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, 1998

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, 1998, 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 $622,900,000. 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, 1998, there were 29,872,372 shares of Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1998 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

Portions of the Proxy Statement for the 1998 Annual Meeting of Shareholders 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") manufacture, purchase and distribute a broad range of tools, tooling systems, supplies and services for the metalworking, mining and highway construction industries. Kennametal specializes in developing and manufacturing metalcutting tools and wear-resistant parts using a specialized type of powder metallurgy. Kennametal's metalcutting tools are made of cemented carbides, ceramics, cermets, high-speed steel and other hard materials. The company manufactures a complete line of toolholders, toolholding systems and rotary cutting tools by machining and fabricating steel bars and other metal alloys. The company also distributes a broad range of industrial supplies used in the metalworking industry. Kennametal's mining and construction cutting tools are tipped with cemented carbide and are used for underground coal mining and highway construction, repair and maintenance.

During fiscal 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 industrial drill bits, taps and dies and fixed limit gages, energy and construction products used in oil and gas drilling, mining and highway resurfacing, 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."

The matters discussed in this Form 10-K contain "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results can differ from those in the forward-looking statements to the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific, and the effect of third party or company failures to achieve timely remediation of year 2000 issues, change from the company's expectations. 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 and Markets

The company operates predominantly as a tooling supplier specializing in powder metallurgy, which represents a single business segment. The company expended its metalworking focus with the acquisition of Greenfield in November 1997. While many of the company's products are similar in composition, sales are classified into three markets: metalworking, industrial supply, and mining and construction. The company's sales by market are presented on page 29 of the 1998 Annual Report to Shareholders, and such information is incorporated herein by reference. Additional information about the company's operations by geographic area is presented on page 49 of the 1998 Annual Report to Shareholders, and such information is incorporated herein by reference.

Metalworking Markets

Kennametal markets, manufactures and distributes a full line of products and services for the metalworking industry. The company provides metalcutting tools 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 a drill made from cemented 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.

The company markets metalcutting tools to manufacturing companies in a wide range of industries throughout the world and 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.

The company is also 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.

Industrial Supply Market

Through its subsidiary, JLK Direct Distribution Inc. ("JLK"), Kennametal distributes a broad range of metalworking consumables and related products to customers in the United States, offering a full line of cutting tools, carbide and other tool inserts, abrasives, drills, machine tool accessories, hand tools and other industrial supplies. JLK also conducts its direct-marketing program for small and medium-sized customers in the United Kingdom and Germany. 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 supply needs of small-, medium- and large-sized customers, JLK offers: (i) a direct-marketing program, whereby JLK supplies predominately small and medium-sized customers through mail-order catalog, showroom sales, and a direct field sales force, and (ii) integrated industrial supply programs or Full Service Supply programs, by which large 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.

Mining and Construction Market

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, bits, pinning rods, augers and a wide range of mining tool accessories. The company also supplies compacts for mining, quarrying, water well drilling and oil and gas exploration. 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". 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 also makes proprietary 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, India, Poland and Russia, manufacturing and sales subsidiaries in Israel 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 sales are presented on page 29 of the 1998 Annual Report to Shareholders, and such information is incorporated herein by reference. Information pertaining to the effects of foreign currency fluctuations is contained under the caption "Foreign Currency Translation" in the notes to the consolidated financial statements on page 40 of the 1998 Annual Report to Shareholders, and such information is incorporated herein by reference.

Marketing and Distribution

The company's products are sold primarily through the following distinct sales channels: a direct sales force, JLK's Full Service Supply programs, retail showrooms and mail-order catalogs, and a network of independent distributors and sales agents in the United States and certain international markets. 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 Full Service Supply programs, retail showrooms and mail-order catalogs.

