wholly owned J&L America, Inc. subsidiary and its FSS programs. The net proceeds from the offering were $90.4 million and represented the sale of approximately 20 percent of JLK's common stock. The net proceeds were used by JLK to repay $20.0 million of indebtedness related to a dividend to the company and $20.0 million related to intercompany obligations to the company incurred in 1997. The company used these proceeds to repay short-term debt. JLK used the remaining net proceeds of $50.4 million from the offering during 1998 to make acquisitions. The company's ownership in JLK increased to approximately 83 percent due to treasury stock purchases made by JLK since the IPO. The company currently intends to retain a majority of both the economic and voting interests of JLK.

Acquisitions

In November 1997, the company completed the acquisition of Greenfield for $1.0 billion. The company acquired all of Greenfield's outstanding common stock for $38.00 per share, and assumed outstanding debt and convertible securities of $320.0 million. Greenfield is a manufacturer of consumable cutting tools and related products used in a variety of industrial, electronics, energy and construction, engineered and consumer markets. The acquisition of Greenfield increased the company's market share in the high-speed rotary steel product markets.

Additionally, the company also has made several other acquisitions in 1999 and 1998 to expand its product offering and distribution channels. All acquisitions were accounted for using the purchase method of accounting.

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

Employees

The company employed approximately 13,640 persons at June 30, 1999, of which 9,310 were located in the United States and 4,330 in other parts of the world, principally Europe and Asia Pacific. Approximately 2,520 employees were represented by labor unions, of which 830 were hourly-rated employees located at six plants in the United States. The remaining 1,690 employees represented by labor unions were employed at twelve plants located outside of the United States. The company considers its labor relations to be generally good.

Corporate Directory

The following is a summary of the company's consolidated subsidiaries and affiliated companies as of June 30, 1999:

CONSOLIDATED SUBSIDIARIES (% OWNERSHIP, IF LESS THAN 100%)
Project Corporation de Argentina S.A., Argentina
Kennametal Australia Pty. Ltd., Australia
Kennametal Foreign Sales Corporation, Barbados
Kennametal Hertel do Brasil Ltda., Brazil
Kennametal Ltd., Canada
Kennametal Hertel Chile Ltda., Chile
Kennametal (China) Limited, China
Kennametal (Shanghai) Ltd., China
Kennametal Hardpoint (Shanghai) Ltd., China (90%)
Shanxi-Kennametal Mining Cutting Systems Manufacturing Company Limited, China (70%)
Xuzhou-Kennametal Mining Cutting Systems Manufacturing Company Limited, China (70%)
Kennametal Hertel AG, Germany (96%)
Kennametal Hardpoint, H.K. Ltd., Hong Kong (90%)
Kennametal Ca.Me.S., S.p.A., Italy (61%)
Kennametal Hertel Japan, Ltd., Japan
Kennametal Hertel (Malaysia) Sdn. Bhd., Malaysia
Kennametal de Mexico, S.A. de C.V., Mexico
Kennametal/Becker-Warkop Ltd., Poland (84%)
Kennametal Hertel (Singapore) Pte. Ltd., Singapore
Kennametal South Africa (Proprietary) Limited, South Africa
Kennametal Hertel Korea Ltd., South Korea
Kennametal Hardpoint (Taiwan) Inc., Taiwan (90%)
Kennametal Hertel Co., Ltd., Thailand (75%)
Adaptive Technologies Corp., United States
Circle Machine Company, United States
Greenfield Industries, Inc., United States
JLK Direct Distribution Inc., United States (83%)
Kennametal Financing II Corp., United States
Kennametal Receivables Corporation, United States

CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG (% OWNERSHIP, IF LESS THAN 100%)
Kennametal Hertel Belgium S.A., Belgium
Kennametal Hertel EDG Limited, England
Kennametal Hertel Limited, England
Kennametal Hertel France S.A., France
Kennametal Hertel G.m.b.H., Germany
Kennametal Hertel Korea G.m.b.H., Germany
Rubig G.m.b.H. & Co. K.G., Germany
Kennametal Hertel S.p.A., Italy (52%)
Kennametal Hertel Nederland B.V., Netherlands
Nederlandse Hardmetaal Fabrieken B.V., Netherlands
Kennametal Hertel Kesici Takimlar ve Sistemler Anonim Sirketi, Turkey (55%)

CONSOLIDATED SUBSIDIARIES OF JLK DIRECT DISTRIBUTION INC.
J&L America, Inc., United States

CONSOLIDATED SUBSIDIARIES OF J&L AMERICA, INC.
J&L Industrial Supply U.K., England (branch)
J&L Werkzeuge und Industriebedarf G.m.b.H., Germany
Abrasive & Tool Specialties Company, United States
GRS Industrial Supply Company, United States
Production Tools Sales, Inc., United States
Strong Tool Company, United States

CONSOLIDATED SUBSIDIARIES OF GREENFIELD INDUSTRIES, INC.
Greenfield Industries, Incorporated Canada, Canada
Cirbo Limited, England
Hanita Metal Works G.m.b.H., Germany
Kemmer Hartmetallwerkzeuge G.m.b.H., Germany
Kemmer Prazision G.m.b.H., Germany
Hanita Metal Works, Ltd., Israel
Kemmer-Cirbo S.r.L., Italy
Cleveland Twist Drill de Mexico, S.A. de C.V., Mexico
Greenfield Tools de Mexico, S.A. de C.V., Mexico
Herramientas Cleveland, S.A. de C.V., Mexico
Bassett Rotary Tool Company, United States
Carbidie Corporation, United States
Hanita Cutting Tools, Inc., United States
Kemmer International, Inc., United States
Rogers Tool Works, Inc., United States
South Deerfield Industrial, Inc., United States
TCM Europe, Inc., United States

AFFILIATED COMPANIES (% OWNERSHIP)
Kennametal Hertel G. Beisteiner G.m.b.H., Austria (26%)
Birla Kennametal Ltd., India (44%)
Kemmer Japan, Japan (29%)
Wilke Carbide B.V., Netherlands (50%)
PIGMA-Kennametal Joint Venture, Russia (49%)
Carbidie Asia Pacific Pte. Ltd., Singapore (50%)
Kenci, S.A., Spain (20%)
ISIS Informatics Limited, United Kingdom (20%)

ITEM 2. PROPERTIES

The company's principal executive offices are located at 1600 Technology Way, P.O. Box 231, Latrobe, Pennsylvania, 15650. Presented below is a summary of principal manufacturing facilities used by the company and its majority-owned subsidiaries.

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

Location	Owned/Leased	Principal Products
International:		
Victoria, Canada	Owned	Wear Parts
Shanghai, China	Owned	Metalworking Inserts
Shanxi, China	Owned	Mining Tools
Xuzhou, China	Owned	Mining Tools
Blaydon, England	Leased	Mining Tools
Bodmin, England	Owned	Circuit Board Drills and Routers
Kingswinford, England	Leased	Metalworking Toolholders
Sheffield, England	Leased	High Speed Steel Drills, Taps and End Mills
Bordeaux, France	Leased	Metalworking Cutting Tools
Ebermannstadt, Germany	Owned	Metalworking Inserts
Mistelgau, Germany	Owned	Metallurgical Powders, Metalworking Inserts and Wear Parts
Nabburg, Germany	Owned	Metalworking Toolholders
Schwabisch Gmund, Germany	Leased	Circuit Board Drills
Vohenstrauss, Germany	Owned	Metalworking Carbide Drills
Schlomi, Israel	Owned	High Speed Endmills
Milan, Italy	Owned	Metalworking Cutting Tools
Pachuca, Mexico	Owned	High Speed Steel Drills
Arnhem, Netherlands	Owned	Wear Products

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

During the fourth quarter of fiscal 1999, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

OFFICERS OF THE REGISTRANT

Name, Age, and Position	Experience During Past Five Years (2)
Markos I. Tambakeras, 48 (1) President and Chief Executive Officer Director	President and Chief Executive Officer since July 1, 1999. Formerly, employed by Honeywell Inc. as President of Industrial Controls Business from 1997 to 1999 and President, Industrial Automation and Control from 1995 to 1996.
William R. Newlin, 58 (1) Chairman of the Board	Chairman of the Board since October 1996. Director since 1982.
David B. Arnold, 60 (1) Vice President Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
James R. Breisinger, 49 (1) Vice President Chief Financial Officer	Vice President since 1990. Named Chief Financial Officer in September 1998. Chief Operating Officer, Greenfield Industries, Inc. from March through September 1998. Corporate Controller from 1994 to 1998.
David T. Cofer, 54 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Derwin R. Gilbreath, 51 (1) Vice President, Kennametal Inc. Chief Operating Officer, Greenfield Industries, Inc.	Vice President since January 1997. Elected Chief Operating Officer, Greenfield Industries in September 1998. Director of Global Manufacturing from 1995 to 1998. Director of North America Metalworking Manufacturing from 1994 to 1995.
Richard C. Hendricks, 60 (1) Vice President Director of Corporate Business Development	Vice President since 1982. Director of Corporate Business Development since 1992.
Timothy D. Hudson, 53 Vice President Director of Human Resources	Vice President since 1994. Director of Human Resources since 1992.
Brian E. Kelly, 36 Assistant Treasurer Director of Tax	Elected Assistant Treasurer and named Director of Tax in September 1998. Manager of Corporate Tax from 1996 to 1998. Formerly, Tax Consultant with Westinghouse Electric Corp. from 1995 to 1996.
Lawrence J. Lanza, 50 Assistant Treasurer Director of Treasury Services	Elected Assistant Treasurer and named Director of Treasury Services in April 1999. Previously, Director, Global Capital Markets for CBS Corporation, formerly Westinghouse Electric Corporation, from 1972 to 1998.

Name, Age, and Position	Experience During Past Five Years (2)
H. Patrick Mahanes, Jr., 56 (1) Vice President Chief Operating Officer	Vice President since 1987. Named Chief Operating Officer in 1995. Director of Operations from 1991 to 1995.
James E. Morrison, 48 Vice President Treasurer	Vice President since 1994. Treasurer since 1987.
Wayne D. Moser, 46 Vice President Director of Mining and Construction Division	Vice President since 1998. Director of Mining and Construction since 1997. Chief Financial Officer of Kennametal Hertel AG from 1993 to 1997.
Kevin G. Nowe, 47 Assistant Secretary Assistant General Counsel	Joined the company as Assistant General Counsel in 1992 and was elected Assistant Secretary in 1993.
Richard J. Orwig, 58 (1) President and Chief Executive Officer, JLK Direct Distribution Inc.	Named President and Chief Executive Officer of JLK Direct Distribution Inc. in September 1998. Elected a Vice President of Kennametal Inc. in 1987 and was Chief Financial and Administrative Officer of Kennametal Inc. from 1994 to 1998.
Ajita G. Rajendra, 47 Vice President, Kennametal Inc. Senior Vice President, Industrial Products Group, Greenfield Industries, Inc.	Elected Kennametal Vice President in 1998. Vice President of Greenfield's Industrial Products Group since 1997. Vice President of Greenfield's Electronic Products Group from 1996 to 1997. Previously, in various positions with Corning, Inc. from 1978 to 1996.
P. Mark Schiller, 51 Vice President Director of Kennametal Distribution Services	Vice President since 1992. Director of Kennametal Distribution Services since 1990.
Lawrence L. Shrum, 58 Vice President Director of Global Management Information Systems	Vice President since January 1997. Named Director of Global Management Information Systems in 1994.

Name, Age, and Position	Experience During Past Five Years (2)
Frank P. Simpkins, 36 Corporate Controller and Chief Accounting Officer	Named Corporate Controller and Chief Accounting Officer in October 1998. Manager, External Reporting and Investor Relations from 1995 to 1998. Formerly, Senior Audit Manager with Coopers & Lybrand LLP from 1986 to 1995.
A. David Tilstone, 45 (1) Vice President Director of Global Marketing	Vice President since July 1997. Named Director of Global Marketing in April 1997. Director of Asia Pacific Operations from 1995 to 1997. Manager of Business Development from 1994 to 1995.

Notes:

(1) Executive officer of the Registrant.

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

PART II

The information required under Items 5 through 8 is included in the 1999 Annual Report to Shareowners and such information is incorporated herein by reference as indicated by the following table.

		Incorporated by Reference to Captions and Pages of the 1999 Annual Report
ITEM 5.	Market for the Registrant's Capital Stock and Related Shareowner Matters	Quarterly Financial Information (Unaudited) on page 42. Stock Issuances on page 29.
ITEM 6.	Selected Financial Data	Eleven-Year Financial Highlights (information with respect to the years 1995 to 1999) on pages 44 and 45.
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion & Analysis on pages 11 to 21.
ITEM 7a.	Quantitative and Qualitative Disclosure About Market Risk	Management's Discussion & Analysis on pages 18 and 19, and Financial Instruments on pages 36 and 37.
ITEM 8.	Financial Statements and Supplementary Data	Item 14(a) 1 herein and Quarterly Financial Information (Unaudited) on page 42.
ITEM 9.	Changes in and Disagreements on Accounting and Financial Disclosure	Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information set forth in Part I under the caption "Officers of the Registrant" and the information set forth under the caption "Election of Directors" in the company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after June 30, 1999 ("1999 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference is the information set forth under the caption "Compensation of Executive Officers" and certain information regarding directors' fees under the caption "Board of Directors and Board Committees" in the 1999 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the information set forth under the caption "Ownership of Capital Stock by Directors, Nominees and Executive Officers" with respect to the directors' and officers' shareholdings and under the caption "Principal Holders of Voting Securities" with respect to other beneficial owners in the 1999 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the tables under the captions "Election of Directors" and "Compensation of Executive Officers" in the 1999 Proxy Statement.

PART IV

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

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

1. Financial Statements

   The consolidated balance sheets as of June 30, 1999 and 1998, the consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended June 30, 1999, and the notes to consolidated financial statements, together with the report thereon of Arthur Andersen LLP dated July 20, 1999, presented in the company's 1999 Annual Report to Shareowners, are incorporated herein by reference.

2. Financial Statement Schedule

   The financial statement schedule shown below should be read in conjunction with the consolidated financial statements contained in the 1999 Annual Report to Shareowners. Other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

   Separate financial statements of the company are omitted because the company is primarily an operating company, and all significant subsidiaries included in the consolidated financial statements are wholly owned, with the exception of Kennametal Hertel AG, in which the company has a 96 percent interest, and JLK Direct Distribution Inc., in which the company has an 83 percent interest.

Financial Statement Schedule:	Page
Report of Independent Public Accountants	22
Schedule II - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1999	23

3. Exhibits

(2)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	
(2.1)	Agreement and Plan of merger by and among Kennametal Inc., Kennametal Acquisition Corp. (formerly, Palmer Acquisition Corp.) and Greenfield Industries, Inc. dated as of October 10, 1997	Exhibit (c)(1) of the company's Schedule 14D-1 (SEC file no. reference no. 1-5318; docket entry date - October 17, 1997) is incorporated herein by reference.
(3)	Articles of Incorporation and Bylaws	
(3.1)	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.

(3.2)	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q (SEC file no. reference 1-5318; docket entry date - May 14, 1991) is incorporated herein by reference.
(4)	Instruments Defining the Rights of Security Holders, Including Indentures	
(4.1)	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 (SEC file no. reference 1-5318; docket entry date - November 1, 1990) is incorporated herein by reference.
(10)	Material Contracts	
(10.1)*	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1999 Proxy Statement is incorporated herein by reference.
(10.2)*	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
(10.3)*	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.4)*	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
(10.5)*	Directors Stock Incentive Plan, as amended	Filed herewith.
(10.6)*	Performance Bonus Stock Plan of 1995, as amended	Filed herewith.
(10.7)*	Stock Option and Incentive Plan of 1996	Exhibit 10.14 of the company's September 30, 1996 Form 10-Q is incorporated herein by reference.

- ---
* Denotes management contract or compensatory plan or arrangement.

(10.8)*	Stock Option and Incentive Plan of 1992, as amended	Exhibit 10.8 of the company's December 31, 1996 Form 10-Q is incorporated herein by reference.
(10.9)*	Form of Employment Agreement with Named Executive Officers (other than Mr. McGeehan)	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(10.10)*	Supplemental Executive Retirement Plan, as amended	Filed herewith.
(10.11)	Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 17, 1997	Exhibit 10.2 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.
(10.12)	Guaranty and Suretyship Agreement with Mellon Bank, N.A. dated November 17, 1997	Exhibit 10.3 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.
(10.13)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 26, 1997	Exhibit 10.18 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
(10.14)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 19, 1997	Exhibit 10.19 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
(10.15)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 19, 1998	Exhibit 10.20 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
(10.16)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 15, 1998	Exhibit 10.1 of the company's December 31, 1998 Form 10-Q is incorporated herein by reference.
(10.17)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 31, 1999	Exhibit 10.1 of the company's March 31, 1999 Form 10-Q is incorporated herein by reference.
(10.18)*	Executive Employment Agreement dated May 4, 1999 between Kennametal Inc. and Markos I. Tambakeras	Exhibit 10.1 of the company's June 11, 1999 Form 8-K is incorporated herein by reference.
(10.19)*	Kennametal Inc. 1999 Stock Plan	Exhibit 10.5 of the company's June 11, 1999 Form 8-K is incorporated herein by reference.

- ---
* Denotes management contract or compensatory plan or arrangement.

(13)	Annual Report to Shareowners	Portions of the 1999 Annual Report are filed herewith.
(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Public Accountants	Filed herewith.
(27)	Financial Data Schedule	Filed herewith.

(b) Reports on Form 8-K.

A report on Form 8-K, containing Items 5 and 7, was filed on June 11, 1999 regarding an Executive Employment Agreement, and other related agreements, with Markos I. Tambakeras, pursuant to which Mr. Tambakeras will serve as President and Chief Executive Officer of Kennametal Inc. and a member of the Board of Directors, effective July 1, 1999.

SIGNATURES

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

KENNAMETAL INC.

By /s/ Frank P. Simpkins

Frank P. Simpkins
Corporate Controller and
Chief Accounting Officer

Date: September 21, 1999

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

SIGNATURE	TITLE	DATE
/s/ William R. Newlin William R. Newlin	Chairman of the Board	September 21, 1999
/s/ Markos I. Tambakeras Markos I. Tambakeras	President, Chief Executive Officer and Director	September 21, 1999
/s/ James R. Breisinger James R. Breisinger	Vice President and Chief Financial Officer	September 21, 1999

SIGNATURE	TITLE	DATE
/s/ Richard C. Alberding Richard C. Alberding	Director	September 21, 1999
/s/ Peter B. Bartlett Peter B. Bartlett	Director	September 21, 1999
/s/ A. Peter Held A. Peter Held	Director	September 21, 1999
/s/ Warren H. Hollinshead Warren H. Hollinshead	Director	September 21, 1999
/s/ Timothy S. Lucas Timothy S. Lucas	Director	September 21, 1999
/s/ Robert L. McGeehan Robert L. McGeehan	Director	September 21, 1999
/s/ Aloysius T. McLaughlin, Jr. Aloysius T. McLaughlin, Jr.	Director	September 21, 1999
/s/ Larry Yost Larry Yost	Director	September 21, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareowners of
Kennametal Inc.

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in Kennametal Inc.'s annual report to shareowners incorporated by reference in this Form 10-K, and have issued our report thereon dated July 20, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index in Item 14-(a)2 of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
July 20, 1999

KENNAMETAL INC. SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED JUNE 30, 1999

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions			Deductions from Reserves	Balance at End of Year
		Charged to Costs and Expenses	Recoveries	Other Adjustments(a)		
1999						
Allowance for doubtful accounts	$ 11,974	$ 8,230	$ 365	$ (398)	$ 4,902 (b)	$15,269
Restructuring and asset impairment charges	$ --	$20,837	$ --	$ --	$17,270 (c)	$ 3,567
1998						
Allowance for doubtful accounts	$ 7,325	$ 2,453	$ 336	$ 5,061	$ 3,201 (b)	$11,974
1997						
Allowance for doubtful accounts	$ 9,296	$ 1,979	$ 136	$ (546)	$ 3,540 (b)	$ 7,325

(a) Represents foreign currency translation adjustment and reserves acquired through business combinations.
(b) Represents uncollected accounts charged against the allowance.
(c) Represents asset write-downs, non-cash adjustments and cash expenditures charged against the accrual.

EXHIBIT INDEX

Exhibit No.		Reference
2.1	Agreement and Plan of merger by and among Kennametal Inc., Kennametal Acquisition Corp. (formerly, Palmer Acquisition Corp.) and Greenfield Industries, Inc. dated as of October 10, 1997	Exhibit (c)(1) of the company's Schedule 14D-1 (SEC file no. reference no. 1-5318; docket entry date - October 17, 1997) is incorporated herein by reference.
3.1	Amended and Restated Articles of Incorporation as Amended	Exhibit 3.1 of the company's September 30, 1994 Form 10-Q is incorporated herein by reference.
3.2	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q (SEC file no. reference 1-5318; docket entry date - May 14, 1991) is incorporated herein by reference.
4.1	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 (SEC file no. reference 1-5318; docket entry date - November 1, 1990) is incorporated herein by reference.
10.1	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1999 Proxy Statement is incorporated herein by reference.
10.2	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
10.3	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
10.4	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K (SEC file no. reference 1-5318; docket entry date - September 23, 1988) is incorporated herein by reference.
10.5	Directors Stock Incentive Plan, as amended	Filed herewith.
10.6	Performance Bonus Stock Plan of 1995, as amended	Filed herewith.