The company's products are marketed under various trademarks and tradenames, such as Kennametal*, Hertel*, the letter K combined with other identifying letters and/or numbers*, Block Style K*, Kendex*, Kenloc*, Top Notch*, Erickson*, Kyon*, KM*, Drill-Fix*, Fix-Perfect*, and Disston*. 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 substantial quantities of steel bars, and forgings for making toolholders, high-speed steel and other tool parts, rotary cutting tools and accessories. Products purchased 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 $20.4 million, $24.1 million and $20.6 million in 1998, 1997 and 1996, respectively. Additionally, certain costs associated with improving

* Trademark owned by Kennametal Inc. or Kennametal Hertel AG

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. Some of these new compositions include KC715M*, a general purpose steel milling grade insert, KT315* a steel turning cermet grade, KC7310* insert for turning inconel, titanium and cast iron, KC705M* for milling inconel, titanium and cast iron, KC709M* for milling ductile iron, KC721M* for milling stainless steel and aerospace materials, KC7115* for stainless steel drilling, KC7040* for carbon steel drilling, MN insert geometry for steel machining, KSEM*, BF*, SEFAS*, and TX* product lines for drilling deeper faster or combining drilling and chamfering operations, milling cutters for aeroframe machining, and an improved K3560* for mining with significantly improved thermal fatigue resistance.

Seasonality
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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
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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
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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 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 carbide components for such tools from cemented 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
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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

* Trademark owned by Kennametal Inc. or Kennametal Hertel AG

not have a material effect on the company's capital expenditures, earnings or competitive position for the year covered by this report, nor is such compliance expected to have a material effect in the future.

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at one Superfund site 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 of approximately 4.9 million shares of 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. ("J&L") subsidiary and its Full Service Supply programs. The net proceeds from the offering were $90.4 million and represented 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 additional acquisitions. The company today owns approximately 83 percent of the outstanding common stock of JLK and 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, including the assumption of 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 fiscal 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 14,400 persons at June 30, 1998, of which 10,200 were located in the United States and 4,200 in other parts of the world, principally Europe and Asia Pacific. Approximately 2,200 employees were represented by labor unions, of which 700 were hourly-rated employees located at six plants in the United States. The remaining 1,500 employees represented by labor unions were employed at eighteen 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, 1998:

CONSOLIDATED SUBSIDIARIES (% OWNERSHIP)
Kennametal Australia Pty. Ltd., Australia
Kennametal Foreign Sales Corporation, Barbados
Kennametal Ltd., Canada
Presto Cutting Tools Canada Limited, Canada
Kennametal (China) Limited, China
Kennametal (Shanghai) Ltd., China
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 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 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%)

CONSOLIDATED SUBSIDIARIES OF KENNAMETAL HERTEL AG
Kennametal Hertel Belgium S.A., Belgium
Kennametal Hertel Limited, England
Kennametal Hertel France S.A., France
Materiels de Precision et de Production S.A., France
Kennametal Hertel G.m.b.H., Germany
Rubig G.m.b.H., Germany
Kennametal Hertel Nederland B.V., Netherlands
Nederlandse Hardmetaal Fabrieken B.V., Netherlands
Kennametal Hertel Korea G.m.b.H. Korea Branch, South Korea (branch)

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

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

CONSOLIDATED SUBSIDIARIES OF GREENFIELD INDUSTRIES INC.
Greenfield Industries Foreign Sales Corporation, Barbados
Greenfield Industries, Inc., Canada
Cirbo Limited, England
Presto Engineers Cutting Tools Ltd., 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
Cleveland Europe Limited, Scotland
Kemmer AG, Switzerland
Basset Rotary Tool Company, United States
Carbidie Corporation, United States
The Cleveland Twist Drill Company, United States
Hanita Cutting Tools, Inc., United States
Rogers Tool Works, Inc., United States
Remgrit Abrasive Tools, Inc., United States
Rule Cutting Tools, Inc., United States
Rule Paint and Chemical, Inc., United States

AFFILIATED COMPANIES (% OWNERSHIP)
Kennametal Hertel G. Beisteiner G.m.b.H., Austria (26%)
Birla Kennametal Ltd., India (44%)
Drillco Hertel Ltd., India (50%)
Kennametal Ca.Me.S., S.p.A., Italy (61%)
Kennametal Hertel S.p.A., Italy (52%)
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%)

ITEM 2. PROPERTIES

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

Location	Owned/Leased	Principal Products
United States:		
Bentonville, Arkansas	Owned	Carbide Round Tools
Pine Bluff, Arkansas	Owned	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
Malden, Missouri	Leased	Carbide Round Tools
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
Solon, Ohio	Owned	High Speed Special Drills
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
Crewe, England	Leased	Circuit Board Drill Repoint Center
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
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 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 dominant business of powder metallurgy, tools, tooling systems and supplies. The company's production capacity is adequate for its present needs. The company believes that its properties have been adequately maintained, are generally in good condition and are suitable for the company's business as presently conducted.

ITEM 3. LEGAL PROCEEDINGS

(a) 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 year 1998, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

OFFICERS OF THE REGISTRANT

Name, Age, and Position	Experience During Past Five Years (2)
Robert L. McGeehan, 61 (1) President Chief Executive Officer Director	President and Director since 1989. Chief Executive Officer since October 1, 1991.
William R. Newlin, 57 (1) Chairman of the Board	Chairman of the Board since October 28, 1996. Director since 1982.
Bart A. Aitken, 39 Vice President and Director, Engineered Products Group, Greenfield Industries Vice President, Kennametal Inc.	Elected Vice President of Kennametal in 1998. Vice President of Greenfield's Engineered Products Group since 1995, Director of Manufacturing of Greenfield's Circuit Board Drill Group since 1992.
David B. Arnold, 59 (1) Vice President Chief Technical Officer	Vice President since 1979. Chief Technical Officer since 1988.
James R. Breisinger, 48 (1) Vice President, Chief Financial Officer and Corporate Controller	Vice President since 1990. Named Chief Financial Officer in September 1998. Chief Operating Officer, Greenfield Industries from March through September 1998. Renamed Controller in 1994. Managing Director of Europe from 1991 to 1994. Controller from 1983 to 1991.
David T. Cofer, 53 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Derwin R. Gilbreath, 50 Chief Operating Officer, Greenfield Industries Vice President Director of Global Manufacturing Kennametal Inc.	Vice President since January 1997. Elected Chief Operating Officer, Greenfield Industries in September 1998. Director of Global Manufacturing since 1995. Director of North America Metalworking Manufacturing from 1994 to 1995.
Richard C. Hendricks, 59 (1) Vice President Director of Corporate Business Development	Vice President since 1982. Director of Corporate Business Development since 1992.
Timothy D. Hudson, 52 Vice President Director of Human Resources	Vice President since 1994. Director of Human Resources since 1992. Corporate Manager of Human Resources from 1978 to 1992.

Name, Age, and Position	Experience During Past Five Years (2)
Brian E. Kelly, 35 Assistant Treasurer Director of Taxes	Elected Assistant Treasurer and named Director of Taxes in September 1998. Manager of Corporate Tax from 1996 to 1998. Formerly, Tax Consultant with Westinghouse Electric Corp. from 1995 to 1996. Formerly, Senior Tax Analyst with E.I. Du Pont De Nemours & Co. from 1987 to 1994.
H. Patrick Mahanes, Jr., 55 (1) Vice President Chief Operating Officer	Vice President since 1987. Named Chief Operating Officer in 1995. Director of Operations from 1991 to 1995.
Richard V. Minns, 60 Vice President Director of Metalworking Sales, North America	Vice President since 1990. Director of Sales for the Metalworking Systems Division since 1985.
James E. Morrison, 47 Vice President Treasurer	Vice President since 1994. Treasurer since 1987.
Wayne D. Moser, 45 Vice President Director of Mining and Construction	Elected Vice President in 1998. Director of Mining and Construction Division since 1997. Chief Financial Officer of Kennametal Hertel AG from 1993 to 1997.
Kevin G. Nowe, 46 Assistant Secretary Assistant General Counsel	Joined the company as Assistant General Counsel in 1992 and was elected Assistant Secretary in 1993.
Richard J. Orwig, 57 (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. Director of Administration of Kennametal Inc. from 1991 to 1994.
Ajita G. Rajendra, 46 Vice President and Director, Industrial Products Group, Greenfield Industries Vice President, Kennametal Inc.	Elected Vice President of Kennametal in 1998. Vice President of Greenfield's Electronic Products Group since 1996. Previously in various positions with Corning, Inc.
P. Mark Schiller, 50 Vice President Director of Kennametal Distribution Services	Vice President since 1992. Director of Kennametal Distribution Services since 1990.
Lawrence L. Shrum, 57 Vice President Director of Global Management Information Systems	Vice President since January 1997. Named Director of Global Management Information Systems in 1994. Manager of User Systems Support from 1992 to 1994.