Exhibit No.		Reference
10.7	Stock Option and Incentive Plan of 1996	Exhibit 10.14 of the company's September 30, 1996 Form 10-Q is incorporated herein by reference.
10.8	Stock Option and Incentive Plan of 1992, as amended	Exhibit 10.8 of the company's December 31, 1996 Form 10-Q is incorporated herein by reference.
10.9	Form of Employment Agreement with Named Executive Officers (other than Mr. McGeehan)	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
10.10	Supplemental Executive Retirement Plan, as amended	Filed herewith.
10.11	Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 17, 1997	Exhibit 10.2 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.
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10.13	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 26, 1997	Exhibit 10.18 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
10.14	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 19, 1997	Exhibit 10.19 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
10.15	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 19, 1998	Exhibit 10.20 of the company's June 30, 1998 Form 10-K is incorporated herein by reference.
10.16	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 15, 1998	Exhibit 10.1 of the company's December 31, 1998 Form 10-Q is incorporated herein by reference.
10.17	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 31, 1999	Exhibit 10.1 of the company's March 31, 1999 Form 10-Q is incorporated herein by reference.
10.18	Executive Employment Agreement dated May 4, 1999 between Kennametal Inc. and Markos I. Tambakeras	Exhibit 10.1 of the company's June 11, 1999 Form 8-K is incorporated herein by reference.
10.19	Kennametal Inc. 1999 Stock Plan	Exhibit 10.5 of the company's June 11, 1999 Form 8-K is incorporated herein by reference.

Exhibit No.		Reference
13	Annual Report to Shareowners	Portions of the 1999 Annual Report are filed herewith.
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Independent Public Accountants	Filed herewith.
27	Financial Data Schedule	Filed herewith.

EXHIBIT 10.5

KENNAMETAL INC.
DIRECTORS STOCK INCENTIVE PLAN

(AS AMENDED THROUGH JULY 26, 1999)

ARTICLE I
GENERAL PROVISIONS

SECTION 1.1. ESTABLISHMENT AND PURPOSE. There is hereby established the Kennametal Inc. Directors Stock Incentive Plan (the "Plan") pursuant to which each director of Kennametal Inc. (the "Company") or of a Qualifying Subsidiary (as hereinafter defined) who is not an employee of the Company or any of its subsidiaries (a "Non-Employee Director") shall be eligible: (a) to elect to receive shares of the Company's capital stock, par value $1.25 per share (the "Capital Stock"), in lieu of cash compensation; and (b) through an election to defer receipt of any compensation to be earned by such Non-Employee Director made under the Kennametal Inc. Deferred Fee Plan for Outside Directors or the deferred compensation plan of such Qualifying Subsidiary (the "Deferred Compensation Plan"), to have Kennametal Stock Credits or JLK Stock Credits (as hereinafter defined) credited to an account established for such Non-Employee Director by the Company. The purpose of the Plan is to assist the Company in attracting, retaining and motivating highly qualified Non-Employee Directors and to promote identification of, and align Non-Employee Directors' interests more closely with, the interests of the stockholders of the Company.

SECTION 1.2. DEFINITIONS. In addition to the terms previously or hereafter defined herein, the following terms when used herein shall have the meanings set forth below:

"Board" shall mean the Board of Directors of the Company.

"Committee" shall mean the committee of the Board appointed by the Board to administer the Plan. Unless otherwise determined by the Board, the Committee shall be the Committee on Executive Compensation of the Board.

"Company Stock Credit" shall mean a credit that is equivalent to one share of Capital Stock.

"Compensation" shall mean all remuneration paid to a Non-Employee Director for service as such that is not deferred pursuant to the Deferred Compensation Plan.

"Deferred Compensation" shall mean all remuneration paid to a Non-Employee Director for service as such that is deferred pursuant to the Deferred Compensation Plan.

"Fair Market Value" shall mean: (a) with respect to Capital Stock, as of any date, the mean of the highest and lowest sales prices for the Capital Stock as reported in the New York Stock Exchange--Composite Transactions reporting system for the date in question or, if no sales were effected on such date, on the next preceding date on which sales were effected; and (b)

with respect to Class A Common Stock of JLK Direct Distribution Inc. ("JLK"), as of any date, the mean of the highest and lowest sales prices for the Class A Common Stock of JLK as reported in the New York Stock Exchange--Composite Transactions reporting system for the date in question or, if no sales were effected on such date, on the next preceding date on which sales were effected.

"JLK Stock Credit" shall mean a credit that is equivalent to one share of Class A Common Stock of JLK.

"Plan Year" shall mean the twelve-month period beginning January 1 and ending December 31 in any particular year.

"Qualifying Subsidiary" shall mean JLK and any other direct or indirect subsidiary of the Company which has been designated as being eligible to participate in the Plan by the Committee.

"Stock Credit" shall mean either a Company Stock Credit or a JLK Stock Credit, as the case may be.

SECTION 1.3. ADMINISTRATION. The Plan shall be administered by the Committee. The Committee shall serve at the pleasure of the Board of Directors. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members of the Committee present at any meeting at which a quorum is present, or acts approved in writing by a majority of the members of the Committee, shall be deemed the acts of the Committee. The Committee is authorized to interpret and construe the Plan, to make all determinations and take all other actions necessary or advisable for the administration of the Plan, and to delegate to employees of the Company or any subsidiary the authority to perform administrative functions under the Plan; provided, however, that the Committee shall have no authority to determine the persons entitled to receive Capital Stock or Stock Credits under the Plan nor the timing, amount or price of Capital Stock or Stock Credits issued under the Plan.

SECTION 1.4. ELIGIBILITY. An individual who is a Non-Employee Director shall be eligible to participate in the Plan.

SECTION 1.5. CAPITAL STOCK SUBJECT TO THE PLAN. The maximum number of shares of Capital Stock that may be issued pursuant to the Plan is 75,000. Capital Stock to be issued under the Plan may be either authorized and unissued shares of Capital Stock or shares of Capital Stock held in treasury by the Company.

ARTICLE II
ELECTIONS AND DISTRIBUTIONS

SECTION 2.1. ELECTIONS TO RECEIVE CAPITAL STOCK FROM COMPENSATION. Any Non-Employee Director may elect to receive Capital Stock under this Plan in lieu of all or a portion of the Compensation otherwise payable to such Non-Employee Director in any Plan Year beginning

with the Plan Year commencing January 1, 1993 (a "Stock Acquisition Election"). If a Non-Employee Director makes a Stock Acquisition Election, the Non-Employee Director shall receive, on the date that the Compensation otherwise would have been paid, the number of shares of Capital Stock that could have been purchased on that date based on the amount of Compensation subject to the Stock Acquisition Election and the Fair Market Value of the Capital Stock on that date, rounded up to the nearest whole share. In the absence of a Stock Acquisition Election, all Compensation shall be paid to the Non-Employee Director in cash in accordance with the Company's policies and procedures. Certificates for Capital Stock acquired by the Non-Employee Director pursuant to a Stock Acquisition Election shall be issued quarterly following the period during which such Capital Stock is acquired, as provided above.

SECTION 2.2. ELECTIONS TO RECEIVE COMPANY STOCK CREDITS FROM DEFERRED COMPENSATION. Any Non-Employee Director may elect to receive Company Stock Credits under this Plan in any Plan Year with respect to all or a portion of the Deferred Compensation credited to the Non-Employee Director in that Plan Year, beginning with the Plan Year commencing January 1, 1993 (a "Company Stock Credit Election"). If a Non-Employee Director makes a Company Stock Credit Election, an account established for the Non-Employee Director and maintained by the Company shall be credited with that number of Company Stock Credits equal to the number of shares of Capital Stock (including fractions of a share to four decimal places) that could have been purchased with the amount of Deferred Compensation subject to a Company Stock Credit Election based on the Fair Market Value of the Capital Stock on the day that the Deferred Compensation is credited under the Deferred Compensation Plan. A Company Stock Credit Election shall be valid in any period only if the Non-Employee Director has elected to participate in the Deferred Compensation Plan for such period.

SECTION 2.3. ELECTIONS TO RECEIVE JLK STOCK CREDITS FROM DEFERRED COMPENSATION. Any Non-Employee Director may elect to receive JLK Stock Credits under this Plan in any Plan Year with respect to all or a portion of the Deferred Compensation credited to the Non-Employee Director in that Plan Year (a "JLK Stock Credit Election"). If a Non-Employee Director makes a JLK Stock Credit Election, an account established for the Non-Employee Director and maintained by the Company shall be credited with that number of JLK Stock Credits equal to the number of shares of Class A Common Stock of JLK (including fractions of a share to four decimal places) that could have been purchased with the amount of Deferred Compensation subject to a JLK Stock Credit Election based on the Fair Market Value of the Class A Common Stock of JLK on the day that the Deferred Compensation is credited under the Deferred Compensation Plan. A JLK Stock Credit Election shall be valid in any period only if the Non-Employee Director has elected to participate in the Deferred Compensation Plan for such period.

SECTION 2.4. TERMS AND CONDITIONS OF ELECTIONS. A Stock Acquisition Election, Company Stock Credit Election or a JLK Stock Credit Election (an "Election") shall be subject to the following terms and conditions:

(a) An Election shall be in writing and shall be irrevocable; and

(b) An Election may be made on or before December 31, 1992, to take effect on January 1, 1993; thereafter, an Election shall be effective for any Plan Year only if made on or prior to the June 30 immediately preceding the commencement of such Plan Year, provided, however, that with respect to any JLK Stock Credit Election by a director of JLK with respect to the Plan Year ending December 31, 1997, an Election may be made prior to the time that the Director is entitled to payment of compensation for such period and shall be effective when made; and

(c) An Election shall remain in effect for all future Plan Years unless terminated or changed pursuant to an Election made on or prior to June 30 to take effect for the next Plan Year.

SECTION 2.5. ADJUSTMENT OF STOCK CREDIT ACCOUNTS.

(a) Cash Dividends--As of the date that any cash dividend is paid to stockholders of the Company or JLK, the applicable Stock Credit account of the Non-Employee Director shall be credited with additional Stock Credits equal to the number of shares of stock underlying such Stock Credit (including fractions of a share to four decimal places) that could have been purchased on that date with the dividends paid on the underlying shares based on the Fair Market Value of the Capital Stock or JLK Class A Common Stock, as the case may be, on that date.

(b) Stock Dividends--In the event that a stock dividend shall be paid upon the stock underlying the Stock Credit Account, the number of Stock Credits in the Non-Employee Director's applicable Stock Credit account shall be adjusted by adding thereto additional Stock Credits equal to the number of shares of the underlying stock which would have been distributable on such stock represented by Stock Credits if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend.

(c) Other Adjustments--In the event that the outstanding shares of Capital Stock or Class A Common Stock of JLK, as the case may be, shall be changed into or exchanged for a different number or kind of shares of stock or other securities whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted, for the shares of stock underlying the Stock Credits, the number and kind of shares of stock or other securities which would have been substituted therefor if the underlying shares had been outstanding on the date fixed for determining the stockholders entitled to receive such changed or substituted stock or other securities.

In the event there shall be any change, other than specified in this Section 2.5, in the number or kind of outstanding shares of stock underlying the Stock Credits or of any stock or other securities into which such underlying capital stock shall be changed or for which it shall have been exchanged, then, if the Board of Directors shall determine, in its discretion, that such change equitably requires an adjustment in the number of Stock Credits,

such adjustment shall be made by the Board of Directors and shall be effective and binding for all purposes of the Plan and on each outstanding Stock Credit account.

SECTION 2.6. CHANGE IN CONTROL. In the event of any threatened or actual change in control of the Company, issued and outstanding shares of Capital Stock shall be substituted for the Company Stock Credits in each Non-Employee Director's Stock Credit account, and such Capital Stock shall be transferred and delivered to such Non-Employee Director and the value of JLK Stock Credits in each Non-Employee Director's Stock Credit account shall be paid to such Non-Employee Director in cash.

SECTION 2.7. DISTRIBUTION OF COMPANY STOCK CREDITS. Unless a Non-Employee Director has selected a different payment option as set forth below, as soon as practicable following the date that such Non-Employee Director ceases (other than by reason of such Non-Employee Director's death) to be a Non-Employee Director (hereinafter, "retirement"), the Company shall issue to such Non-Employee Director that number of shares of Capital Stock equal to the whole number of Company Stock Credits in such Non-Employee Director's Company Stock Credit account and cash equal to the fractional Company Stock Credits in such account multiplied by the Fair Market Value of the Capital Stock as of the date of retirement. A Non-Employee Director may elect to receive the Capital Stock represented by the Company Stock Credits in such Non-Employee Director's Company Stock Credit account in monthly or annual installments beginning after retirement from the Board by written notification to the Company of such elected payment option and may modify any such election by a subsequent written notification to the Company; provided, however, that the Company shall be required to effect any such written notification only if submitted to the Company no fewer than twelve months prior to such Non-Employee Director's retirement from the Board. Notwithstanding the foregoing, the Committee, in its sole discretion, shall have the right to pay a Non-Employee Director a cash amount equal to the value of the Company Stock Credits, in lieu of distributing Capital Stock.

SECTION 2.8. DISTRIBUTION OF JLK STOCK CREDITS. Unless a Non-Employee Director has selected a different payment option as set forth below, as soon as practicable following the retirement of such Non-Employee Director, the Company shall pay the Non-Employee Director a cash amount equal to the value of JLK Stock Credits in such Non-Employee Director's account. A Non-Employee Director may elect to receive the Capital Stock represented by the JLK Stock Credits in such Non-Employee Director's JLK Stock Credit account in monthly or annual installments beginning after retirement from the Board by written notification to the Company of such elected payment option and may modify any such election by a subsequent written notification to the Company; provided, however, that the Company shall be required to effect any such written notification only if submitted to the Company no fewer than twelve months prior to such Non-Employee Director's retirement from the Board.

SECTION 2.9. DISTRIBUTIONS ON DEATH. In the event of the death of a Non-Employee Director, whether before or after cessation of service as a Non-Employee Director, the Stock Credit account to which he or she was entitled shall be converted to cash and distributed in a lump sum to such person or persons or the survivors thereof, including corporations, unincorporated associates or trusts, as the Non-Employee Director may have designated. All

such designations shall be made in writing, signed by the Non-Employee Director and delivered to the Company. A Non-Employee Director may from time to time revoke or change any such designation by written notice to the Company. If there is no unrevoked designation on file with the Company at the time of the Non-Employee Director's death, or if the person or persons designated therein shall have all predeceased the Non-Employee Director or otherwise ceased to exist, such distributions shall be made to the Non-Employee Director's estate. Any distribution under this Section 2.9 shall be made as soon as practicable following notification to the Company of the Non-Employee Director's death. In any case in which the Non-Employee Director's Stock Credit account is to be converted to cash pursuant to this Section 2.9, such cash amount shall be determined by multiplying the number of whole and fractional shares of Capital Stock or Class A Common Stock of JLK, as the case may be, to which the Non-Employee Director's Stock Credit account is equivalent by the Fair Market Value of the shares underlying such account on the date of death.

SECTION 2.10. CONVERSION OF DEFERRED COMPENSATION TO STOCK CREDITS. The Committee may, in its discretion, permit a Non-Employee Director to convert Deferred Compensation already credited to such Non-Employee Director's cash account to Stock Credits (a "Conversion Election"). Any such election and the related conversion shall occur only during specified periods designated by the Committee and shall become effective on the date such election is delivered to the Company. If a Non-Employee Director makes a Conversion Election, such Non-Employee Director's Stock Credit account will be credited with that number of Stock Credits equal to the number of shares of Capital Stock or JLK Class A Common Stock, as the case may be, underlying the Stock Credit Account (including fractions of a share to four decimal places) that could have been purchased with the amount of Deferred Compensation subject to the Conversion Election based on the Fair Market Value of the underlying stock on the day that the Conversion Election is made.

ARTICLE III
MISCELLANEOUS PROVISIONS

SECTION 3.1. AMENDMENT AND DISCONTINUANCE. The Board of Directors may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto. The Board of Directors may, in its discretion, submit any proposed amendment to the Plan to the stockholders of the Company for approval and shall submit proposed amendments to the Plan to the stockholders of the Company for approval if such approval is required in order for the Plan to comply with Rule 16b-3 of the Exchange Act (or any successor rule).

SECTION 3.2. COMPLIANCE WITH GOVERNMENTAL REGULATIONS. Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Company shall not be required to issue any shares hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Exchange Act, if such registration shall be necessary, or before compliance by the Company or any participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange

Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of the New York Stock Exchange, Inc. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

SECTION 3.3. COMPLIANCE WITH SECTION 16. With respect to persons subject to Section 16 of the Exchange Act in relation to the Company, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or its successor rule). To the extent that any provision of the Plan or any action by the Board of Directors or the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and to the extent deemed advisable by the Committee.

SECTION 3.4. NON-ALIENATION OF BENEFITS. No right or interest of a Non-Employee Director in a Stock Credit account under the Plan may be sold, assigned, transferred, pledged, encumbered or otherwise disposed of except as expressly provided in the Plan; and no interest or benefit of any Non-Employee Director under the Plan shall be subject to the claims of creditors of the Non-Employee Director.

SECTION 3.5. WITHHOLDING TAXES. To the extent required by applicable law or regulation, each Non-Employee Director must arrange with the Company for the payment of any federal, state or local income or other tax applicable to the receipt of Capital Stock or Stock Credits under the Plan before the Company shall be required to deliver to the Non-Employee Director cash or a certificate for Capital Stock free and clear of all restrictions under the Plan, as the case may be.

SECTION 3.6. FUNDING. Except as provided in Section 2.6 hereof, no obligation of the Company under the Plan shall be secured by any specific assets of the Company, nor shall any assets of the Company be designated as attributable or allocated to the satisfaction of any such obligation. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of any unsecured creditor of the Company.

SECTION 3.7. GOVERNING LAW. The Plan shall be governed by and construed and interpreted in accordance with the internal laws of the Commonwealth of Pennsylvania.

SECTION 3.8. EFFECTIVE DATE OF PLAN. The Plan became effective upon approval and adoption of the Plan by the holders of a majority of the outstanding shares of Capital Stock of the Company at the 1992 annual meeting of stockholders.

EXHIBIT 10.6

KENNAMETAL INC.

PERFORMANCE BONUS STOCK PLAN OF 1995
(AS AMENDED ON JULY 26, 1999)

ARTICLE I
GENERAL PROVISIONS

SECTION 1.1. ESTABLISHMENT AND PURPOSE. There is hereby established the Kennametal Inc. (the "Corporation") Performance Bonus Stock Plan of 1995 (the "Plan") pursuant to which each participant in a Management Performance Bonus Plan (as defined herein) or a recipient of any other bonus award designated by the Committee (as defined herein) shall be eligible: (a) to elect to receive shares of the Corporation's capital stock, par value $1.25 per share (the "Capital Stock"), in lieu of cash bonus compensation; and/or (b) through an election to defer receipt of compensation to be earned by such participant made under any Corporation deferred compensation plan or arrangement ("Deferred Compensation Plan"), to have Stock Credits (as hereinafter defined) credited to an account ("Stock Credit Account") established for such participant by the Corporation. The purposes of the Plan are to provide an incentive to Corporation executives to increase their ownership of Capital Stock and to promote this goal by establishing stock as an alternative method by which managers and/or senior executives may elect to be compensated.

SECTION 1.2. DEFINITIONS. In addition to the terms previously or hereafter defined herein, the following terms when used herein shall have the meaning set forth below:

"BOARD" shall mean the Board of Directors of the Corporation.

"BONUS COMPENSATION" shall mean all remuneration designated as bonus compensation that is earned by a Participant (as defined below) pursuant to a Management Performance Bonus Plan or any other bonus award designated by the Committee.

"COMMITTEE" shall mean the committee of the Board appointed by the Board to administer the Plan. Unless otherwise determined by the Board, the Committee shall be the Committee on Executive Compensation of the Board.

"DEFERRED BONUS COMPENSATION" shall mean all Bonus Compensation that is deferred by a Participant pursuant to a Deferred Compensation Plan.

"FAIR MARKET VALUE" shall mean, as of any date, the average of the highest and lowest sales prices for the Capital Stock as reported in the New York Stock Exchange - Composite Transactions reporting system for the date in question or, if no sales were effected on such date, on the next preceding date on which sales were effected.

"MANAGEMENT PERFORMANCE BONUS PLAN" shall mean any performance-based bonus compensation plan for management and/or senior executives of the Corporation or its subsidiaries which the Committee has determined to be then eligible for participation in the Plan.

"NON-DEFERRED BONUS COMPENSATION" shall mean all Bonus Compensation that is not deferred by a Participant pursuant to a Deferred Compensation Plan.

"PARTICIPANT" shall mean any employee of the Corporation or any of its subsidiaries who is eligible to participate in a Management Performance Bonus Plan.

"PLAN YEAR" shall mean the Corporation's fiscal year.

"STOCK CREDIT" shall mean a credit that is equivalent to one share of Capital Stock.