Name, Age, and Position	Experience During Past Five Years (2)
A. David Tilstone, 44 (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 1998 Annual Report to Shareholders and such information is incorporated herein by reference as indicated by the following table.

		Incorporated by Reference to Captions and Pages of the 1998 Annual Report
ITEM 5.	Market for the Registrant's Capital Stock and Related Stockholder Matters	Quarterly Financial Information (Unaudited) on page 50. Stock Issuances on page 42.
ITEM 6.	Selected Financial Data	Ten-Year Financial Highlights (information with respect to the years 1994 to 1998) on pages 52 and 53.
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion & Analysis on pages 29 to 34.
ITEM 7A.	Quantitative and Qualitative Disclosure About Market Risk	Financial Instruments on page 47.
ITEM 8.	Financial Statements and Supplementary Data	Item 14(a)1 herein and Quarterly Financial Information (Unaudited) on page 50.
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, 1998 ("1998 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 1998 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 1998 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the table under the caption "Election of Directors" and the information set forth in the section entitled "Certain Relationships and Related Transactions" in the 1998 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, 1998 and 1997, the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1998, and the notes to consolidated financial statements, together with the report thereon of Arthur Andersen LLP dated July 21, 1998, presented in the company's 1998 Annual Report to Shareholders, 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 1998 Annual Report to Shareholders. Other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

   Separate financial statements of the company are omitted because the company is primarily an operating company, and all significant subsidiaries included in the consolidated financial statements are wholly owned, with the exception of Kennametal Hertel AG, in which the company has a 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	21
Schedule II - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1998	22

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 1996 Proxy Statement is incorporated herein by reference.
(10.2)*	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 14, 1986) is incorporated herein by reference.
(10.3)*	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
(10.4)*	Officer employment agreements, as amended and restated	Exhibit 10.3 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)*	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.

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* Denotes management contract or compensatory plan or arrangement.

(10.6)*	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.
(10.7)*	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q (SEC file no. reference 1-5318; docket entry date - November 10, 1992) is incorporated herein by reference.
(10.8)*	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q (SEC file no. reference 1-5318; docket entry date - November 10, 1992) is incorporated herein by reference.
(10.9)*	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
(10.10)*	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.
(10.11)*	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.
(10.12)*	Form of Employment Agreement with certain officers	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(10.13)*	Supplemental Executive Retirement Plan	Exhibit 10.2 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
(10.14)*	Form of Employment Agreement	Exhibit 10.1 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.
(10.15)	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.
(10.16)	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.
(10.17)*	Greenfield Industries, Inc. Executive Deferred Compensation Plan	Exhibit 10.71 of the Greenfield Industries, Inc. December 31, 1995 Form 10-K is incorporated herein by reference.

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* Denotes management contract or compensatory plan or arrangement.

(10.18)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 26, 1997	Filed herewith.
(10.19)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 19, 1997	Filed herewith.
(10.20)	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 19, 1998	Filed herewith.
(13)	Annual Report to Shareholders	Portions of the 1998 Annual Report are filed herewith.
(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Public Accountants	Filed herewith.
(27)	Financial Data Schedule	Filed herewith.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended June 30, 1998.

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/ JAMES R. BREISINGER

James R. Breisinger
Vice President, Chief Financial
Officer and Corporate Controller

Date: September 24, 1998

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 24, 1998
/s/ ROBERT L. MCGEEHAN Robert L. McGeehan	President, Chief Executive Officer and Director	September 24, 1998
/s/ JAMES R. BREISINGER James R. Breisinger	Vice President, Chief Financial Officer and Corporate Controller	September 24, 1998

SIGNATURE	TITLE	DATE
/s/ RICHARD C. ALBERDING ----------------------------------- Richard C. Alberding	Director	September 24, 1998
/s/ PETER B. BARTLETT ----------------------------------- Peter B. Bartlett	Director	September 24, 1998
/s/ A. PETER HELD ----------------------------------- A. Peter Held	Director	September 24, 1998
/s/ WARREN H. HOLLINSHEAD ----------------------------------- Warren H. Hollinshead	Director	September 24, 1998
/s/ TIMOTHY S. LUCAS ----------------------------------- Timothy S. Lucas	Director	September 24, 1998
/s/ ALOYSIUS T. MCLAUGHLIN, JR. ----------------------------------- Aloysius T. McLaughlin, Jr.	Director	September 24, 1998
/s/ LARRY YOST ----------------------------------- Larry Yost	Director	September 24, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders 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 shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated July 21, 1998. Our audit was 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 a part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit 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 21, 1998