SECTION 1.3. ADMINISTRATION. The Plan shall be administered by the Committee. The Committee shall serve at the pleasure of the Board. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members of the Committee present at any meeting at which a quorum is present, or acts approved in writing by a majority of the members of the Committee, shall be deemed the acts of the Committee. The Committee is authorized to interpret and construe the Plan, to make all determinations and take all other actions necessary or advisable for the administration of the Plan, and to delegate to employees of the Corporation or any subsidiary the authority to perform administrative functions under the Plan.

SECTION 1.4. ELIGIBILITY. An individual who is a participant in a Management Performance Bonus Plan or who receives any other bonus award designated by the Committee shall be eligible to participate in the Plan. Notwithstanding the foregoing, in the event that the Bonus Compensation payable with respect to a Plan Year is less than One Thousand U.S. Dollars ($1,000), or the equivalent if payable in another currency, then such individual shall not be eligible to participate in the Plan for such Plan Year and any Bonus Compensation shall be paid in cash.

SECTION 1.5. CAPITAL STOCK SUBJECT TO THE PLAN. The maximum number of shares of Capital Stock that may be issued pursuant to the Plan is 750,000. Capital Stock to be issued under the Plan may be either authorized and unissued shares of Capital Stock or shares of Capital Stock held in treasury by the Corporation.

ARTICLE II
ELECTIONS AND DISTRIBUTIONS

SECTION 2.1. ELECTIONS TO RECEIVE CAPITAL STOCK FROM COMPENSATION. Any Participant may elect to receive Capital Stock under this Plan in lieu of all or a portion of the Non-Deferred Bonus Compensation otherwise payable to such Participant in any Plan Year beginning with the Plan Year commencing July 1, 1995 (a "Stock Acquisition Election"); provided, however, that the percentage amount of Bonus Compensation subject to such an election must be in increments of ten percent (10%) and may not be less than ten percent (10%) of the Bonus Compensation earned by the Participant with respect to the Plan Year or other bonus award designated by the Committee, or relate to Bonus Compensation below One Thousand U.S. Dollars ($1,000), or the equivalent if payable in another currency. If a Participant makes a Stock Acquisition Election, the Participant shall receive, as of the date that the Bonus Compensation otherwise would have been paid: (i) the number of shares of Capital Stock that could have been purchased on that date based on the amount of Bonus Compensation subject to the Stock Acquisition Election and the Fair Market Value of the Capital Stock on that date, rounded to the nearest whole share; and (ii) a number of shares of Capital Stock equal to the product of the number of shares awarded pursuant to Section 2.1(i) above multiplied by a percentage amount to be determined by the Committee (the "Stock Premium Percentage") rounded to the nearest whole share. The Stock Premium Percentage shall not exceed twenty-five percent (25%). In the absence of a Stock Acquisition Election, all Bonus Compensation not deferred as Stock Credits pursuant to Section 2.2 hereof or otherwise deferred pursuant to a Deferred Compensation Plan shall be paid to the Participant in cash in accordance with the Corporation's policies and procedures. Certificates for

Capital Stock acquired by the Participant pursuant to a Stock Acquisition Election shall be issued as soon as practicable following the award of Bonus Compensation.

SECTION 2.2. ELECTIONS TO RECEIVE STOCK CREDITS FROM DEFERRED COMPENSATION. Any Participant may elect to receive Stock Credits under this Plan with respect to all or a portion of the Deferred Bonus Compensation credited to the Participant in any Plan Year beginning with the Plan Year commencing July 1, 1995 (a "Stock Credit Election"); provided, however, that the percentage amount of Bonus Compensation subject to such an election must be in increments of ten percent (10%) and may not be less than 10% of the total Bonus Compensation earned by the Participant with respect to a Plan Year or other bonus award designated by the Committee, or relate to Bonus Compensation below One Thousand U.S. Dollars ($1,000), or the equivalent if payable in another currency. If a Participant makes a Stock Credit Election, a Stock Credit Account established for the Participant and maintained by the Corporation shall be credited with: (i) that number of Stock Credits equal to the number of shares of Capital Stock (including fractions of a share to four decimal places) that could have been purchased with the amount of Deferred Bonus Compensation subject to a Stock Credit Election based on the Fair Market Value of the Capital Stock on the date that the Bonus Compensation would otherwise have been paid if it had not been deferred; and (ii) that number of Stock Credits equal to the product of the number of Stock Credits awarded pursuant to Section 2.2(i) above multiplied by a percentage amount to be determined annually by the Committee, which percentage may be different from the Stock Premium Percentage (the "Stock Credit Premium Percentage"). The Stock Credit Premium Percentage shall not exceed twenty-five percent (25%).

SECTION 2.3 RESTRICTED PERIOD. The Committee may, in its sole discretion, establish a period of time (the "Restricted Period") that all or any portion of the shares of Capital Stock issued pursuant to a Stock Acquisition Election or shares of Capital Stock distributed with respect to Stock Credits pursuant to Section 2.7 hereof may not be sold, assigned, transferred, pledged or otherwise disposed of. Shares of Capital Stock subject to a Restricted Period ("Restricted Stock") shall be represented by a stock certificate registered in the name of the Participant which, in the discretion of the Committee, could be either held in the custody of the Corporation until the end of the Restricted Period applicable to such shares or bear a restrictive legend. Except for the limitations described above, a Participant shall have all the rights of a stockholder of the Corporation with respect to Restricted Stock, including the right to vote such shares.

SECTION 2.4. TERMS AND CONDITIONS OF ELECTION. A Stock Acquisition Election or Stock Credit Election (an "Election") shall be subject to the following terms and conditions.

(a) An Election shall be in writing and shall be irrevocable; and

(b) An Election may be made on or before December 31, 1995, to take effect for the Plan Year ending on June 30, 1996; thereafter an Election shall be effective for any Plan Year only if made at such time as the Committee in its discretion shall determine; provided, however that an election to defer payment must occur at least six (6) months prior to the date that Bonus Compensation would be paid or otherwise would become payable if it had not been deferred by the Participant.

(c) An Election shall remain in effect only for the Plan Year to which it applies.

SECTION 2.5. ADJUSTMENT OF STOCK CREDIT ACCOUNTS.

(a) Cash Dividends -- As of the date that any cash dividend is paid to stockholders of the Corporation, the Participant's Stock Credit Account shall be credited with additional Stock Credits equal to the number of shares of Capital Stock

(including fractions of a share to four decimal places) that could have been purchased on that date with the dividends paid on the number of shares of Capital Stock equal to the number of Stock Credits in such Participant's Stock Credit Account based on the Fair Market Value of the Capital Stock on that date.

(b) Stock Dividends -- In the event that a stock dividend shall be paid upon the Capital Stock, the number of Stock Credits in each Participant's Stock Credit Account shall be adjusted by adding thereto additional Stock Credits equal to the number of shares of Capital Stock which would have been distributable on the Capital Stock represented by Stock Credits if such shares of Capital Stock had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend.

(c) Other Adjustments -- In the event that the outstanding shares of Capital Stock of the Corporation shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted, for the shares of Capital Stock represented by Stock Credits, the number and kind of shares of stock or other securities which would have been substituted therefor if such shares of Capital Stock had been outstanding on the date fixed for determining the stockholders entitled to receive such changed or substituted stock or other securities.

In the event there shall be any change, other than specified in this Section 2.5, in the number or kind of outstanding shares of Capital Stock of the Corporation or of any stock or other securities into which such Capital Stock shall be changed or for which it shall have been exchanged, then, if the Board shall determine, in its discretion, that such change equitably requires an adjustment in the number of Stock Credits or the Capital Stock represented by such Stock Credits, such adjustment shall be made by the Board and shall be effective and binding for all purposes of the Plan and on each outstanding Stock Credit Account.

SECTION 2.6. CHANGE IN CONTROL. In the event of any threatened or actual change in control of the Corporation (as set forth in any Deferred Compensation Plan to which the Stock Credits relate), issued and outstanding shares of Capital Stock shall be substituted for the Stock Credits in each Participant's Stock Credit Account and such Capital Stock shall be transferred to the deferred compensation trust established under the Deferred Compensation Plan to which the Stock Credits relate.

SECTION 2.7. DISTRIBUTION OF STOCK CREDITS. As soon as practicable following the date on which the Participant has elected to have the Deferred Bonus Compensation paid pursuant to the applicable Deferred Compensation Plan (the "Distribution Date"), the Corporation shall issue to such Participant that number of shares of Capital Stock equal to the whole number of Stock Credits in such Participant's Stock Credit Account to be distributed and cash equal to the fractional Stock Credits in such account to be distributed multiplied by the Fair Market Value of the Capital Stock as of the Distribution Date provided, however, that the Committee, in its sole discretion, shall have the right to pay the Participant a cash amount equal to the aggregate value of the whole shares of Capital Stock otherwise distributable with respect to the Stock Credits, in lieu of distributing such shares.

SECTION 2.8. DISTRIBUTIONS ON DEATH. Upon the death of a Participant, any and all restrictions on transferability of Restricted Stock held by or on behalf of such Participant shall lapse and such shares

shall become immediately transferable. In the event of the death of a Participant prior to the Distribution Date, the Stock Credit Account to which he or she was entitled shall be converted to cash and distributed in a lump sum to such person or persons or the survivors thereof, including corporations, unincorporated associates or trusts, as the Participant may have designated. All such designations shall be made in writing, signed by the Participant and delivered to the Corporation. A Participant may from time to time revoke or change any such designation by written notice to the Corporation. If there is no unrevoked designation on file with the Corporation at the time of the Participant's death, or if the person or persons designated therein shall have all predeceased the Participant or otherwise ceased to exist, such distributions shall be made to the estate of the Participant. Such distributions shall be made as soon as practicable following notification to the Corporation of the Participant's death. In this case, the Participant's Stock Credit Account shall be converted to cash by multiplying the number of whole and fractional shares of Capital Stock to which the Participant's Stock Credit Account is equivalent by the Fair Market Value of the Capital Stock on the date of death.

ARTICLE III
MISCELLANEOUS PROVISIONS

SECTION 3.1. AMENDMENT AND DISCONTINUANCE. The Board may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto. The Board may, in its discretion, submit any proposed amendment to the Plan to the stockholders of the Corporation for approval and shall submit proposed amendments to the Plan to the stockholders of the Corporation for approval if such approval is required in order for the Plan to comply with Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") (or any successor rule).

SECTION 3.2. COMPLIANCE WITH GOVERNMENTAL REGULATIONS. Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Corporation shall not be required to issue any Capital Stock or Stock Credits hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Exchange Act, if such registration shall be necessary, or before compliance by the Corporation or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of the New York Stock Exchange, Inc. The Corporation shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

SECTION 3.3. COMPLIANCE WITH SECTION 16. With respect to persons subject to Section 16(a) of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or its successor rule). To the extent that any provision of the Plan or any action by the Board or the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and to the extent deemed advisable by the Committee.

SECTION 3.4. NON-ALIENATION OF BENEFITS. No right or interest of a Participant in a Stock Credit Account under the Plan may be sold, assigned, transferred, pledged, encumbered or otherwise disposed of except as expressly provided in the Plan; and no interest or benefit of any Participant under the Plan shall be subject to the claims of creditors of the Participant.

SECTION 3.5. WITHHOLDING TAXES. To the extent required by applicable law or regulation, each Participant must arrange with the Corporation for the payment of any federal, state or local income or other tax applicable to the receipt of Capital Stock or Stock Credits under the Plan before the

Corporation shall be required to deliver to the Participant a certificate for Capital Stock or distribute cash with respect to a Stock Credit Account.

At the discretion of the Committee, share tax withholding may be permitted. Share tax withholding shall entitle the Participant to elect to satisfy, in whole or in part, any tax withholding obligations in connection with the issuance of shares of Capital Stock pursuant to the Plan by either (i) withholding shares of Capital Stock otherwise issuable to the Participant; or (ii) accepting delivery of previously owned shares of Capital Stock. Notwithstanding the foregoing, in the case of a Participant subject to Section 16(a) of the Exchange Act, no such election shall be effective unless made in compliance with any applicable requirements of Rule 16b-3 (or any successor rule) that must be satisfied in order to exempt the withholding transaction(s) from Section 16(b) of the Exchange Act.

SECTION 3.6. FUNDING. Except as provided in Section 2.6 hereof, no obligation of the Corporation under the Plan shall be secured by any specific assets of the Corporation, nor shall any assets of the Corporation be designated as attributable or allocated to the satisfaction of any such obligation. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of any unsecured creditor of the Corporation.

SECTION 3.7. GOVERNING LAW. The Plan shall be governed by and construed and interpreted in accordance with the internal laws of the Commonwealth of Pennsylvania.

SECTION 3.8. EFFECTIVE DATE OF THE PLAN. The Plan shall become effective upon approval and adoption of the Plan by the holders of a majority of the shares of Capital Stock present at the 1995 annual meeting of stockholders.

EXHIBIT 10.10

KENNAMETAL INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
(as amended on July 26, 1999)

SECTION 1. PURPOSE AND EFFECTIVE DATE.

1.1 The purpose of this Supplemental Executive Retirement Plan is to ensure the payment of a competitive level of retirement income, in order to attract, retain, and motivate selected executives. The Plan is also intended to provide eligible executives with a retirement benefit that cannot be paid from the Company's qualified Retirement Income Plan, due to various limitations of the United States Internal Revenue Code.

1.2 This Plan was previously amended and adopted, effective April 21, 1995, and was most recently amended and adopted, effective July 26, 1999. It will be effective for each participant on the date he or she is designated as a Participant and executes an Employment Agreement.

1.3 The terms of this Plan are applicable only to eligible executives who are employed by the Company on or after April 21, 1995. Any executive who retired or otherwise terminated employment prior to such date, shall not be eligible to be designated a Participant under this Plan unless he or she returns to service with the Company on or after April 21, 1995.

SECTION II. DEFINITIONS.

2.1 BOARD OF DIRECTORS means the Directors of the Company.

2.2 BONUS AWARD means the annual cash award under the provisions of the Kennametal Inc. Management Performance Bonus Plan of any given fiscal year. Only an award generated by successful attainment of the Bonus Plan's business objectives shall be considered a "Bonus Award" for the purposes of this Plan. No other bonus award will qualify.

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

beneficial owner, directly or indirectly, of securities of Kennametal representing 25% or more of the combined voting power of Kennametal's then outstanding securities.

2.4 CODE means the Internal Revenue Code of 1986, as amended from time to time. References in the Plan to a Code Section shall be deemed to refer to any successor provision of the Code, as appropriate.

2.5 COMMITTEE means the Board of Directors Committee on Executive Compensation, designated by the Board of Directors to administer the plan, pursuant to Section 7 of the Code.

2.6 COMPANY means Kennametal Inc., a Pennsylvania corporation, or any successor bound by this Plan pursuant to Section 8.5.

2.7 DISABILITY means such incapacity due to physical or mental illness or injury, as causes the Participant to be absent from his principal office at Kennametal's offices for the entire portion of 180 consecutive business days.

2.8 EMPLOYEE means an employee of the Employer.

2.9 EMPLOYER means the Company and any subsidiary or affiliate of the Company whose employees participate in the Plan.

2.10 EMPLOYMENT AGREEMENT means an agreement between an Employer and an Employee which sets forth terms and conditions of employment and specifically refers to this Plan.

2.11 FINAL BASE SALARY means the Participant's monthly base salary rate, before any pre-tax reductions pursuant to the Participant's elections under IRC Section 125 or 402(e)(3), for the calendar month in which Participant's Termination of Employment occurs, without regard to any limitations on compensation under the Code, including those under IRC Section 401(a)(17) , multiplied by twelve (12).

2.12 IRC means the Code.

2.13 NORMAL RETIREMENT means the first day of the month following the day on which the Employee reaches the age of sixty-five (65).

2.14 PARTICIPANT means any Employee of an Employer who is entitled to participate in the Plan in accordance with Section III. Where the context so indicates, "Participant" shall also include a retired or deceased Participant with respect to whom a SERP Benefit is payable.

2.15 PLAN means the Company's Supplemental Executive Retirement Plan (SERP), as set forth herein and as amended and restated from time to time.

2.16 RETIREMENT INCOME PLAN means the Company's qualified Retirement Income Plan, as it may be amended and restated, from time to time.

2.17 SERP BENEFIT means the benefit, calculated pursuant to Section V, that is payable to a Participant under the Plan.

2.18 TARGET RETIREMENT INCOME means the total of the estimated benefit under the Company's qualified Retirement Income Plan, plus the estimated benefit under Social Security, plus the amount of SERP Benefit, under Section V of the Plan.

2.19 YEAR OF SERVICE means each full twelve-month period beyond Employee's most recent hire date, as determined pursuant to the Company's regular personnel records and policies.

SECTION III. ELIGIBILITY.

3.1 Each officer or key executive Employee of the Company approved by the Committee, in its sole discretion, shall be eligible to participate in the Plan, upon prompt execution of an Employment Agreement.

3.2 Any officer or key executive who becomes a Participant shall continue to be a Participant until his or her termination of employment, or until a date prior to such time, as determined by the Committee, in its sole discretion.

SECTION IV. VESTING.

4.1 A Participant shall become vested and entitled to receive a benefit under the Plan, determined in accordance with Section V, only in accordance with the following schedule:

AGE OF PARTICIPANT AT TERMINATION	CUMULATIVE VESTED PLAN BENEFIT
Less than age 56	0%
56	20%
57	40%
58	60%
59	80%
60 or older	100%

Notwithstanding the foregoing, a Participant who voluntarily leaves employment, without Employer's permission, or is involuntarily terminated, with cause, prior to entitlement to receive a benefit pursuant to Section 6.1, shall forfeit any entitlement to a benefit under the Plan. In the event that Participant shall voluntarily or involuntarily leave the employ of the Company before his or her retirement date, and the Participant is not vested as to any portion of the SERP Benefit, the obligations of the Company under Section 6 and 7 of the Plan shall be null and void, and neither the Participant nor any other person shall in any way be entitled to any payments hereunder.

4.2 Notwithstanding Section 4.1, each Participant's Plan benefit automatically shall become 100% vested upon a Change in Control of the Company.

SECTION V. AMOUNT OF BENEFIT

5.1 The Target Retirement Income shall be calculated as a percent of the total of Final Base Salary and an average of the last three Bonus Awards. The Target Retirement Income percentage shall be 60% at 30 Years of Service, plus or minus 1% for each Year of Service greater than or less than thirty.

5.2 The amount of each Participant's SERP Benefit shall initially be calculated as the excess of the Target Retirement Income amount over the sum of the monthly benefit that would be payable as a single life annuity under the Company's Retirement Income Plan commencing upon a retirement at age 65, based on credited service and average earnings under the Retirement Income Plan as of the Participant's termination of employment, plus the Participant's Social Security benefit, as defined under the Retirement Income Plan, that would be payable commencing at age 65 assuming the Participant had no further FICA wages or SECA earnings after termination of employment.

5.3 The Target Retirement Income amount, the Retirement Income Plan benefit estimate, and the Social Security benefit estimate shall be calculated according to the methodology described in Appendix A.

5.4 The Committee shall cause the formula calculation described in Sections 5.1 and 5.2 to be done annually, or as otherwise required, for each Participant. The Committee shall then be advised of the SERP Benefit amount for each Participant, and shall direct that an official list of Participants and their accrued SERP Benefit be prepared, which shall govern the payment of a benefit under the Plan until the next annual review and predetermination of a SERP Benefit amount.

SECTION VI. PAYMENT OF BENEFIT.

6.1 Payment of the Participant's SERP Benefit shall commence on the first day of the month following the month in which the Participant's employment with the Company terminates due to (1) Normal Retirement from employment with the Company, (2) retirement from employment with the Company on any date prior to Normal Retirement that has the prior approval of the Company's Board of Directors, (3) termination of employment prior to Normal Retirement as a result of Disability, or (4) retirement from employment with the Company following a Change In Control, unless the Participant requests a later payment commencement date.

6.2 A Participant's Plan benefit shall be paid in equal monthly installments, in the form of a single life annuity with no death or other survivor benefit other than those described in Section VII.

SECTION VII. SURVIVING SPOUSE AND OTHER DEATH BENEFIT.

7.1. In the event of the death of a Participant prior to the commencement of payment of a Plan benefit to the Participant, an amount equal to 50% of the amount of the benefit calculated in accordance with the vesting provisions of Section IV and the amount of the benefit of Section V which would otherwise have been payable to the Participant, will instead be payable to the Participant's surviving spouse. Payments to such spouse shall be made from the month following the month in which the death of the Participant occurred until the death of the surviving spouse.

7.2. In the event of the death of a Participant after the commencement of payment of a Plan benefit to the Participant, an amount equal to 50% of the amount of the Plan benefit then being paid to the Participant will instead be payable to the Participant's surviving spouse. Payments to such spouse shall be made from the month following the month in which the death of the Participant occurred, until the death of the surviving spouse.

7.3. If the surviving spouse is five (5) or more years younger than the Participant, the monthly payment to the surviving spouse pursuant to paragraphs 7.1 and 7.2 shall be actuarially adjusted, so that it has the same present actuarial value as the full 50% payment to a hypothetical surviving spouse who is less than five (5) years younger than the Participant. For this purpose, the Committee shall use a life expectancy factor derived from the most recent group annuity mortality table published by the Society of Actuaries, as shown in Appendix B of the Plan. The foregoing actuarial adjustment shall be effected by dividing the life expectancy factor set forth on the most recent group annuity mortality table for the hypothetical surviving spouse by the life expectancy factor set forth on the same table for the surviving spouse (calculated to four decimals). The quotient obtained shall be multiplied by the surviving spouse's 50% benefit pursuant to paragraphs 7.1 and 7.2. An example of the method of actuarial adjustment is shown in Appendix C of the Plan.

7.4. In the event that the Participant and/or his or her surviving spouse shall have been entitled to payments under Sections 6 and 7 of the Plan, and upon the death of the surviving spouse, the aggregate amount of the cumulative payments of the SERP Benefit shall have been less than $50,000, the Company shall pay to the estate of the Participant or to such other person as the Participant shall designate by written notice, a lump sum amount equal to $50,000 less the aggregate amount of the cumulative payments of the SERP Benefit already made.

SECTION VIII. MISCELLANEOUS PROVISIONS.

8.1 ADMINISTRATION. The Committee shall be responsible for all facets of interpretation and administration of the Plan. The Committee may adopt rules and regulations to assist it in the administration of the Plan. The Board of Directors has also delegated to the Committee the right to modify provisions of the Plan in individual cases.

8.2 NON-COMPETITION. Receipt of the SERP Benefit is expressly conditioned upon the non-competition of the retired Participant with the Company, for so long as any payments are being made hereunder. Accordingly, unless the Participant first secures the written consent of the Board of Directors or the Committee, he shall not directly or indirectly, as an officer, director, employee, consultant, agent, partner, joint venturer, proprietor, or other, engage in or assist any business which is or may become in direct or indirect competition with the Company or any of its subsidiaries, other than as a mere investor holding not more than one percent of the equity interest of any such competing enterprise. In the event that the Committee makes a good-faith determination that a Participant receiving a SERP Benefit is or may be violating the non-competition provisions hereof, it shall immediately notify him or her of such finding in writing and afford him or her a reasonable opportunity (a period of not less than sixty days) to rebut such finding, or to desist from such competitive activity. In the event that the Committee believes that a violation of the non-competition provision continues uncorrected following the sixty-day period, it may then cease making SERP Benefit payments, and the retired Participant (and any Spouse or other beneficiary claiming through the Participant) shall forfeit any right to future payment of a SERP Benefit under the Plan.

8.3 SOURCE OF BENEFIT PAYMENTS. This Plan is intended to be an unfunded plan of deferred compensation for a select group of management or highly compensated individuals, and it is intended that a SERP Benefit payable hereunder will be paid from the general assets of the Company. However, in the event of a Change in Control, amounts payable to a Participant or the surviving spouse or estate, under Sections 6 and 7 of the Plan, may be provided for in accordance

with an Executive Deferred Compensation Trust (a so-called "Rabbi" trust) between the Company and a trustee. The Company shall inform the Participant of the identity of the trustee upon the Participant's request.

8.4 NON-ASSIGNMENT, ALIENATION. Nothing in this Plan gives a Participant or any person claiming payments for or through him or her, any right, title, or interest in any asset held in the Company, prior to the payment thereof, and that the right of a Participant to any payment hereunder is strictly contractual and unsecured, unless a Change in Control causes the funding of the Plan in the Company's Executive Deferred Compensation Trust. In addition, the benefit to be paid hereunder may not be voluntarily or involuntarily sold, transferred, assigned, alienated, or encumbered, and any such attempt shall be void.

8.5 OBLIGATION OF SUCCESSORS. This Plan shall be binding upon the Company or any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise), to all or substantially all of the business and/or assets of the Company, or to any assignee thereof. To the extent that the Company must take additional contractual or other steps to make the Plan an enforceable contractual obligation of a successor (e.g., a purchaser of assets), the Company shall take such steps. This Plan and all rights of the Participant hereunder shall inure to the benefit of and be enforceable by the Participant or the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees.

8.6 AMENDMENT, TERMINATION. This Plan may be amended or terminated at any time, provided that no such amendment or termination shall reduce or eliminate the right of a Participant to the payment of a Plan benefit earned prior to such amendment or termination.

8.7 WITHHOLDING. The Company may provide for the withholding, from any benefit payable under this Plan, all Federal, state, city, or other taxes as shall be appropriate pursuant to any law or governmental regulation or ruling, and may delay the payment of any benefit until the Participant or beneficiary provides payment to the Company of all applicable withholding taxes.

8.8 MISCELLANEOUS. This Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, to the extent not governed by federal law. Section headings are for convenience of reference only, and shall not affect the construction or interpretation of any of the provisions hereof.

APPENDIX A, SERP BENEFIT CALCULATION METHOD

- Calculation begins with current base salary and years of service, up to the present date.

- Target Retirement Income equals a percent of Final Base Salary plus the average of the last three Bonus Awards. The percentage is calculated as 60% for 30 years of service, plus or minus 1% for each year of service greater than or less than thirty. For example:

Years of Service	Retirement Target
Newly hired	30%
5	35%
10	40%
15	45%
20	50%
25	55%
30	60%
35	65%
40	70%
45	75%

- Calculate income from Kennametal Retirement Income Plan, based on current years of service and pensionable earnings, to date, and including current statutory limitations (IRC Sections 415 and 401A(17)), but not actuarially reduced for age less than 65.

- Calculate income from Social Security, based on earnings to date, but not reduced for age less than 65.

- Retirement Income Plan plus Social Security equals Total Funded Retirement Income from qualified plans.

- SERP Benefit equals Target Retirement Income (above) minus Total Funded Retirement Income from qualified plans.

- However, minimum SERP Benefit is 10% of current base salary.

- If the prior SERP benefit (as last calculated under the above described method and posted to the official list of Participants and their SERP Benefit) is greater than the new SERP Benefit, use the prior SERP Benefit.

- Therefore, SERP Benefit is the greatest of:

  - Target Retirement minus Total Funded Retirement Income,
  - 10% of Current Base Salary, or
  - Prior SERP Benefit.

APPENDIX B

LIFE EXPECTANCIES FROM THE 1994 UP MORTALITY TABLE

AGE	MALE	FEMALE	Age	MALE	FEMALE
20	58.689676	63.439521	65	17.301673	20.733104
21	57.721384	62.458711	66	16.567774	19.922360
22	56.753995	61.477787	67	15.852596	19.126492
23	55.787630	60.496744	68	15.155361	18.344112
24	54.822623	59.515516	69	14.474231	17.572161
25	53.859070	58.533981	70	13.807539	16.808107
26	52.897006	57.552138	71	13.154894	16.051847
27	51.936249	56.570159	72	12.516970	15.305311
28	50.976471	55.588318	70	11.895300	14.572070
29	50.017407	54.606930	74	11.289425	13.854374
30	49.058903	53.626184	75	10.697900	13.152659
31	48.100761	52.646205	76	10.121208	12.467970
32	47.142792	51.667107	77	9.561406	11.801827
33	46.184865	50.688947	78	9.021858	11.156078
34	45.226529	49.711724	79	8.505843	10.530978
35	44.267364	48.735436	80	8.014790	9.925826
36	43.307409	47.760220	81	7-548836	9.340932
37	42.347090	46.786204	82	7.107007	8.777414
38	41.387178	45.813644	83	6.687359	8.236987
39	40.428474	44.842772	84	6.285696	7.719357
40	39.471398	43.873849	85	5.898198	7.223015
41	38.516336	42.906937	86	5.523671	6.747887
42	37.563597	41.941959	87	5.163141	6.295031
43	36.613496	40.978756	88	4.819594	5.866464
44	35.666021	40.016924	89	4.496051	5.463912
45	34.721182	39.056122	90	4.193604	5.087653
46	33.779283	38.096450	91	3.912324	4.737174
47	32.840954	37.138220	92	3.651468	4.411342
48	31.907044	36.182042	93	3.409583	4.108517
49	30.978090	35.228328	94	3.0187285	3.827037
50	30.054402	34.277235	95	2.986195	3.565508
51	29.136469	33.329133	96	2.806213	3.322551
52	28.225043	32.384506	97	2.645659	3.096798
53	27.321021	31.443972	98	2.501069	2.886902
54	26.424628	30.507483	99	2.368067	2.692192
55	25.535831	29.574787	100	2.243346	2.512150
56	24.655321	28.646560	101	2.124336	2.345559
57	23.784341	27.724202	102	2.009036	2.190383
58	22.924662	26.809797	103	1.895858	2.043361
59	22.077319	25.905022	104	1.786991	1.904998
60	21.242746	25.010822	105	1.684548	1.776622
61	20.421814	24.128172	106	1.584660	1.653351
62	19.615791	23.258043	107	1.473289	1.520196

63	18.826204	22.401396	108	1.316861	1.343162
64	18.054561	21.559462	109	1.048860	1.058194
			110	.541667	.541667

HEWITT Associates

APPENDIX C

Example:

A PARTICIPANT RECEIVING A SERP BENEFIT IN THE AMOUNT OF $10,000 DIES AT AGE 74. HIS SURVIVING SPOUSE IS AGE 65. THE BENEFIT PAYABLE TO HIS SURVIVING SPOUSE WOULD BE CALCULATED AS FOLLOWS.

1. Life expectancy set forth on the Group Annuity Mortality Table of a hypothetical surviving spouse (female) who is age 69 = 17.572161

2. Life expectancy set forth on the Group Annuity Mortality Table of the surviving spouse (female) who is age 65 = 20.733104

3. Quotient obtained by dividing 1 above by 2 above (17.572161 / 20.733104) = 0.8475

4. Yearly benefit payable to surviving spouse = $10,000 x 50% x 0.8475 = $4,237.50

EXHIBIT 13

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The following discussion should be read in connection with the consolidated financial statements of Kennametal (the company) and the related footnotes.

OVERVIEW

Net income for 1999 was $39.1 million, compared to $71.2 million in 1998. The 1999 results were reduced by approximately $24.6 million, or $0.51 per share, including $20.8 million, or $0.44 per share, related to special charges for operational improvement programs, and $3.8 million, or $0.07 per share, related to a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy. Excluding these charges, net income for 1999 would have been $1.82 per share.

The decline in earnings for 1999 was primarily due to lower sales of metalworking products and industrial supplies in North America as a result of weak industrial demand and higher interest and amortization expense related to acquisitions. Cost-reduction and significant cost-control measures implemented in November 1998, coupled with stronger demand in the European metalworking market, partially offset this decline.

The 1998 results include the effects from the acquisition of Greenfield Industries, Inc. (Greenfield) that occurred on November 17, 1997. The Greenfield acquisition reduced 1998 earnings by approximately $17.5 million, or $0.65 per share, including one-time costs of $0.28 per share. Excluding the effects of the Greenfield acquisition, earnings per share for 1998 would have been $3.23 per share. The results for 1998 also include an additional 3.45 million shares of common stock issued on March 20, 1998.

Net income for 1998 was $71.2 million, compared to $72.0 million in 1997. Excluding the effects of the Greenfield acquisition, Kennametal's results for 1998 were favorably affected by strong economic conditions in the United States and from the continued strengthening of the European economies. The company's JLK Direct Distribution Inc. (JLK) subsidiary also benefited from higher sales of metalworking products as a result of an expanded product offering in the 1998 master catalog, acquisitions and from further penetration of existing customers. Earnings also were favorably affected by productivity improvements and cost reductions related to the Focused Factory initiative, offset in part by unfavorable foreign currency translation effects due to the strength of the U.S. dollar.

BUSINESS SEGMENT REVIEW

Sales for the year ended June 30, 1999 were $1.9 billion, up 13 percent from $1.7 billion last year. The increase in sales was primarily attributable to the inclusion of five additional months of sales related to the acquisition of Greenfield, offset by lower sales of metalworking products and industrial supplies in North America due to weak industrial demand. Excluding acquisitions, sales declined 7 percent in 1999.

Sales were $1.7 billion for the year ended June 30, 1998, up 45 percent from $1.2 billion in 1997. The increase in sales was directly attributable to the acquisition of Greenfield and other companies, from higher sales of metalworking products in North America and Europe and from higher sales of industrial supplies sold through JLK. Excluding acquisitions and unfavorable foreign currency translation effects, sales increased 8 percent in 1998.

Effective in 1999, the company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosure about Segments of an Enterprise and Related Information." The presentation of segment information reflects the manner in which management organizes segments for making operating decisions and assessing performance. Prior-year amounts have been restated to conform with current-year presentation.

METALWORKING

In the Metalworking segment, the company provides consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. The company's tooling systems consist of a steel toolholder and an indexable cutting tool such as an insert or drill made from cemented tungsten carbides, high-speed steel or other hard materials.

(in thousands)	1999	1998	1997
External sales	$1,038,205	$938,589	$670,932
Intersegment sales	68,538	52,060	29,402
Operating income	132,060	165,762	131,903

In 1999, sales of metalworking products increased due to the inclusion of five

additional months of sales related to the acquisition of Greenfield and strong European demand. This was offset by weak industrial demand by customers across a variety of industries in North America, except for the automotive market. Excluding acquisitions, Metalworking sales declined 8 percent in 1999.

Sales in North America declined 11 percent excluding acquisitions and were further affected by the General Motors strike in the first quarter of 1999, which was partially offset by increased demand for high-speed steel drills sold in consumer markets as a result of new sales programs.

Sales in Europe increased 14 percent due to an acquisition, stronger demand and favorable foreign currency translation effects. Demand for metalworking products continued to show strong gains in the European market, primarily Germany, with particular strength coming from export-oriented businesses such as the automotive and truck industries, and to a lesser extent, aerospace and machine tool builder industries. Favorable foreign currency translation effects were 1 percent due primarily to the strength of the German mark during 1999. Excluding acquisitions and foreign currency translation effects, European Metalworking sales declined 2 percent in 1999.

Operating income declined to $132.1 million and was affected by lower sales levels, higher goodwill amortization and special changes. The gross profit margin in 1999 was affected by a $6.9 million charge related to the implementation of a new program to streamline and optimize the global metalworking product offering, lower production levels, an unfavorable sales mix, and costs associated with plant consolidations and rearrangements. The plant consolidations and rearrangements are expected to have a favorable impact on future performance.

Operating expenses were contained through cost-reduction and significant cost-control measures implemented in November 1998. These cost-reduction measures involved selected work force reductions, facility consolidations and closings and other measures. Operating expenses include a $4.2 million charge related to the closure of the Solon, Ohio high-speed steel manufacturing plant. Additionally, amortization of intangibles increased due to a full year of amortization related to the acquisition of Greenfield and other companies in the prior year.

In 1998, sales of metalworking products increased 40 percent over 1997, primarily due to the Greenfield acquisition. Excluding acquisitions, sales increased 4 percent over 1997. Sales benefited from increased industrial demand in North America and Europe.

Sales in North America increased 7 percent excluding acquisitions, and benefited from strong economic conditions in the United States and Canada and from continued emphasis on milling and drilling products. The sales increase was broad based across most industries.

Sales in Europe increased 27 percent. The company also made two acquisitions in Europe during 1998 to strengthen its competitive position in the European market place. Demand for metalworking products continued to show strong gains in nearly all industries in the European market, primarily Germany, with particular strength coming from export-oriented businesses in the automotive and machine tool builder industries. This was partly offset by unfavorable foreign currency translation effects of 9 percent due to the strength of the U.S. dollar during 1998. Sales also increased in the United Kingdom and France. Excluding acquisitions and foreign currency translation effects, European Metalworking sales increased 12 percent in 1998.

Operating income increased 26 percent due to the Greenfield acquisition and improvement in the gross profit margin, partially offset by increased operating expense levels. The gross profit margin improved significantly as a result of productivity improvements and cost reductions related to the Focused Factory initiative, from higher production levels and from a more favorable sales mix. This increase was partly reduced by unfavorable foreign currency translation effects.

Operating expenses were controlled despite higher costs related to acquisitions and to support higher sales volumes. Additionally, amortization of intangibles increased primarily as a result of increased goodwill related to the Greenfield acquisition.

INDUSTRIAL SUPPLY

This segment represents the sales of industrial supply products through Kennametal subsidiary, JLK. Sales of metalworking consumable products are derived through a direct-marketing program, including mail-order catalogs and showrooms, a direct field sales force, and integrated supply programs or Full Service Supply (FSS) programs.

(in thousands)	1999	1998	1997
External sales	$518,512	$414,765	$303,828
Intersegment sales	13,130	10,583	12,361
Operating income	34,532	41,308	32,193

Sales in this segment increased 25 percent in 1999 primarily due to acquisitions. Excluding the effects of acquisitions, sales of industrial supply products

declined 3 percent. Sales benefited from the addition of new FSS programs, growth in Europe and an increased product offering, offset by weak industrial demand across North America and the General Electric (GE) FSS contract disengagement.

The company decided not to accede to certain price concessions requested by GE during renegotiations of the FSS program with GE in 1997. GE served notice to the company that the FSS program would not be renewed for a significant portion of the manufacturing sites served by the company. Sales to these GE manufacturing sites were $22.9 million in 1998. In 1999, JLK did not have any sales to GE for those manufacturing sites that were discontinued.

Operating income was $34.5 million and was affected by a decline in gross profit margin and an increase in operating expense levels. The gross profit margin was affected by lower-margin sales from prior year acquisitions, growth in the FSS business and softer-than-expected economic conditions that resulted in weaker demand in the higher-margin mail-order business. Cost-reduction actions implemented in November 1998 contained operating expenses. However, the increase in operating expenses is attributable to increased costs from acquisitions, including higher levels of amortization expense, relocation of the office and warehouse in the United Kingdom, and higher direct-mail costs.

At June 30, 1999, the company operated 31 showrooms, including eight distribution centers and 13 other locations acquired in 1998 through acquisitions. The company also provided FSS programs to 150 customers covering 231 different facilities.

In 1998, sales in the Industrial Supply segment increased 37 percent. Excluding the effects of acquisitions, sales of industrial supply products increased 10 percent. Sales increased primarily because of acquisitions, an expanded product offering and from further penetration of existing customers. These gains were offset by a significant reduction in sales due to the GE FSS contract disengagement. Sales to these GE manufacturing sites were $54.7 million in 1997. During 1998, JLK acquired six metalworking distribution companies with combined annual sales of approximately $137.0 million. Additionally, during 1998, JLK opened nine new showroom locations, including a distribution center in the United States and a distribution center in Germany.

Operating income increased 28 percent due to an increase in gross profit margin, partially offset by an increase in operating expense levels. The gross profit margin gains were a result of a more favorable sales mix as well as improved contract pricing on new FSS programs and the positive impact of the GE contract disengagement, partially offset by lower-margin sales from acquisitions. Operating expenses rose primarily as a result of increased costs from acquisitions, including higher levels of amortization expense, from higher costs associated with the opening of new showrooms and new distribution centers, and new FSS programs for customers covering more than 70 new facilities.

At June 30, 1998, the company operated more than 50 locations with 33 showrooms, including nine distribution centers, and provided FSS programs to 115 customers covering 194 different facilities.

ENGINEERED PRODUCTS, MINING AND CONSTRUCTION AND OTHER

This segment's principal business is the production and sale of tungsten carbide products used in engineered applications, mining and highway construction and other similar applications, including circuit board drills, compacts and metallurgical powders. These products have technical commonality to the company's core metalworking products. The company also sells metallurgical powders to manufacturers of cemented tungsten carbide products and oil and gas drilling equipment.

(in thousands)	1999	1998	1997
External sales	$346,199	$325,034	$181,583
Intersegment sales	29,281	12,882	12,540
Operating income	39,182	52,039	27,471

Sales in this segment for 1999 increased 7 percent from 1998 due to the inclusion of five additional months of sales related to the Greenfield acquisition. Included in the 1998 results were the sales of the Marine Products division of Greenfield, which, for strategic reasons, was divested by the company in June 1998. Annual sales of the Marine Products division were approximately $25.0 million. Excluding the acquisition-related effects, sales declined 12 percent. Sales benefited from increased domestic demand for highway construction tools due to a higher level of highway construction in North America in 1999, particularly in the second half of the fiscal year. However, this was offset by weaker demand for metallurgical powders, engineered products and compacts used in the oil field services industry and mining tools due to reduced underground coal production.

Operating income declined to $39.2 million in 1999 due to an unfavorable sales mix, lower production levels, plant rearrangement costs and the Marine divestiture. Operating expenses included a $5.8 million charge related to the write-down of an investment in and net receivables from certain international operations in emerging

markets as a result of changing market conditions in the regions these operations serve. This was partially offset by cost-reduction actions implemented in November 1998 and continued cost controls.

In 1998, sales in this segment increased 2 percent, excluding the effect of the Greenfield acquisition, due to increased domestic demand for highway construction tools. Sales of mining tools were flat due to a modest increase in coal demand in the United States and from soft economic conditions in select international markets. Overall, sales primarily increased as a result of strong economic conditions in the United States.

Operating income increased to $52.0 million in 1998 due to higher gross profit, partially offset by higher operating expenses as a result of the Greenfield acquisition. Increased demand of these products and higher production levels had a favorable impact on the gross profit margin.

COSTS AND EXPENSES

GROSS PROFIT MARGIN

The gross profit margin was 37.0 percent in 1999 compared to 40.7 percent in 1998. The 1999 gross profit margin was affected by a $6.9 million charge related to the implementation of a new program to streamline and optimize the global metalworking product offering. Excluding this charge, the gross profit margin would have been 37.4 percent. Lower production levels, lower-margin sales from acquired companies, an unfavorable sales mix, and costs associated with plant consolidations and rearrangements affected the gross profit margin. The plant consolidations and rearrangements are expected to have a favorable impact on future performance.

In 1998, the gross profit margin was 40.7 percent compared to 42.2 percent in 1997. Excluding the effects of the acquisition of Greenfield and other companies, the gross profit margin would have been 43.5 percent. The gross profit margin improved significantly as a result of productivity improvements and cost reductions related to the Focused Factory initiative, from higher production levels and from a more favorable sales mix. This increase was partially reduced by unfavorable foreign currency translation effects.

OPERATING EXPENSES

Operating expenses as a percentage of sales were 27.2 percent in 1999 compared to 28.2 percent in 1998. The operating expenses for 1999 include a charge of $3.8 million that the company recorded on its purchase of 4.9 percent of Toshiba Tungaloy stock due to the difference between the cost and the fair market value of the securities on the date the securities were purchased. Excluding the effects of this charge, operating expenses as a percentage of sales would have been 27.0 percent.

Operating expenses were controlled through cost-reduction actions implemented in November 1998 that involved salaried work force reductions, salary reductions, closure of several JLK-acquired locations and other measures. However, operating expenses increased due to acquisitions, the JLK expansion program, the charge recorded on the purchase of Toshiba Tungaloy stock, facility rationalizations and other programs. Additionally, amortization of intangibles increased approximately $10.1 million due to a full year of amortization related to the acquisition of Greenfield and other companies.

In 1998, operating expenses as a percentage of sales were 28.2 percent compared to 31.0 percent in 1997. Excluding the effects of the Greenfield acquisition, operating expenses would have been 30.9 percent. Operating expenses were controlled despite higher costs related to acquisitions, higher sales volumes and from the JLK showroom expansion program. The company also had lower research and development expenses and realized cost-saving benefits as a result of efficiencies from the completed world headquarters project. Additionally, amortization of intangibles increased approximately $12.7 million primarily as a result of increased goodwill related to the Greenfield acquisition.

RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In March 1999, the company's management completed restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows:

(in thousands)	Total Charge	Asset Write-Downs & Other Non-Cash Adjustments	Initial Restructuring Liability
Product rationalization	$ 6,900	$ (6,900)	$ --
Plant closure	4,200	(2,000)	2,200
Impairment of international operations	5,800	(5,800)	--
Voluntary early retirement program	3,937	(2,419)	1,518
Total	$20,837	$(17,119)	$3,718

The product rationalization charge represents a write-down of certain product lines that are being discontinued as part of a program to streamline and optimize the company's global metalworking product offering. This charge is net of salvage value and has been recorded as a component of cost of goods sold. Estimated salvage values were based on estimates of proceeds to be realized through the sale of this inventory outside the normal course of business.

The program will result in a reduction in the number of products offered from an estimated 58,000 to 38,000 and is an extension of the company's initiative to reduce the number of its North American warehouses. By streamlining the product offering, the company anticipates it will improve customer service and inventory turnover, allow for more efficient operations, thereby reducing costs and improving capacity utilization, and eliminate redundancy in its product offering. Sales of these products represent less than 5 percent of global metalworking sales. The company is proactively converting customers from these older products to newer products.

The company also initiated plans to close a drill manufacturing plant in Solon, Ohio. The manufacturing of products made at this plant will be relocated to other existing plants in the United States. The closure will eliminate excess capacity at other plant locations. The company will decommission the existing plant and sell the property in the near future. The charge consists of employee termination benefits for 155 hourly and salaried employees, which is substantially all employees at this plant, and the write-down of assets included in property, plant and equipment, net of salvage value.

The costs resulting from the relocation of employees, hiring and training new employees and other costs resulting from the temporary duplication of certain operations have not been included in this charge and will be included in operating expenses as incurred. The costs related to these items are estimated to be approximately $2.7 million and will be incurred through fiscal 2000.

An asset impairment charge was recorded to write-down, to fair market value, an investment in and net receivables from certain mining and construction international operations in emerging markets as a result of changing market conditions in the regions these operations serve. In the March 1999 quarter, the company completed a study of these operations, the markets for these products, and the current economic situation in these regions, and to provide recommendations for solving operational concerns. As a result of this study and continued economic deterioration in these regions, the company determined that the carrying amount of its investment in and net receivables from these operations would not be recoverable.

A voluntary early retirement benefit program was offered to and accepted by 34 domestic employees. In exchange for their retirement, the company will provide those employees pension and health benefits that would have been earned by the employees through their normal retirement date. As a result of providing these additional pension benefits, approximately $2.4 million of the total cost was funded through the company's pension plan. There are no tax benefits associated with this cost as the company may only deduct actual cash payments made to the pension plan.

These charges were recorded as restructuring and asset impairment charges. The costs charged against the restructuring cost accrual as of June 30, 1999 were as follows:

(in thousands)	Beginning Accrual	Cash Expenditures	Adjustments	Ending Accrual
Plant closure	$2,200	$ --	$ --	$2,200
Voluntary early retirement program	1,518	(151)	--	1,367
Total	$3,718	$(151)	$ --	$3,567

INTEREST EXPENSE

Interest expense increased $9.1 million as a result of higher average borrowings in 1999, partly offset by lower borrowing rates. Interest expense in 1998 included one-time costs of $7.2 million for the amortization of deferred bank financing fees related to the acquisition of Greenfield.

In 1998, interest expense increased $49.1 million as a result of additional borrowings and the one-time costs associated with the amortization of bank financing fees related to the acquisition of Greenfield.

OTHER EXPENSE

Other expense for 1998 included the write-off of deferred financing costs related to a cancelled public offering of debt and equity securities that the company had originally intended to offer in connection with the acquisition of Greenfield. Related to the debt offering, the company entered into an agreement to hedge its exposure to fluctuations in interest rates. When the company subsequently postponed the proposed offerings, the interest rate hedges were terminated resulting

in a loss of $3.5 million. The company also wrote-off other offering-related expenses of $1.1 million resulting in a combined total of $4.6 million or $0.10 per share.

INCOME TAXES

The 1999 effective tax rate was 42.0 percent compared to a tax rate of 41.3 percent in 1998, and 38.0 percent in 1997. The increase in the effective tax rate for both years is directly attributable to higher nondeductible goodwill related to the Greenfield acquisition, partially offset in 1999 due to tax benefits from costs to repay senior debt.

LIQUIDITY AND CAPITAL RESOURCES

Kennametal's cash flow from operations is a primary source of financing for capital expenditures and internal growth. Additionally, in the United States, the company maintains a revolving credit line with commercial banks (Bank Credit Agreement) totaling $900.0 million, of which $228.9 million was unused at June 30, 1999. The company and its subsidiaries generally obtain local financing through credit lines with commercial banks. The company believes that cash flow from operations and the availability under its revolving credit lines will be sufficient to meet its cash requirements over the next 12 months.

During 1999, the company generated $226.6 million in cash from operations. Cash provided by operations increased from 1998 primarily because of the proceeds from the securitization of accounts receivable, higher noncash items and lower working capital requirements, offset in part by lower net income.

Net cash used for investing activities was $102.0 million. Compared to the prior year, the decrease in net cash used for investing activities was due to reduced acquisition activity, lower levels of JLK share repurchases, and reduced levels of expenditures to upgrade machinery and equipment and to acquire additional client-server information systems. The company also purchased approximately 4.9 percent of the outstanding shares of Toshiba Tungaloy in 1999.

Net cash flow used for financing activities was $124.4 million. The decrease in net cash flow from financing activities was a result of lower borrowings compared to 1998, which included the financing of the Greenfield acquisition. Additionally, the company paid $20.3 million in dividends during 1999.

On January 18, 1999, the company entered into a business cooperation agreement with Toshiba Tungaloy Co., Ltd. (TT), a leading Japanese manufacturer of consumable, cemented tungsten carbide metalcutting products, to enhance the global business prospects for metalcutting tools of both companies. The agreement includes various joint activities in areas such as product research and development, private labeling, cross-licensing, and sales and marketing. The company purchased approximately 4.9 percent of the outstanding shares of TT for approximately $15.9 million, including the costs of the transaction. This transaction was financed through the borrowing of Japanese yen under a new credit line.

The intentions of the companies are to make the business cooperation agreement successful and to develop a strong working relationship that will benefit both companies in the future. The company will periodically evaluate the progress made under this agreement and its current ownership position in TT to ensure both are aligned with the company's operational and financial goals. See Note 5 to the consolidated financial statements for additional information.

On June 18, 1999, the company entered into an agreement with a financial institution whereby the company securitizes, on a continuous basis, an undivided interest in a specific pool of the company's domestic trade accounts receivable.

The company is permitted to receive proceeds of up to $100.0 million from the securitization of accounts receivable under this agreement. The financial institution charges the company based on the level of accounts receivable securitized under this agreement and the commercial paper market rates plus the financial institution's cost to administer the program. The costs incurred by the company under this program were $0.2 million in 1999 and are accounted for as a component of Other Expense (Income). At June 30, 1999, the company received proceeds of $82.0 million under this program. The proceeds from the securitization were used to permanently reduce a portion of the company's long-term debt under the Bank Credit Agreement. See Note 6 to the consolidated financial statements for additional information.

During 1998, the company generated $101.5 million in cash from operations. Cash provided by operations increased from 1997 and was affected by higher working capital requirements related to increased sales offset by higher noncash items, such as depreciation and amortization. Net cash used in investing activities was $813.1 million and was used primarily for the acquisition of Greenfield and other companies. Capital expenditures amounting to $104.8 million were made to upgrade machinery and equipment, to acquire additional client-server information systems and to complete the construction of the new world headquarters in Latrobe, Pa. and a manufacturing facility in China.

Net cash flow from financing activities was $710.1 million. The increase in net cash flow from financing activities resulted from increased borrowings under its Bank Credit Agreement that were used primarily to fund the acquisition of Greenfield. Additionally, the company paid $18.5 million of cash dividends during 1998.

On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of common stock of JLK was consummated at a price of $20.00 per share. The net proceeds from the offering were $90.4 million and represented the sale of approximately 20 percent of JLK's common stock. The net proceeds were used by JLK to repay $20.0 million of indebtedness related to a dividend to the company and $20.0 million related to intercompany obligations to the company incurred in 1997. The company used these proceeds to repay short-term debt. JLK used the remaining net proceeds of $50.4 million from the offering during 1998 to make acquisitions. The company's ownership in JLK increased to approximately 83 percent due to treasury stock purchases made by JLK since the IPO.

On November 17, 1997, the company completed the acquisition of all the outstanding stock of Greenfield. The total purchase price for the acquisition of Greenfield was approximately $1.0 billion, including $324.4 million in assumed Greenfield debt and convertible redeemable preferred securities and transaction costs. In connection with the acquisition of Greenfield, the company entered into a $1.4 billion Bank Credit Agreement and borrowed the appropriate funds to pay for the Greenfield acquisition, including the refinancing of certain indebtedness of Greenfield and the company. Additionally, on June 26, 1998, the company sold the Marine Products division of Rule Industries, Inc. (Rule). The company acquired Rule as part of its acquisition of Greenfield and, for strategic reasons, chose to divest itself of this business. Annual sales of the Marine Products division for 1998 were approximately $25.0 million. Proceeds received from the sale were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield.

On March 20, 1998, the company sold 3.45 million shares of common stock resulting in net proceeds of $171.4 million. The proceeds were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield.

On June 8, 1998, JLK initiated a stock repurchase program to repurchase, from time-to-time, up to a total of 20 percent, or approximately 1.0 million shares, of its outstanding Class A Common Stock. In 1999 and 1998, JLK repurchased 15,000 and 628,700 shares, respectively, of its Class A Common Stock at a total cost of $0.3 million and $14.2 million, respectively. The repurchases were made in the open market or in negotiated or other permissible transactions. These repurchases were financed principally by cash from operations and short-term borrowings.

During 1997, the company generated $99.9 million in cash from operations. Cash provided by operations increased from 1996 primarily because of lower working capital requirements and slightly higher net income. Capital expenditures, totaling $73.8 million, were made to construct a new world headquarters in Latrobe, Pa., and a manufacturing facility in China, for new client-server information systems and to upgrade machinery and equipment. Additionally, the company paid $17.5 million of cash dividends and paid $19.0 million to acquire five small companies throughout 1997. The effects of the acquisitions were not significant to the company's results.

On January 31, 1997, the company initiated a stock repurchase program to repurchase from time-to-time up to a total of 1.6 million shares of its outstanding capital stock. During 1997, the company repurchased approximately 781,000 shares of its common stock at a total cost of approximately $28.7 million. The repurchases were made in the open market or in negotiated or other permissible transactions. The repurchase of common stock was financed principally by cash from operations and short-term borrowings.

Capital expenditures for fiscal 2000 are estimated to be $65.0 to $75.0 million and will be used primarily for new business systems at JLK, equipment to support new products and to upgrade machinery and equipment.

FINANCIAL CONDITION

At June 30, 1999, Kennametal's total assets were $2.0 billion, a decline of 4 percent from $2.1 billion at June 30, 1998. Net working capital was $373.6 million, a decrease of 17 percent from $448.0 million for the previous year due primarily to the securitization of accounts receivable in June 1999. The ratio of current assets to current liabilities was 2.0 in 1999, compared with 2.2 in 1998.

Accounts receivable declined 30 percent to $231.3 million because of the $82.0 million securitization of accounts receivable in June 1999, partially offset by increased sales levels. Inventories declined to $434.5 million due to the reduction in the number of products offered as a result of the product pruning initiative partially offset by the effects of acquisitions and from additional Full Service Supply programs. Inventory turnover was 2.6 in 1999 and 3.1 in 1998.

Total debt (including capital lease obligations) decreased 11 percent to $861.3 million in 1999, as a result of the use of the proceeds from the securitization of accounts receivable to repay term debt and reduced capital spending in the second half of the year. The ratio of total debt-to-total capital was 51.9 percent in 1999 as compared with 55.4 percent in 1998. Cash from operations and the company's debt capacity are expected to continue to be sufficient to fund capital expenditures, debt service obligations, dividend payments and operating requirements. In the future, the company may consider refinancing a portion of its variable-rate long-term debt to further reduce the exposure to fluctuating interest rates.

ENVIRONMENTAL MATTERS

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company is currently named as a potentially responsible party at two Superfund sites in the United States. However, it is management's opinion, based on its evaluations and discussions with outside counsel and independent consultants, that the ultimate resolution of these environmental matters will not have a material adverse effect on the results of operations, financial position or cash flow of the company. See Note 16 to the consolidated financial statements for additional information.

MARKET RISK

The company is exposed to certain market risks arising from transactions that are entered into in the normal course of business. The company seeks to minimize these risks through its normal operating and financing activities and, when considered appropriate, through the use of derivative financial instruments. The company does not enter into derivative transactions for speculative purposes and therefore holds no derivative instruments for trading purposes. The company's objective in managing these exposures is to reduce both earnings and cash flow volatility to allow management to focus its attention on its core business operations. The company does not hedge its foreign currency or interest rate exposures in a manner that completely eliminates the effect of changes in foreign currency or interest rates on consolidated net income.

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

The company typically enters into forward contracts, with a duration of less than 90 days, to hedge these transaction exposures by either purchasing or selling specified amounts of foreign currency at a specified date. The company's principal foreign currency exposures relate to the German mark, British pound, Canadian dollar and Japanese yen.

By borrowing in local currency, the company reduces its exposure to translation gains or losses. The average interest rate to service this foreign debt is comparable to current U.S. interest rates.

At June 30, 1999, the company had six outstanding foreign exchange forward contracts to sell foreign currency. A hypothetical 10 percent change in the applicable 1999 year-end forward rates would result in an increase or decrease in pretax income of approximately $1.0 million related to these positions.

The company's exposure to market risk for changes in interest rates relates primarily to the company's long-term debt obligations. The company seeks to manage its interest rate risk in order to balance its exposure between fixed and floating rates while attempting to minimize its borrowing costs. To achieve these objectives, the company primarily uses interest rate swap agreements to manage net exposure to interest rate changes related to its borrowings.

At June 30, 1999, the company had two interest rate swap agreements outstanding that effectively convert a notional amount of $50.0 million from floating rates to fixed rates. These agreements mature in April 2002. There were no outstanding interest rate swap agreements at June 30, 1998.

At June 30, 1999 and 1998, the company had $861.3 million and $967.7 million of debt outstanding at effective interest rates of 6.11 percent and 6.82 percent, respectively, after the impact of interest rate swaps is taken into account. A hypothetical change of 10 percent in the company's effective interest rate from year-end 1999 levels would increase or decrease annual interest expense by approximately $5.0 million.

The company is exposed to counterparty credit risk for nonperformance and, in the unlikely event of nonperformance, to market risk for changes in interest and currency rates. The company manages exposure to counterparty credit risk though minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk. The company does not anticipate nonperformance by any of the counterparties.

The company's investment in Toshiba Tungaloy is classified as an available-for-sale security and, therefore, is carried at its quoted market value, as adjusted for currency exchange rates. At June 30, 1999, the carrying and fair value of this investment was $13.4 million. A 10 percent change in the quoted market value of TT common stock at June 30, 1999 would result in a $1.3 million increase or decrease in fair value.

See Note 14 to the consolidated financial statements for additional information.

YEAR 2000

Management believes that the company has substantially mitigated its exposure relative to year 2000 issues for both information and non-information technology systems. The company initiated a program beginning in 1996 to assess the exposure to the year 2000 issue, and to prepare its computer systems, computer applications and other systems for the year 2000. A management committee actively monitors the status of the readiness program of each of the company's business units. The company has currently completed more than 90 percent of the tasks identified to remediate the year 2000 exposure, with the majority of the remaining tasks targeted for September 1999 completion. The information systems being utilized by the company that were not year 2000 compliant have been replaced with compliant systems, or are in the process of being modified to become compliant. Year 2000 exposure related to information systems has been substantially mitigated throughout key metalworking and mining and construction operations through the implementation of SAP R3 for most business processes.

The company is in the process of modifying existing non-compliant business systems in the former Greenfield industrial product and engineered product operations to ensure these operations are supported by a year 2000 compliant information system. These modifications are expected to be completed and tested by September 1999.

At JLK, HK Systems' Enterprise Information System currently is being implemented in two phases and will address the year 2000 issue. The initial phase of this implementation was tested and completed in August 1999. The second phase is expected to be implemented in late 1999 and completed thereafter. Due to the timing of the completion of the second phase, the company currently is modifying the existing non-compliant systems to ensure the remainder of these operations are supported by a year 2000 compliant information system. These modifications are expected to be completed by September 1999. Management has determined that sufficient internal resources are available and adequate time exists to implement these procedures.

The company also has completed an assessment of the impact of this issue on its non-information technology systems, including the company's personal computers, embedded technology in manufacturing and processing equipment, and other non-information technology items, and has determined that the majority of these systems are year 2000 compliant. The company identified a few non-information systems, critical to the manufacturing operations, as not being year 2000 compliant and remediated these systems. The company is currently taking action to remedy these other non-compliant systems through replacement of or modification to the existing systems. Such remedies will be tested for year 2000 compliance prior to September 1999. Other systems that have been identified as not year 2000 compliant are not considered "mission critical" systems to the overall manufacturing operations, however, management expects to remedy these systems by September 1999. Contingency plans include shifting production processes to year 2000 compliant manufacturing operations. The company does not anticipate employing this contingency plan.

The company estimates total year 2000 expenditures to be approximately $48.0 to $50.0 million, half of which are for computer hardware to replace non-compliant computer systems and the other half to replace non-compliant computer software, including software implementation and employee training. Expenditures to rectify non-compliant personal computers and various non-information technology items are estimated to be an additional $5.0 million. These costs include both internal and external personnel costs related to the assessment and remediation processes, as well as the cost of purchasing certain hardware and software. There can be no guarantee that these estimates will be achieved and actual results could differ from those planned.

The majority of these costs were incurred in 1997 and 1996. Total expenditures expected to be incurred in 2000 are estimated to be approximately $5.0 million related to the year 2000 issues. Expenditures incurred in 1999 approximated $13.5 million, over half of which related to computer hardware and software licenses. Cash flows from operations have provided, and should continue to provide, funding for these expenditures.

Management believes the most significant impact of the year 2000 issue could be an interrupted supply of goods and services from the company's vendors. The company has an ongoing effort to gain assurances and certifications of suppliers' readiness programs. To date, the results of this effort indicate that the company's suppliers should be able to provide the company with sufficient goods and services in the year 2000. To mitigate this risk, the company is modestly increasing safety stock of critical materials and supplies. The company will continue to expand its efforts to ensure that major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation, also will be prepared for the year 2000, and will address any failures on their part to become year 2000 compliant. Contingency plans may include purchasing raw materials and supplies from alternate certified vendors and a further increase of safety stock of critical materials and supplies. The company does not anticipate employing this contingency plan.

There can be no guarantee that the efforts of the company or of third parties, whose systems the company relies upon, will completely mitigate a year 2000 problem that could have a material adverse affect on the company's operations or financial results. While such problems could affect important operations of the company and its subsidiaries, either directly or indirectly, in a significant manner, the company cannot at present estimate either the likelihood or the potential cost of such failures. However, the company will continue to aggressively pursue all the year 2000 remediation activities discussed herein.

CONVERSION TO THE EURO CURRENCY

On January 1, 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency, the Euro. The company conducts business in member countries. The transition period for the introduction of the Euro is January 1, 1999 to June 30, 2002. The company has been addressing the issues involved with the introduction of the Euro. The company's current business systems have the ability to perform transactions denominated in the Euro. Other than the costs associated with the new systems as part of the year 2000 remediation, there were no additional costs incurred by the company as a result of this conversion.

Currently, the company has different price structures for goods being sold in the member countries due to, among other things, historical differences in the volatility of the currencies of those individual countries. Price structure harmonization has occurred over the past several years and is expected to continue as these member countries become a unified common market. This harmonization has not significantly affected the past financial results of the company nor is it expected to have a significant impact in the future on the company's financial results.

Further, the company's competitors will have to address the Euro conversion as those companies currently have manufacturing facilities and distribution networks in member countries. Management believes the conversion to the Euro will not have a significant impact on any existing material contracts, nor should it have any adverse tax or accounting consequences. Accordingly, conversion to the Euro is not expected to have a material effect on the company's operations or financial results.

EFFECTS OF INFLATION

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

NEW ACCOUNTING STANDARDS

The company adopted SFAS No. 130, "Reporting Comprehensive Income," issued in June 1997. This statement establishes standards for reporting comprehensive income and its components in a full set of general-purpose financial statements. This new standard did not have a financial impact on the company.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued. SFAS No. 131 introduced a new model for segment reporting called the "management approach." The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Accordingly, the company reports three worldwide segments consisting of Metalworking; Industrial Supply; and Engineered Products, Mining & Construction and Other. Segment information for 1998 and 1997 has been restated to meet the requirements of SFAS No. 131. This new standard did not have a financial impact on the company. See Note 18 to the consolidated financial statements for additional information.

In February 1998, SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," was issued. The implementation of SFAS No. 132 in 1999 revised certain footnote disclosure requirements related to pension and other retiree benefits. This new standard did not have a financial impact on the company. See Note 12 to the consolidated financial statements for the required disclosures.

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The company must adopt the standard by the beginning of the first quarter of fiscal 2001. SFAS No. 133 establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments imbedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The company currently is evaluating the effects of SFAS No. 133 and does not believe that the adoption of this standard will have a material effect on the company's operations or financial results.

OUTLOOK

At the end of fiscal 1999, conditions in the markets served by the company appear to have stabilized. The company will remain focused on controlling costs, reducing working capital, reducing debt and implementing programs to improve sales.

FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results may materially differ from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific are not sustained, risks associated with integrating businesses, demands on management resources, risks associated with international markets such as currency exchange rates and competition, risks associated with environmental remediation, the effect of third party or company failures to achieve timely remediation of year 2000 issues, and the effect of the conversion to the Euro on the company's operations. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

FINANCIAL GRAPHS

Financial graphs contained on Page 22 of the Annual Report are not included. All graph data is contained in the eleven-year financial highlights on Pages 44 and 45 of the Annual Report.

CONSOLIDATED STATEMENTS OF INCOME

Year ended June 30	1999	1998	1997
(in thousands, except per share data)			
OPERATIONS			
Net sales	$1,902,916	$1,678,388	$1,156,343
Cost of goods sold	1,198,651	994,481	668,415
Gross profit	704,265	683,907	487,928
Research and development expenses	18,797	20,397	24,105
Selling, marketing and distribution expenses	394,204	339,772	263,980
General and administrative expenses	104,043	112,519	69,911
Restructuring and asset impairment charges	13,937	--	--
Amortization of intangibles	25,788	15,648	2,907
Operating income	147,496	195,571	127,025
Interest expense	68,594	59,536	10,393
Other expense (income)	492	5,459	(1,531)
Income before provision for income taxes and minority interest	78,410	130,576	118,163
Provision for income taxes	32,900	53,900	44,900
Minority interest	6,394	5,479	1,231
Net income	$ 39,116	$ 71,197	$ 72,032
PER SHARE DATA			
Basic earnings per share	$ 1.31	$ 2.61	$ 2.71
Diluted earnings per share	$ 1.31	$ 2.58	$ 2.69
Dividends per share	$ 0.68	$ 0.68	$ 0.66
Weighted average shares outstanding	29,917	27,263	26,575
Diluted weighted average shares outstanding	29,960	27,567	26,786

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As of June 30 (in thousands)	1999	1998
ASSETS		
Current assets:		
Cash and equivalents	$ 17,408	$ 18,366
Marketable equity securities available-for-sale	13,436	--
Accounts receivable, less allowance for doubtful accounts of $15,269 and $11,974	231,287	332,677
Inventories	434,462	436,472
Deferred income taxes	44,182	31,316
Other current assets	9,673	6,230
Total current assets	750,448	825,061
Property, plant and equipment:		
Land and buildings	235,375	222,426
Machinery and equipment	756,917	690,143
Less accumulated depreciation	(452,492)	(386,642)
Net property, plant and equipment	539,800	525,927
Other assets:		
Investments in affiliated companies	844	13,740
Intangible assets, less accumulated amortization of $64,096 and $39,408	685,695	706,619
Deferred income taxes	33,996	39,426
Other	32,865	28,220
Total other assets	753,400	788,005
Total assets	$2,043,648	$2,138,993
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 117,217	$ 78,632
Notes payable to banks	26,222	48,103
Accounts payable	89,339	115,373
Accrued vacation pay	27,323	21,523
Accrued payroll	19,730	30,600
Other current liabilities	97,035	82,838
Total current liabilities	376,866	377,069
Long-term debt and capital leases, less current maturities	717,852	840,932
Deferred income taxes	53,108	45,253
Other liabilities	97,186	98,073
Total liabilities	1,245,012	1,361,327
Minority interest in consolidated subsidiaries	53,505	42,206
SHAREOWNERS' EQUITY		
Preferred stock, 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 32,903 and 32,820 shares issued	41,128	41,025
Additional paid-in capital	325,382	320,645
Retained earnings	477,593	458,805
Treasury shares, at cost; 2,836 and 2,991 shares held	(57,199)	(59,131)
Unearned compensation	(3,330)	--
Accumulated other comprehensive loss	(38,443)	(25,884)
Total shareowners' equity	745,131	735,460
Total liabilities and shareowners' equity	$2,043,648	$2,138,993

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30 (in thousands)	1999	1998	1997
OPERATING ACTIVITIES			
Net income	$ 39,116	$ 71,197	$ 72,032
Adjustments for noncash items:			
Depreciation	70,203	51,663	38,492
Amortization	25,788	15,648	2,907
Restructuring and asset impairment charges	17,119	--	--
Other	6,583	29,705	5,356
Changes in certain assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable	25,973	(17,006)	(8,032)
Proceeds from accounts receivable securitization	82,000	--	--
Inventories	(3,867)	(37,231)	1,379
Accounts payable and accrued liabilities	(32,701)	(8,791)	(600)
Other	(3,662)	(3,661)	(11,684)
Net cash flow from operating activities	226,552	101,524	99,850
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(94,993)	(104,774)	(73,779)
Disposals of property, plant and equipment	9,555	5,132	1,063
Purchase of marketable equity securities	(12,162)	--	--
Acquisitions, net of cash	(5,164)	(755,338)	(18,995)
Divestitures, net of cash	1,617	62,052	--
Purchase of subsidiary stock	(332)	(14,197)	--
Other	(503)	(5,992)	907
Net cash flow used for investing activities	(101,982)	(813,117)	(90,804)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	(23,328)	(71,537)	55,689
Increase in long-term debt	159,285	803,400	943
Decrease in long-term debt	(242,240)	(270,455)	(19,359)
Net proceeds from issuance and sale of common stock	--	171,439	--
Net proceeds from issuance and sale of subsidiary stock	--	90,430	--
Purchase of treasury stock	--	--	(28,657)
Dividend reinvestment and employee stock plans	3,299	10,764	5,623
Cash dividends paid to shareowners	(20,328)	(18,475)	(17,543)
Other	(1,045)	(5,511)	--
Net cash flow from (used for) financing activities	(124,357)	710,055	(3,304)
Effect of exchange rate changes on cash	(1,171)	(1,965)	(963)
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	(958)	(3,503)	4,779
Cash and equivalents, beginning	18,366	21,869	17,090
Cash and equivalents, ending	$ 17,408	$ 18,366	$ 21,869
SUPPLEMENTAL DISCLOSURES			
Interest paid	$ 67,065	$ 61,692	$ 10,563
Income taxes paid	21,738	47,052	45,307

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

Year ended June 30	1999	1998	1997
(in thousands)			
CAPITAL STOCK			
Balance at beginning of year	$ 41,025	$ 36,712	$ 36,712
Issuance of common stock	--	4,313	--
Issuance of restricted stock	103	--	--
Balance at end of year	41,128	41,025	36,712
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	320,645	91,049	87,417
Dividend reinvestment and stock purchase plan	340	819	1,132
Employee stock plans	1,403	6,676	2,500
Issuance of common stock	--	167,126	--
Issuance of subsidiary stock	--	54,975	--
Issuance of restricted stock	2,994	--	--
Balance at end of year	325,382	320,645	91,049
RETAINED EARNINGS			
Balance at beginning of year	458,805	406,083	351,594
Net income	39,116	71,197	72,032
Cash dividends	(20,328)	(18,475)	(17,543)
Balance at end of year	477,593	458,805	406,083
TREASURY SHARES			
Balance at beginning of year	(59,131)	(62,400)	(35,734)
Purchase of treasury stock	--	--	(28,657)
Dividend reinvestment and stock purchase plan	392	292	708
Issuance of restricted stock	376	--	--
Employee stock plans	1,164	2,977	1,283
Balance at end of year	(57,199)	(59,131)	(62,400)
UNEARNED COMPENSATION			
Balance at beginning of year	--	--	--
Issuance of restricted stock	(3,473)	--	--
Amortization of unearned compensation	143	--	--
Balance at end of year	(3,330)	--	--
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year	(25,884)	(11,836)	(1,040)
Unrealized gain on marketable equity securities available-for-sale, net of tax	1,160	--	--
Minimum pension liability adjustment	(1,265)	--	--
Foreign currency translation adjustments	(12,454)	(14,048)	(10,796)
Other comprehensive loss	(12,559)	(14,048)	(10,796)
Balance at end of year	(38,443)	(25,884)	(11,836)
Total shareowners' equity, June 30	$ 745,131	$ 735,460	$ 459,608
COMPREHENSIVE INCOME			
Net income	$ 39,116	$ 71,197	$ 72,032
Other comprehensive loss	(12,559)	(14,048)	(10,796)
Comprehensive income	$ 26,557	$ 57,149	$ 61,236

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
NATURE OF OPERATIONS

The company is a global enterprise engaged in the manufacture, purchase and distribution of a broad range of tools, tooling systems, industrial supplies, wear-resistant parts and services primarily for the metalworking, mining and highway construction and a wide variety of other industries.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies is presented below to assist in evaluating the company's consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS

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

MARKETABLE EQUITY SECURITIES AVAILABLE-FOR-SALE

The company's investment in marketable equity securities is accounted for as an available-for-sale security under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This investment is reported at fair value, as determined through quoted market sources. The unrealized gain on this investment is recorded as a component of accumulated other comprehensive loss, net of tax.

ACCOUNTS RECEIVABLE

Accounts receivable included $5.3 million and $15.1 million of receivables from affiliates at June 30, 1999 and 1998, respectively.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

INTANGIBLE ASSETS

Intangible assets, which include the excess of cost over net assets of acquired companies, are amortized using the straight-line method over periods ranging from 2 to 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired entities. The net book value of goodwill amounted to $671.4 million and $690.6 million at June 30, 1999 and 1998, respectively.

DEFERRED FINANCING FEES

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

EARNINGS PER SHARE

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

For purposes of determining the number of dilutive shares outstanding, weighted average shares outstanding for basic earnings per share calculations were increased from the dilutive effect of unexercised stock options by 43,453; 303,539; and 210,706 shares in 1999, 1998 and 1997, respectively.

ISSUANCE OF SUBSIDIARY STOCK

The company accounts for sales of subsidiary stock as capital transactions in the consolidated financial statements.

REVENUE RECOGNITION

The company recognizes revenue from product sales upon transfer of title to the customer.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

INCOME TAXES

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

FOREIGN CURRENCY TRANSLATION

For the most part, assets and liabilities of international operations are translated into U.S. dollars using year-end exchange rates, while revenues and expenses are translated at average exchange rates throughout the year. The resulting net translation adjustments are recorded as a component of accumulated other comprehensive loss.

DERIVATIVE FINANCIAL INSTRUMENTS

From time to time, the company uses derivative financial instruments to hedge a portion of the exposures to fluctuations in foreign currency exchange rates and interest rates. The company accounts for derivative instruments as a hedge of the related asset, liability, firm commitment or anticipated transaction when designated as a hedge of such items. The company does not enter into derivative transactions for speculative purposes and therefore holds no derivative instruments for trading purposes. Gains and losses on foreign currency forward contracts used to hedge foreign currency exposures of underlying receivables and payables are recognized in Other Expense (Income). Changes in the amount to be received or paid under interest rate swap agreements used to manage net exposure to interest rate changes related to its borrowings are recognized in Interest Expense.

NEW ACCOUNTING STANDARDS

The company adopted SFAS No. 130, "Reporting Comprehensive Income," issued in June 1997. This statement establishes standards for reporting comprehensive income and its components in a full set of general-purpose financial statements. This new standard did not have a financial impact on the company.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" was issued. SFAS No. 131 introduced a new model for segment reporting called the "management approach." The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Accordingly, the company reports three worldwide segments consisting of Metalworking; Industrial Supply; and Engineered Products, Mining & Construction and Other. Segment information for 1998 and 1997 has been restated to meet the requirements of SFAS No. 131. This new standard did not have a financial impact on the company.

In February 1998, SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," was issued. The implementation of SFAS No. 132 in 1999 revised certain footnote disclosure requirements related to pension and other retiree benefits. This new standard did not have a financial impact on the company.

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The company must adopt the standard by the beginning of the first quarter of fiscal 2001. SFAS No. 133 establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments imbedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The company currently is evaluating the effects of SFAS No. 133 and does not believe that the adoption will have a material effect on the financial statements or results of operations of the company.

RECLASSIFICATIONS

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

NOTE 3
ACQUISITIONS AND DIVESTITURES

On November 17, 1997, the company completed the acquisition of Greenfield Industries, Inc. (Greenfield) for approximately $1.0 billion, including $324.4 million in assumed Greenfield debt and convertible redeemable preferred securities and transaction costs.

The Greenfield acquisition was recorded using the purchase method of accounting and, accordingly, the results of operations of Greenfield have been included in the company's results from the date of acquisition. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values at date of acquisition. The excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized over 40 years.

Additionally, the company also made several other acquisitions in 1999 and 1998 to expand its product offering and distribution channels. These acquisitions were accounted for using the purchase method of accounting and their results have been included in the company's results from the respective dates of acquisition. Except for Greenfield, the pro forma effects, individually and collectively, of the acquisitions in the company's consolidated financial statements would not materially affect the reported results.

The allocation of the purchase price to assets acquired and liabilities assumed of Greenfield is as follows:

(in thousands)	
Working capital, other than cash	$ 171,710
Property, plant and equipment	167,798
Other assets	9,246
Other liabilities	(28,510)
Long-term debt	(318,146)
Goodwill	654,117
Net purchase price	$ 656,215

Pro forma results of operations for the acquisition of Greenfield, but excluding the effects of all other acquisitions, are based on the historical financial statements of the company and Greenfield adjusted to give effect to the acquisition of Greenfield. The pro forma results of operations assume that the acquisition of Greenfield occurred as of the first day of the company's 1997 fiscal year (July 1, 1996).

(in thousands, except per share data)	1998	1997
Net sales	$1,913,190	$1,683,362
Net income	63,623	51,036
Basic earnings per share	2.33	1.92
Diluted earnings per share	2.31	1.91

The pro forma financial information does not purport to present what the company's results of operations would actually have been if the acquisition of Greenfield had occurred on the assumed date, as specified above, or to project the company's financial condition or results of operations for any future period.

On June 26, 1998, the company sold the Marine Products division of Greenfield which operated as Rule Industries, Inc. (Rule). The company acquired Rule as part of its acquisition of Greenfield and, for strategic reasons, chose to divest itself of this part of the business. Rule's Marine Products division is a worldwide market leader in accessory products for the recreational and small commercial boat markets. Annual sales of the Marine Products division were approximately $25.0 million. Cash proceeds from the sale were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield. No gain on sale was recorded as the difference between the cash proceeds and the net book value of Rule's assets was recorded as a reduction of previously recorded goodwill associated with the acquisition of Greenfield, as specified by accounting rules.

NOTE 4
STOCK ISSUANCES

On March 20, 1998, the Company sold 3.45 million shares of common stock resulting in net proceeds of $171.4 million. The proceeds were used to reduce a portion of the company's long-term debt incurred in connection with the acquisition of Greenfield.

On July 2, 1997, an initial public offering (IPO) of approximately 4.9 million shares of common stock of JLK Direct Distribution Inc. (JLK), a subsidiary of the company, was consummated at a price of $20.00 per share. JLK operates the industrial supply operations consisting of the company's wholly owned J&L Industrial Supply (J&L) subsidiary and its Full Service Supply programs. The net proceeds from the offering were $90.4 million and represented the sale of approximately 20 percent of JLK's common stock. The transaction has been accounted for as a capital transaction in the consolidated financial statements. The net proceeds were used by JLK to repay $20.0 million of indebtedness related to a dividend to the company and $20.0 million related to intercompany obligations to the company incurred in 1997. The company used these proceeds to repay short-term debt. Additional net proceeds of $50.4 million were used

to make acquisitions in 1998. The company's ownership in JLK increased to approximately 83 percent due to treasury stock purchases made by JLK since the IPO.

NOTE 5
MARKETABLE EQUITY SECURITIES AVAILABLE-FOR-SALE

On January 18, 1999, the company entered into a business cooperation agreement with Toshiba Tungaloy Co., Ltd. (TT), a leading Japanese manufacturer of consumable metalcutting products, to enhance the global business prospects for metalcutting tools of both companies. The agreement includes various joint activities in areas such as product research and development, private labeling, cross-licensing, and sales and marketing. As part of the agreement, the company purchased approximately 4.9 percent of the outstanding shares of TT in a private transaction from TT's largest shareholder, Toshiba Corporation, for approximately $15.9 million, including the costs of the transaction. In order to enter into this agreement, the company purchased the shares at a predetermined price. In accordance with accounting rules, the company realized a one-time charge of approximately $3.8 million due to the difference between the cost ($15.9 million) and the fair market value of the securities on the date the securities were purchased ($12.1 million). Due to the provisions of this agreement, the company was not able to record this difference as an asset. This charge has been recorded as a component of selling, marketing and distribution expenses. The gross unrealized gain on this investment is $1.9 million at June 30, 1999.

NOTE 6
ACCOUNTS RECEIVABLE SECURITIZATION PROGRAM

On June 18, 1999, the company entered into an agreement with a financial institution whereby the company securitizes, on a continuous basis, an undivided interest in a specific pool of the company's domestic trade accounts receivable. Pursuant to this agreement, the company and several of its domestic subsidiaries sell their domestic accounts receivable to Kennametal Receivables Corporation, a wholly owned, bankruptcy-remote subsidiary (KRC). KRC was formed to purchase these accounts receivable and sell participating interests in such accounts receivable to the financial institution which, in turn, purchases and receives ownership and security interests in those assets. As collections reduce the amount of accounts receivable included in the pool, the company and the participating domestic subsidiaries sell new accounts receivable to KRC which, in turn, securitizes these new accounts receivable with the financial institution.

The company is permitted to receive proceeds of up to $100.0 million from the securitization of accounts receivable under this agreement. The financial institution charges the company based on the level of accounts receivable securitized under this agreement and the commercial paper market rates plus the financial institution's cost to administer the program. The costs incurred by the company under this program were $0.2 million in 1999 and are accounted for as a component of Other Expense (Income). At June 30, 1999, the company received proceeds of $82.0 million under this program. The proceeds from the securitization were used to permanently reduce outstanding term-debt borrowings under the Bank Credit Agreement (see Note 9).

NOTE 7
INVENTORIES

Inventories consisted of the following:

(in thousands)	1999	1998
Finished goods	$318,736	$302,374
Work in process and powder blends	117,987	117,428
Raw materials and supplies	32,619	53,449
Inventories at current cost	469,342	473,251
Less LIFO valuation	(34,880)	(36,779)
Total inventories	$434,462	$436,472

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of U.S. inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 49 and 45 percent of total inventories at June 30, 1999 and 1998, respectively. The company uses the LIFO method in order to more closely match current costs with current revenues, thereby reducing the effects of inflation on earnings.

In 1999, the company recognized a $6.9 million charge which represents a write-down of certain product lines that are being discontinued as part of a program to streamline and optimize the company's global metalworking product offering (see Note 13).

NOTE 8
OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following:

(in thousands)	1999	1998
Accrued benefits	$11,083	$ 8,578
Accrued employee programs	10,041	7,227
Federal and state income taxes	9,487	1,847
Payroll, state and local taxes	7,552	12,126
Accrued interest expense	6,422	4,894
Accrued product warranty costs	3,765	4,266
Other accrued expenses	48,685	43,900
Total other current liabilities	$97,035	$82,838

NOTE 9
LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations consisted of the following:

(in thousands)	1999	1998
Bank Credit Agreement:		
Revolving credit loans, 6.125% to 6.476% in 1999, 6.785% to 6.815% in 1998, due 2003	$ 671,100	$ 609,300
Term loan, 6.179% in 1999, 6.785% in 1998, due in installments through 2000	109,250	266,250
Borrowings outside the U.S., varying from 1.62% to 9.20% in 1999 and 6.25% to 10.25% in 1998, due in installments through 2013	33,131	18,462
Lease of office facilities with terms expiring through 2008 at 4.45% to 4.73%	9,654	11,004
Other	11,934	14,548
Total debt and capital leases	835,069	919,564
Less current maturities:		
Long-term debt	(116,036)	(77,522)
Capital leases	(1,181)	(1,110)
Total current maturities	(117,217)	(78,632)
Long-term debt and capital leases	$ 717,852	$ 840,932

In connection with the acquisition of Greenfield, the company entered into a $1.4 billion Bank Credit Agreement (Agreement). Subject to certain conditions, the Agreement permitted term loans of up to $500.0 million and revolving credit loans of up to $900.0 million for working capital, capital expenditures and general corporate purposes. Interest payable under the term loan and revolving credit loans are currently based on LIBOR plus 1.125%. The Agreement also includes a commitment fee on the revolving credit loans of 0.25% of the unused balance.

The Agreement also contains various restrictive and affirmative covenants requiring the maintenance of certain financial ratios. The term loan is subject to mandatory amortization, which commenced on November 30, 1998, and was scheduled to mature on August 31, 2002. As a result of permanent reductions of the term loan, the term loan will now mature on May 31, 2000. The revolving credit loans mature on August 31, 2002.

In 1999, the term loan was permanently reduced with the proceeds received from the accounts receivable securitization program (see Note 6). In 1998, the term loan was permanently reduced with the net proceeds received in connection with the issuance of company stock and from the sale of certain assets (see Notes 3 and 4).

Future principal maturities of long-term debt are $116.0 million, $4.6 million, $16.6 million, $673.3 million and $1.1 million, respectively, in fiscal years 2000 through 2004. Future minimum lease payments under capital leases for the next five years and in total are as follows:

(in thousands)	
Year ending June 30:	
2000	$ 1,719
2001	1,549
2002	1,172
2003	1,126
2004	1,126
After 2004	5,440
Total future minimum lease payments	12,132
Less amount representing interest	(2,478)
Present value of minimum lease payments	$ 9,654

Future minimum lease payments under operating leases with noncancelable terms

beyond one year were not significant at June 30, 1999.

NOTE 10
NOTES PAYABLE AND LINES OF CREDIT

Notes payable to banks of $26.2 million and $48.1 million at June 30, 1999 and 1998, respectively, represent short-term borrowings under U.S. and international credit lines with commercial banks. These credit lines totaled approximately $142.2 million at June 30, 1999, of which $116.0 million was unused. The weighted average interest rate for short-term borrowings was 6.1 percent and 7.4 percent at June 30, 1999 and 1998, respectively.

NOTE 11
INCOME TAXES

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

(in thousands)	1999	1998	1997
Income before provision for income taxes:			
United States	$36,858	$ 93,775	$ 95,029
International	41,552	36,801	23,134
Total income before provision for income taxes	$78,410	$130,576	$118,163
Current income taxes:			
Federal	$18,300	$ 17,200	$ 30,600
State	3,300	5,700	6,000
International	11,900	10,100	4,400
Total	33,500	33,000	41,000
Deferred income taxes	(600)	20,900	3,900
Provision for income taxes	$32,900	$ 53,900	$ 44,900
Effective tax rate	42.0%	41.3%	38.0%

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

(in thousands)	1999	1998	1997
Income taxes at U.S. statutory rate	$27,444	$45,702	$41,357
State income taxes, net of federal tax benefits	2,397	3,684	3,917
Nondeductible goodwill	5,630	3,944	397
Combined tax effects of international income	203	2,944	(1,990)
International losses with no related tax benefits	1,915	1,562	102
Tax benefits from costs to repay senior debt	(3,607)	--	--
Other	(1,082)	(3,936)	1,117
Provision for income taxes	$32,900	$53,900	$44,900

Deferred tax assets and liabilities consisted of the following:

(in thousands)	1999	1998
Deferred tax assets (liabilities):		
Other postretirement benefits	$ 19,817	$ 18,350
Inventory valuation and reserves	18,515	12,779
Other accruals	13,369	7,945
Accrued employee benefits	12,945	8,430
Net operating loss carryforwards	10,176	20,270
Pension benefits	(6,898)	(2,860)
Accumulated depreciation	(39,799)	(36,557)
Total	28,125	28,357
Less valuation allowance	(4,857)	(2,868)
Net deferred tax assets	$ 23,268	$ 25,489

Deferred income taxes have not been provided on cumulative undistributed earnings of international subsidiaries and affiliates. At June 30, 1999, unremitted earnings of non-U.S. subsidiaries were determined to be permanently reinvested. It is not practical to estimate the income tax benefit that might be incurred if earnings were remitted to the United States.

Included in deferred tax assets at June 30, 1999, are unrealized tax benefits totaling $10.2 million related to net operating loss carryforwards. The realization of these tax benefits is contingent on future taxable income in certain international operations. Of this amount, approximately $4.9 million relates to net operating loss carryforwards in Germany, which can be carried forward indefinitely. The company's operations in Germany are profitable.

The remaining unrealized tax benefits relate to net operating loss carryforwards in certain other international operations. The company established a valuation

allowance of $1.1 million to offset the deferred tax benefits that may not be realized in the foreseeable future.

During the fourth quarter of 1998, the company reached a settlement with the German tax authorities related to tax uncertainties associated with the acquisition of Hertel AG in 1994. As a result, the subsidiary increased its net operating loss carryforwards in Germany by $5.9 million. A portion of this amount was used to reduce previously recorded goodwill associated with the acquisition of Hertel AG as specified by accounting rules.

NOTE 12
PENSION AND OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

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

The company presently provides varying levels of postretirement health care and life insurance benefits to most U.S. employees. Postretirement health care benefits are available to employees and their spouses retiring on or after age 55 with ten or more years of service after age 40. Beginning with retirements on or after January 1, 1998, Kennametal's portion of the costs of postretirement health care benefits will be capped at 1996 levels.

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

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 312,394	$ 232,072	$ 40,627	$ 34,580
Service cost	12,126	11,810	1,196	1,080
Interest cost	18,268	19,646	2,633	2,646
Participant contributions	864	119	--	--
Plan amendments	--	--	2,153	--
Actuarial (gains) losses	12,406	11,624	(5,329)	1,384
Benefits paid	(16,965)	(11,527)	(3,358)	(3,881)
Effect of acquired businesses	16,651	49,516	--	4,818
Special termination benefits	2,731	--	--	--
Foreign currency translation adjustments	(1,373)	(866)	--	--
Benefit obligation, end of year	$ 357,102	$ 312,394	$ 37,922	$ 40,627
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 422,180	$ 327,646	$ --	$ --
Actual return on plan assets	39,458	60,056	--	--
Company contributions	1,763	446	--	--
Participant contributions	864	119	--	--
Benefits paid	(16,965)	(11,527)	--	--
Effect of acquired businesses	14,114	46,019	--	--
Foreign currency translation adjustments	(457)	(579)	--	--
Fair value of plan assets, end of year	$ 460,957	$ 422,180	$ --	$ --
Funded status of plans	$ 103,855	$ 109,786	$ (37,922)	$ (40,627)
Unrecognized transition obligation	(4,826)	(9,679)	--	--
Unrecognized prior service cost	5,168	5,719	2,296	548
Unrecognized actuarial gains	(106,919)	(113,277)	(8,488)	(3,444)
Minimum pension liability	(1,265)	--	--	--
Net accrued obligation	$ (3,987)	$ (7,451)	$ (44,114)	$ (43,523)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit	$ 12,241	$ 6,774	$ --	$ --
Accrued benefit obligation	(16,228)	(14,225)	(44,114)	(43,523)
Net accrued obligation	$ (3,987)	$ (7,451)	$ (44,114)	$ (43,523)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Prepaid pension benefits are included in other noncurrent assets. Accrued pension benefit obligations are included in other noncurrent liabilities. Accrued postretirement benefit obligations of $40.8 million and $40.2 million at June 30, 1999 and 1998, respectively, are included in other noncurrent liabilities.

Pension plans with accumulated benefit obligations exceeding the fair value of plan assets are as follows:

	Pension Benefits	
(in thousands)	1999	1998
Projected benefit obligation	$55,069	$14,236
Accumulated benefit obligation	53,364	14,031
Fair value of plan assets	33,581	--

The components of net pension benefit and other postretirement cost include the following:

	Pension Benefits			Other Postretirement Benefits		
(in thousands)	1999	1998	1997	1999	1998	1997
Service cost	$ 12,126	$ 11,810	$ 8,605	$ 1,196	$ 1,080	$ 1,220
Interest cost	18,268	19,646	16,049	2,633	2,646	2,427
Expected return on plan assets	(30,505)	(49,151)	(47,554)	--	--	--
Amortization of transition obligation	(2,140)	(2,150)	(2,602)	--	--	--
Amortization of prior service cost	551	551	154	406	47	--
Recognition of actuarial (gains) losses	(2,709)	18,593	24,860	(286)	(107)	(70)
Net (benefit) cost	$ (4,409)	$ (701)	$ (488)	$ 3,949	$ 3,666	$ 3,577

The significant actuarial assumptions used to determine the present value of the net pension and other post retirement benefit obligations were as follows:

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Discount rate:						
U.S. plans	7.5%	7.0%	7.5%	7.5%	7.0%	7.5%
International plans	5.5 - 6.5%	6.0 - 7.0%	7.0 - 8.0%	--	--	--
Rate of future salary increases:						
U.S. plans	4.5%	4.5%	4.5%	--	--	--
International plans	3.0 - 4.3%	4.0 - 4.5%	4.0 - 5.5%	--	--	--
Rate of return on plan assets:						
U.S. plans	9.5%	9.0%	9.0%	--	--	--
International plans	6.5 - 7.0%	7.0 - 8.0%	9.0%	--	--	--

The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 8.5% in 1999 and was assumed to decrease gradually to 5.5% in 2002 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A change of one percentage point in the assumed health care cost trend rates would have the following effects on the total service and interest cost components of the other postretirement benefit obligation at June 30, 1999:

(in thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 200	$ (100)
Effect on other postretirement benefit obligation	1,300	(1,200)

U.S. defined benefit pension plan assets consist principally of common stocks, corporate bonds and U.S. government securities. International defined benefit pension plan assets consist principally of common stocks, corporate bonds and government securities.

In connection with the acquisition of Greenfield during 1998, the company recorded an aggregate net liability of $12.8 million in purchase accounting for the excess of the estimated projected benefit obligations over the fair value of plan assets. These plans were frozen in 1995 and benefits were frozen at 1995 levels.

The company also sponsors several defined contribution pension plans. Pension costs for defined contribution plans were $9.5 million, $9.0 million and $4.3 million in 1999, 1998 and 1997, respectively.

The company provides for postemployment benefits pursuant to SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The company accrues the cost of separation and other benefits provided to former or inactive employees after employment but before retirement. Postemployment benefit costs were not significant in 1999, 1998 and 1997.

NOTE 13
RESTRUCTURING CHARGE

In March 1999, the company's management completed restructuring plans, including several programs to reduce costs, improve operations and enhance customer satisfaction. The costs accrued for these plans were based on management estimates using the latest information available at the time that the accrual was established. The components of the charges are as follows:

(in thousands)	Total Charge	Asset Write-Downs & Other Non-Cash Adjustments	Initial Restructuring Liability
Product rationalization	$ 6,900	$ (6,900)	$ --
Plant closure	4,200	(2,000)	2,200
Impairment of international operations	5,800	(5,800)	--
Voluntary early retirement program	3,937	(2,419)	1,518
Total	$20,837	$(17,119)	$3,718

The product rationalization charge represents a write-down of certain product lines that are being discontinued as part of a program to streamline and optimize the company's global metalworking product offering. This charge is net of salvage value and has been recorded as a component of cost of goods sold. Estimated salvage values were based on estimates of proceeds to be realized through the sale of this inventory outside the normal course of business.

The program will result in a reduction in the number of products offered from an estimated 58,000 to 38,000 and is an extension of the company's initiative to reduce the number of its North American warehouses. By streamlining the product offering, the company anticipates it will improve customer service and inventory turnover, allow for more efficient operations, thereby reducing costs and improving capacity utilization, and eliminate redundancy in its product offering. Sales of these products represent less than 5 percent of global metalworking sales. The company is proactively converting customers from these older products to newer products.

The company also initiated plans to close a drill manufacturing plant in Solon, Ohio. The manufacturing of products made at this plant will be relocated to other existing plants in the United States. The closure will eliminate excess capacity at other plant locations. The company will decommission the existing plant and sell the property in the near future. The charge consists of employee termination benefits for 155 hourly and salaried employees, which is substantially all employees at this plant, and the write-down of assets included in property, plant and equipment, net of salvage value.

The costs resulting from the relocation of employees, hiring and training new employees and other costs resulting from the temporary duplication of certain

operations have not been included in this charge and will be included in
operating expenses as incurred.

The costs related to these items are estimated to be approximately $2.7 million and will be incurred through fiscal 2000.

An asset impairment charge was recorded to write-down, to fair market value, an investment in and net receivables from certain mining and construction international operations in emerging markets as a result of changing market conditions in the regions these operations serve. In the March 1999 quarter, the company completed a study of these operations, the markets for these products, and the current economic situation in these regions, and to provide recommendations for solving operational concerns. As a result of this study and continued economic deterioration in these regions, the company determined that the carrying amount of its investment in and net receivables from these operations would not be recoverable.

A voluntary early retirement benefit program was offered to and accepted by 34 domestic employees. In exchange for their retirement, the company will provide those employees pension and health benefits that would have been earned by the employees through their normal retirement date. As a result of providing these additional pension benefits, approximately $2.4 million of the total cost was funded through the company's pension plan. There are no tax benefits associated with this cost as the company may only deduct actual cash payments made to the pension plan.

The charges for the plant closure, the write-down of the investment in and net receivables from certain international operations, and the voluntary early retirement benefit program are recorded as the restructuring and asset impairment charges. The costs charged against the restructuring cost accrual as of June 30, 1999 were as follows:

(in thousands)	Beginning Accrual	Cash Expenditures	Adjustments	Ending Accrual
Plant closure	$2,200	$ --	$ --	$2,200
Voluntary early retirement program	1,518	(151)	--	1,367
Total	$3,718	$(151)	$ --	$3,567

There were no restructuring or asset impairment charges recorded in 1998 or 1997.

NOTE 14
FINANCIAL INSTRUMENTS

The carrying values and fair values of the company's financial instruments at June 30 are as follows:

	1999		1998	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and equivalents	$ 17,408	$ 17,408	$ 18,366	$ 18,366
Marketable equity securities	13,436	13,436	--	--
Current maturities of long-term debt	116,036	116,036	77,522	77,522
Notes payable to banks	26,222	26,222	48,103	48,103
Long-term debt	709,379	710,105	831,038	831,537

The methods used to estimate the fair value of the company's financial instruments are as follows:

CASH AND EQUIVALENTS, CURRENT MATURITIES OF LONG-TERM DEBT AND NOTES PAYABLE TO BANKS

The carrying amounts approximate their fair value because of the short maturity of the instruments.

MARKETABLE EQUITY SECURITIES

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

LONG-TERM DEBT

Fair value was determined using discounted cash flow analysis and the company's incremental borrowing rates for similar types of arrangements.

The notional amount of the company's derivative financial instruments at June 30 are as follows:

	1999	1998
(in thousands)	Notional Amount	Notional Amount
Foreign currency forward contracts	$12,645	$5,573
Interest rate swap agreements	50,000	--

==

Methods used to estimate the fair value of the company's derivative financial instruments are as follows:

FOREIGN CURRENCY FORWARD CONTRACTS

At June 30, 1999 and 1998, the company had several outstanding foreign exchange forward contracts to sell foreign currency. These contracts mature on or before September 30, 1999. Fair value, which approximates book value, was estimated based on quoted market prices of comparable instruments.

The net unrealized gain or loss on foreign currency forward contracts was not significant at June 30, 1999 and 1998.

INTEREST RATE SWAP AGREEMENTS

At June 30, 1999, the company had two interest rate swap agreements outstanding that effectively convert a notional amount of $50.0 million from floating rates to fixed rates. These agreements mature in April 2002. The company would have received $0.8 million to settle its interest rate swap agreements, representing the excess of fair value over carrying cost of these agreements. Fair value was estimated based on the mark-to-market value of the contracts which closely approximates the amount that the company would receive or pay to terminate the agreements at year end. There were no outstanding interest rate swap agreements at June 30, 1998.

The net payments or receipts under interest rate swap agreements are recorded as a part of interest expense and are not significant. The effect of interest rate swaps on the company's composite interest rate on long-term debt was not significant at June 30, 1999.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the company to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. By policy, the company makes temporary cash investments with high credit quality financial institutions. With respect to trade receivables, concentrations of credit risk are significantly reduced because the company serves numerous customers in many industries and geographic areas. As of June 30, 1999 and 1998, the company had no significant concentrations of credit risk.

NOTE 15
STOCK OPTIONS AND AWARDS

Stock options generally are granted to eligible employees at fair market value at the date of grant. Options are exercisable under specified conditions for up to 10 years from the date of grant. The company has three plans under which options may be granted: the 1992 plan, the 1996 plan and the 1999 plan. No options may be granted under the 1992 plan after October 2002, no options may be granted under the 1996 plan after October 2006 and no options may be granted under the 1999 plan after April 2009. No charges to income have resulted from grants under the 1992 and 1996 plans.

Under provisions of the plans, participants may deliver Kennametal stock in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. Shares valued at $0.1 million (566 shares), $0.2 million (3,961 shares) and $0.5 million (11,684 shares) were delivered in 1999, 1998 and 1997, respectively.

Under the plans, shares may be awarded to eligible employees without payment. The respective plans specify that such shares are awarded in the name of the employee, who has all the rights of a shareowner, subject to certain restrictions or forfeitures. Such awards were not significant in 1999, 1998 and 1997.

The company measures compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, at the time options are granted, no compensation expense for stock options has been recognized in the accompanying consolidated financial statements. If compensation expense had been determined based on the estimated fair value of options granted in 1999, 1998 and 1997, consistent with the methodology in SFAS No. 123, "Accounting for Stock Based Compensation," the effect on the company's 1999, 1998 and 1997 net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share data)	1999	1998	1997
Net income:			
As reported	$39,116	$71,197	$72,032
Pro forma	37,489	65,671	70,140
Basic earnings per share:			
As reported	$ 1.31	$ 2.61	$ 2.71
Pro forma	1.25	2.41	2.64
Diluted earnings per share:			
As reported	$ 1.31	$ 2.58	$ 2.69
Pro forma	1.25	2.38	2.62

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

	1999	1998	1997
Risk-free interest rate	5.10%	6.12%	6.64%

Expected life (years)	5	5	5
Expected volatility	24.4%	23.8%	27.9%
Expected dividend yield	2.6%	1.6%	2.0%

Stock option activity for 1999, 1998 and 1997 is set forth below:

	1999		1998		1997	
(number of options)	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,620,206	$38.40	1,169,367	$30.85	994,244	$30.41
Granted	1,127,750	26.78	727,900	49.82	327,000	31.42
Exercised	(52,950)	23.72	(224,061)	33.05	(116,877)	22.65
Lapsed and forfeited	(59,750)	39.47	(53,000)	50.76	(35,000)	36.45
Options outstanding, end of year	2,635,256	$33.84	1,620,206	$38.40	1,169,367	$30.85
Options exercisable, end of year	1,808,308	$36.54	1,592,854	$38.64	1,132,111	$31.16
Weighted average fair value of options granted during the year		$ 6.02		$13.90		$ 9.48

Stock options outstanding at June 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$16.94 - $21.75	376,006	7.69	$20.74	156,308	$20.61
22.97 - 23.94	278,500	9.79	23.87	258,500	23.94
24.75 - 26.00	285,862	7.69	25.41	135,862	24.75
30.81 - 31.06	194,700	7.01	30.84	194,700	30.84
31.69	398,250	9.08	31.69	--	--
34.06 - 38.00	444,538	6.56	36.74	409,538	36.63
48.56	485,900	8.08	48.56	485,900	48.56
49.25 - 53.97	171,500	8.49	51.97	167,500	52.00
	2,635,256	8.01	$33.84	1,808,308	$36.54

In addition to stock option grants, the 1999 plan permits the award of restricted stock to directors, officers and key employees of the company. During 1999, 113,000 shares of restricted stock were awarded to certain officers of the company. These awards vest over periods of two to three years from the grant date, and accordingly, a portion of the total compensation expense of $3.1 million is considered unearned compensation. Additional unearned compensation of $0.4 million was recognized related to the difference in the stock price between the date of an option grant and the date the employee commenced employment. This option award vests over a three-year period from the grant date. Unearned compensation is amortized to expense over the vesting period. Compensation expense related to these awards was $0.1 million in 1999.

NOTE 16
ENVIRONMENTAL MATTERS

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

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

NOTE 17
SHAREHOLDER RIGHTS PLAN

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

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

NOTE 18
SEGMENT DATA

The company reports three worldwide segments consisting of Metalworking; Industrial Supply; and Engineered Products, Mining & Construction and Other (EM&O). Segment selection was based upon internal organizational structure, the way in which management organizes segments for making operating decisions and assessing performance, the availability of separate financial results, and materiality considerations.

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

Sales to a single customer did not aggregate 10 percent or more of total sales in 1999, 1998 or 1997. Export sales from U.S. operations to unaffiliated customers were $69.9 million, $64.7 million and $15.1 million in 1999, 1998 and 1997, respectively.

METALWORKING

In the metalworking segment, the company provides consumable metalcutting tools and tooling systems to manufacturing companies in a wide range of industries throughout the world. Metalcutting operations include turning, boring, threading, grooving, milling and drilling. The company's tooling systems consist of a steel toolholder and an indexable cutting tool such as an insert or drill made from cemented tungsten carbides, high-speed steel or other hard materials.

INDUSTRIAL SUPPLY

This segment represents the sales of industrial supply products through JLK. Sales of metalworking consumable products are derived through a direct-marketing program, including mail-order catalogs and showrooms, a direct field sales force, and integrated supply programs or Full Service Supply (FSS) programs.

ENGINEERED PRODUCTS, MINING & CONSTRUCTION AND OTHER

This segment's principal business is the production and sale of tungsten carbide products used in engineered applications, mining and highway construction and other similar applications, including circuit board drills, compacts and metallurgical powders. These products have technical commonality to the company's core metalworking products. The company also sells metallurgical powders to manufacturers of cemented tungsten carbide products and oil and gas drilling equipment.

Segment detail is summarized as follows:

(in thousands)	1999	1998	1997
External sales:			
Metalworking	$1,038,205	$ 938,589	$ 670,932
Industrial Supply	518,512	414,765	303,828
EM&O	346,199	325,034	181,583
Total external sales	$1,902,916	$1,678,388	$1,156,343
Intersegment sales:			
Metalworking	$ 68,538	$ 52,060	$ 29,402
Industrial Supply	13,130	10,583	12,361
EM&O	29,281	12,882	12,540
Total intersegment sales	$ 110,949	$ 75,525	$ 54,303
Total sales:			
Metalworking	$1,106,743	$ 990,649	$ 700,334
Industrial Supply	531,642	425,348	316,189
EM&O	375,480	337,916	194,123
Total sales	$2,013,865	$1,753,913	$1,210,646
Operating income:			
Metalworking	$ 132,060	$ 165,762	$ 131,903
Industrial Supply	34,532	41,308	32,193
EM&O	39,182	52,039	27,471
Corporate	(58,278)	(63,538)	(64,542)
Total operating income	$ 147,496	$ 195,571	$ 127,025
Interest expense	68,594	59,536	10,393
Other expense (income)	492	5,459	(1,531)
Income before income taxes and minority interest	$ 78,410	$ 130,576	$ 118,163
Depreciation and amortization:			
Metalworking	$ 60,265	$ 43,209	$ 30,704
Industrial Supply	8,749	5,185	1,768
EM&O	19,436	13,032	3,841
Corporate	7,541	5,885	5,086
Total depreciation and amortization	$ 95,991	$ 67,311	$ 41,399
Equity income (loss):			
Metalworking	$ 650	$ 855	$ 741
Industrial Supply	--	--	--
EM&O	(777)	(1,103)	(431)
Corporate	--	--	--
Total equity income (loss)	$ (127)	$ (248)	$ 310
Total assets:			
Metalworking	$1,044,272	$1,175,635	$ 475,072
Industrial Supply	274,989	275,586	165,488
EM&O	538,353	524,702	116,348
Corporate	186,034	163,070	112,401
Total assets	$2,043,648	$2,138,993	$ 869,309
Capital expenditures:			
Metalworking	$ 59,476	$ 69,349	$ 36,234
Industrial Supply	9,681	12,286	2,287
EM&O	16,509	12,730	5,976
Corporate	9,327	10,409	29,282
Total capital expenditures	$ 94,993	$ 104,774	$ 73,779
Investment in affiliated companies:			
Metalworking	$ 3,020	$ 11,634	$ 9,298
Industrial Supply	--	--	--
EM&O	(2,176)	2,106	2,438
Corporate	--	--	--
Total investments in affiliated companies	$ 844	$ 13,740	$ 11,736

Metalworking operating income for 1999 was reduced by $11.1 million related to the product rationalization program and to close a drill manufacturing plant in Solon, Ohio (see Note 13). EM&O operating income for 1999 was reduced by $5.8 million related to a write-down of an investment in and net receivables from certain international operations in emerging markets (see Note 13). Corporate operating income for 1999 was reduced by $7.7 million related to a voluntary early retirement benefit program (see Note 13) and a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy (see Note 5).

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

(in thousands)	1999	1998	1997
External sales:			
United States	$1,346,195	$1,190,021	$ 767,321
Germany	208,490	199,002	165,669
United Kingdom	106,676	99,129	53,629
Canada	52,877	52,195	42,026
Other	188,678	138,041	127,698
Total external sales	$1,902,916	$1,678,388	$1,156,343
Net assets:			
United States	$1,593,747	$1,654,026	$ 564,345
Germany	163,750	192,186	159,847
United Kingdom	85,363	104,597	27,024
Canada	29,854	30,710	23,191
Other	170,934	157,474	94,902
Total net assets	$2,043,648	$2,138,993	$ 869,309

NOTE 19
OTHER EXPENSE (INCOME)

Other expense for 1998 included the write-off of deferred financing costs related to the cancelled public offering of $450.0 million of equity and equity-related securities and $450.0 million of debt securities (the "offerings") that the company had originally intended to offer in connection with the acquisition of Greenfield. Related to the debt offering, the company also entered into an agreement to hedge its exposure to fluctuations in interest rates. When the company subsequently postponed the proposed offerings, the interest rate hedges were terminated resulting in a loss of $3.5 million. The company also wrote-off other offering-related expenses of $1.1 million, resulting in a combined total of $4.6 million.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share)	Quarter Ended Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1999				
Net sales	$480,922	$484,318	$479,051	$458,625
Gross profit	179,016	181,062	173,397	170,790
Net income	7,394	14,036	2,180	15,506
Basic earnings per share	0.25	0.47	0.07	0.52
Diluted earnings per share	0.25	0.47	0.07	0.52
FISCAL 1998				
Net sales	$310,792	$370,048	$496,585	$500,963
Gross profit	132,223	150,502	200,269	200,913
Net income	17,548	9,574	20,741	23,334
Basic earnings per share	0.67	0.36	0.77	0.78
Diluted earnings per share	0.66	0.36	0.76	0.78

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

In the third quarter of fiscal 1999, the company recorded pretax charges of $24.6 million ($0.51 per share), including $20.8 million ($0.44 per share), related to special charges for operational improvement programs and $3.8 million ($0.07 per share) related to a one-time charge incurred in the acquisition of 4.9 percent of Toshiba Tungaloy.

STOCK PRICE RANGES AND DIVIDENDS PAID

The company's capital stock is traded on the New York Stock Exchange (symbol KMT). The number of shareowners of record as of August 10, 1999, was 3,026. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended Sep. 30	Dec. 31	Mar. 31	Jun. 30
FISCAL 1999				
High	$43 13/16	$25 5/8	$26	$31 5/16
Low	25 3/8	15 5/8	16 3/8	16 5/8
Dividends	0.17	0.17	0.17	0.17
FISCAL 1998				
High	$49 1/2	$55 11/16	$53 3/8	$54 3/4
Low	41 1/4	47	43 13/16	41 3/4
Dividends	0.17	0.17	0.17	0.17

REPORT OF MANAGEMENT

TO THE SHAREOWNERS OF KENNAMETAL INC.

The management of Kennametal Inc. is responsible for the integrity of all information contained in this report. The financial statements and related information were prepared by management in accordance with generally accepted accounting principles and, as such, contain amounts that are based on management's best judgment and estimates.

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

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

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

/s/ ROBERT L. MCGEEHAN
- ------------------------------------
Robert L. McGeehan
President and Chief Executive Officer

Shareowner

/s/ JAMES R. BREISINGER

- ---

James R. Breisinger
Vice President and Chief Financial Officer
Shareowner

REPORT OF AUDIT COMMITTEE

TO THE SHAREOWNERS OF KENNAMETAL INC.

The Audit Committee of the Board of Directors, composed of four independent directors, met four times during fiscal year 1999.

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

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

/s/ LARRY YOST
- -------------------------
Larry Yost
Chairman, Audit Committee
Shareowner

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREOWNERS OF KENNAMETAL INC.

We have audited the accompanying consolidated balance sheets of Kennametal Inc. and subsidiaries as of June 30, 1999 and 1998, and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kennametal Inc. and subsidiaries as of June 30, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP
- ------------------------
Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 20, 1999

ELEVEN-YEAR FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)	Notes	1999	1998	1997	1996
OPERATING RESULTS					
Net sales		$1,902,916	$1,678,388	$1,156,343	$1,079,963
Cost of goods sold		1,198,651	994,481	668,415	625,473
Research and development expenses		18,797	20,397	24,105	20,585
Selling, marketing and distribution expenses		394,204	339,772	263,980	242,375
General and administrative expenses		104,043	112,519	69,911	65,417
Interest expense		68,594	59,536	10,393	11,296
Unusual or nonrecurring items	(1)	13,937	4,595	--	2,666
Income taxes		32,900	53,900	44,900	43,900
Accounting changes, net of tax	(2)	--	--	--	--
Net income (loss)	(3)	39,116	71,197	72,032	69,732
FINANCIAL POSITION					
Net working capital		$ 373,582	$ 447,992	$ 175,877	$ 217,651
Inventories		434,462	436,472	210,111	204,934
Property, plant and equipment, net		539,800	525,927	300,386	267,107
Total assets		2,043,648	2,138,993	869,309	799,491
Long-term debt, including capital leases		717,852	840,932	40,445	56,059
Total debt, including capital leases		861,291	967,667	174,464	131,151
Total shareowners' equity	(4)	745,131	735,460	459,608	438,949
PER SHARE DATA					
Basic earnings (loss)	(3)	$ 1.31	$ 2.61	$ 2.71	$ 2.62
Diluted earnings (loss)		1.31	2.58	2.69	2.60
Dividends		0.68	0.68	0.66	0.60
Book value (at year-end)		24.78	24.66	17.61	16.44
Market price (at year-end)		31.00	41.75	43.00	34.00
OTHER DATA					
Capital expenditures		$ 94,993	$ 104,774	$ 73,779	$ 57,556
Number of employees (at year-end)		13,640	14,380	7,550	7,260
Average sales per employee		$ 136	$ 152	$ 159	$ 152
Weighted average shares outstanding (in thousands)	(4)	29,917	27,263	26,575	26,635
Diluted weighted average shares outstanding (in thousands)	(4)	29,960	27,567	26,786	26,825
KEY RATIOS					
Sales growth		13.4%	45.1%	7.1%	9.8%
Gross profit margin		37.0	40.7	42.2	42.1
Operating profit margin	(5)	8.5	11.7	11.0	11.5
Return on sales	(3)	2.1	4.2	6.2	6.5
Return on equity	(3)	5.3	12.2	15.8	17.0
Total debt to total capital		51.9	55.4	27.1	22.5
Dividend payout	(6)	30.8	25.7	25.0	35.8
Inventory turnover		2.6x	3.1x	3.2x	3.0x

NOTES

1. Unusual charges (credits) reflect restructuring costs and asset impairment charges related to certain operational improvement programs initiated in 1999, deferred financing costs related to a postponed public offering intended to have been offered in connection with the acquisition of Greenfield in 1998, restructuring costs for the relocation of the North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa., and to close a manufacturing facility in 1996, restructuring and integration costs associated with the acquisition of Hertel AG in 1994, settlement and partial reversal of accrued patent litigation costs in 1993 and accrued patent litigation costs in 1991.

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

1995	1994	1993	1992	1991	1990	1989
$983,873	$802,513	$598,496	$594,533	$617,833	$589,023	$472,200
560,867	472,533	352,773	362,967	358,529	342,434	274,929
18,744	15,201	14,714	13,656	14,750	13,325	11,969
219,271	189,487	144,850	137,494	136,319	123,286	94,934
55,853	58,612	41,348	45,842	49,219	42,648	31,443
12,793	13,811	9,549	10,083	11,832	10,538	8,960
--	24,749	(1,738)	--	6,350	--	--
45,000	15,500	14,000	8,100	17,300	23,000	20,900
--	15,003	--	--	--	--	--
68,294	(4,088)	20,094	12,872	21,086	32,113	29,994
$184,072	$130,777	$120,877	$108,104	$ 88,431	$108,954	$ 91,032
200,680	158,179	115,230	118,248	119,767	114,593	105,033
260,342	243,098	192,305	200,502	193,830	175,523	166,390
781,609	697,532	448,263	472,167	476,194	451,379	383,252
78,700	90,178	87,891	95,271	73,113	81,314	57,127
149,730	147,295	110,628	127,954	130,710	116,212	95,860
391,885	322,836	255,141	251,511	243,535	231,598	204,465
$ 2.58	$ (0.17)	$ 0.93	$ 0.60	$ 1.00	$ 1.54	$ 1.45
2.56	(0.17)	0.92	0.60	0.99	1.52	1.43
0.60	0.58	0.58	0.58	0.58	0.58	0.56
14.75	12.25	11.64	11.64	11.42	11.02	9.84
34.50	24.63	16.75	17.13	17.81	17.25	15.88
$ 43,371	$ 27,313	$ 23,099	$ 36,555	$ 55,323	$ 35,998	$ 28,491
7,030	6,600	4,850	4,980	5,360	5,580	5,420
$ 146	$ 125	$ 122	$ 116	$ 113	$ 107	$ 94
26,486	24,304	21,712	21,452	21,094	20,872	20,696
26,640	24,449	21,753	21,551	21,237	21,065	20,915
22.6%	34.1%	0.7%	(3.8)%	4.9%	24.7%	12.5%
43.0	41.1	41.1	38.9	42.0	41.9	41.8
12.9	7.8	6.9	5.2	8.9	10.9	12.3
6.9	n.m.	3.4	2.2	3.4	5.5	6.4
19.3	n.m.	8.1	5.2	8.7	14.9	15.4
27.0	30.6	30.2	33.7	34.9	33.4	31.9
53.9	127.9	68.8	55.4	43.6	41.6	48.1
3.1x	3.1x	3.1x	3.0x	3.0x	3.1x	2.9x

3. Excluding unusual charges in 1999, net income was $54,299; basic earnings per share were $1.82; return on sales was 2.9 percent; and return on equity was 7.3 percent. Excluding unusual charges in 1998, net income was $73,894; basic earnings per share were $2.71; return on sales was 4.4 percent; and return on equity was 12.6 percent. Excluding unusual charges in 1996, net income was $71,369; basic earnings per share were $2.68; return on sales was 6.6 percent; and return on equity was 17.4 percent. Excluding unusual charges and accounting changes in 1994, net income was $31,330; basic earnings per share were $1.29; return on sales was 3.9 percent; and return on equity was 11.4 percent.

4. In 1998, the company issued 3.45 million shares of capital stock for net proceeds of $171.4 million. In 1994, the company issued approximately 4 million shares of capital stock for net proceeds of $73.6 million.

5. Excludes unusual or nonrecurring items.

6. Uses a trailing three-year average earnings.

EXHIBIT 21

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries	
Project Corporation de Argentina S.A.	Argentina
Kennametal Australia Pty. Ltd.	Australia
Kennametal Foreign Sales Corporation	Barbados
Kennametal Hertel do Brasil Ltda.	Brazil
Kennametal Ltd.	Canada
Kennametal Hertel Chile Ltda.	Chile
Kennametal (China) Limited	China
Kennametal Hardpoint (Shanghai) Ltd.	China
Kennametal (Shanghai) Ltd.	China
Shanxi-Kennametal Mining Cutting Systems Manufacturing Company Limited	China
Xuzhou-Kennametal Mining Cutting Systems Manufacturing Company Limited	China
Kennametal Hertel AG	Germany
Kennametal Hardpoint H.K. Ltd.	Hong Kong
Kennametal Ca.Me.S., S.p.A.	Italy
Kennametal Hertel Japan Ltd.	Japan
Kennametal Hertel (Malaysia) Sdn. Bhd.	Malaysia
Kennametal de Mexico, S.A. de C.V.	Mexico
Kennametal/Becker-Warkop Ltd.	Poland
Kennametal Hertel (Singapore) Pte. Ltd.	Singapore
Kennametal South Africa (Proprietary) Limited	South Africa
Kennametal Hertel Korea Ltd.	South Korea
Kennametal Hardpoint (Taiwan) Inc.	Taiwan
Kennametal Hertel Co., Ltd.	Thailand
Circle Machine Company	California, United States
Kennametal Financing II	California, United States
Greenfield Industries, Inc.	Delaware, United States
Kennametal Receivables Corporation	Delaware, United States
Adaptive Technologies Corp.	Michigan, United States
JLK Direct Distribution Inc.	Pennsylvania, United States
Consolidated Subsidiaries of JLK Direct Distribution Inc.	
J&L America, Inc.	Michigan, United States
Consolidated Subsidiaries of J&L America, Inc.	
J & L Industrial Supply UK (branch)	England
J & L Werkzeuge und Industriebedarf G.m.b.H.	Germany
GRS Industrial Supply Company	Michigan, United States
Strong Tool Company	Ohio, United States
Production Tools Sales, Inc.	Texas, United States
Abrasive & Tool Specialties Company	Utah, United States

PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries of Kennametal Hertel AG	
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel EDG Limited	England
Kennametal Hertel Limited	England
Kennametal Hertel France S.A.	France
Kennametal Hertel G.m.b.H.	Germany
Kennametal Hertel Korea G.m.b.H.	Germany
Rubig G.m.b.H. & Co. KG	Germany
Kennametal Hertel S.p.A.	Italy
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands
Kennametal Hertel Kesici Takimlar ve Sistemler Anonim Sirketi	Turkey
Consolidated Subsidiaries of Greenfield Industries, Inc.	
Greenfield Industries, Incorporated Canada	Canada
Cirbo Limited	England
Hanita Metal Works G.m.b.H.	Germany
Kemmer Hartmetallwerkzeuge G.m.b.H.	Germany
Kemmer Prazision G.m.b.H.	Germany
Hanita Metal Works, Ltd.	Israel
Kemmer - Cirbo S.r.L.	Italy
Cleveland Twist Drill de Mexico, S.A. de C.V.	Mexico
Herramientas Cleveland, S.A. de C.V.	Mexico
Greenfield Tools de Mexico, S.A. de C.V.	Mexico
Carbidie Corporation	Delaware, United States
Kemmer International, Inc.	Delaware, United States
Rogers Tool Works, Inc.	Delaware, United States
TCM Europe, Inc.	Delaware, United States
Bassett Rotary Tool Company	Indiana, United States
South Deerfield Industrial, Inc.	Massachusetts, United States
Hanita Cutting Tools, Inc.	New Jersey, United States

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included or incorporated by reference in this Form 10-K, into Kennametal Inc.'s previously filed registration statements on Form S-8, Registration No. 2-80182, Form S-8, Registration No. 33-25331, Form S-8, Registration No. 33-55768, Form S-8, Registration No. 33-55766, Form S-3, Registration No. 33-61854, Form S-8, Registration No. 33-65023, Form S-8, Registration No. 333-18423, Form S-8, Registration No. 333-18429, Form S-8, Registration No. 333-18437, Form S-3, Registration No. 333-40809, and Form S-8, Registration No. 333-77411, including the prospectuses therein, relating to the Kennametal Inc. Stock Option Plan of 1982, Stock Option and Incentive Plan of 1988, Stock Option and Incentive Plan of 1992, Directors Stock Incentive Plan, Dividend Reinvestment and Stock Purchase Plan (as amended), Performance Bonus Stock Plan of 1995, Thrift Plan, Stock Option and Incentive Plan of 1992 (as amended), Stock Option and Incentive Plan of 1996, Omnibus Shelf Registration Statement and 1999 Stock Plan.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
September 20, 1999

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This schedule contains summary financial information extracted from the June 30, 1999 Consolidated Financial Statements and is qualified in its entirety by reference to such financial statements.

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YEAR
JUN-30-1999
JUL-1-1998
JUN-30-1999
17,408
13,436
246,556
15,269
434,462
750,448
992,292
452,492
2,043,648
376,866
0
0
0
41,128
704,003
2,043,648
1,902,916
1,902,916
1,198,651
1,198,651
44,585
8,230
68,594
78,410
32,900
39,116
0
0
0
39,116
1.31
1.31