KENNAMETAL INC. SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED JUNE 30, 1998

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Recoveries	Additions: Other Adjustments(a)	Deductions from Reserves (b)	Balance at End of Year
1998						
Allowance for doubtful accounts	$ 7,325	$2,453	$336	$5,061	$3,201	$11,974
1997						
Allowance for doubtful accounts	$ 9,296	$1,979	$136	$ (546)	$3,540	$ 7,325
1996						
Allowance for doubtful accounts	$12,106	$1,810	$213	$ (871)	$3,962	$ 9,296

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

(b) Represents uncollected accounts charged against the allowance.

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 1996 Proxy Statement is incorporated herein by reference.
10.2	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 14, 1986) is incorporated herein by reference.
10.3	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q (SEC file no. reference 1-5318; docket entry date - February 9, 1989) is incorporated herein by reference.
10.4	Officer employment agreements, as amended and restated	Exhibit 10.3 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.

Exhibit No.		Reference
10.5	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.
10.6	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.
10.7	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q (SEC file no. reference 1-5318; docket entry date - November 10, 1992) is incorporated herein by reference.
10.8	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q (SEC file no. reference 1-5318; docket entry date - November 10, 1992) is incorporated herein by reference.
10.9	Performance Bonus Stock Plan of 1995	Exhibit A of the company's 1995 annual meeting proxy statement.
10.10	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.
10.11	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.
10.12	Form of Employment Agreement with certain executive officers	Exhibit 10.1 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
10.13	Supplemental Executive Retirement Plan	Exhibit 10.2 of the company's March 31, 1997 Form 10-Q is incorporated herein by reference.
10.14	Form of Employment Agreement	Exhibit 10.1 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.
10.15	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.
10.16	Guaranty and Suretyship Agreement with Mellon Bank, N.A. dated as of November 17, 1997	Exhibit 10.3 of the company's December 31, 1997 Form 10-Q is incorporated herein by reference.

Exhibit No.		Reference
10.17	Greenfield Industries, Inc. Executive Deferred Compensation Plan	Exhibit 10.71 of the Greenfield Industries, Inc. December 31, 1995 Form 10-K is incorporated herein by reference
10.18	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of November 26, 1997	Filed herewith.
10.19	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of December 19, 1997	Filed herewith.
10.20	Amendment to Credit Agreement with Mellon Bank, N.A. and various creditors dated as of March 19, 1998	Filed herewith.
13	Annual Report to Shareholders	Portions of the 1998 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 10.18

AMENDMENT TO TRANSACTION DOCUMENTS

THIS AMENDMENT, dated as of November 26, 1997, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), the Lenders party to the Credit Agreement referred to below, and MELLON BANK, N.A., as Administrative Agent under such Credit Agreement.

RECITALS:

A. The Borrower has entered into a Credit Agreement (as amended hereby, the "Credit Agreement") dated as of November 17, 1997 among the Borrower, the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent.

B. The parties hereto desire to amend the Credit Agreement as set forth herein.

NOW THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENT TO THE CROSS-DEFAULT PROVISION FOR THE PURPOSE OF EXTENDING THE POST-CLOSING GRACE PERIOD APPLICABLE TO THE $75,000,000 SENIOR NOTES OF THE TARGET. Section 8.01(f)(i) of the Credit Agreement is amended by deleting the proviso at the end thereof and replacing it with the following proviso: "provided, that the foregoing clause (B) shall not apply to Cross-Default Excepted Indebtedness until the 45th day after the Closing Date (or, in the case of the Cross-Default Excepted Indebtedness described in paragraph 1 of Schedule 8.01(f)(i), until the 90th day after the Closing Date), and".

SECTION 2. EFFECTIVENESS AND EFFECT, ETC.

(a) EFFECTIVENESS. This Amendment shall become effective when Mellon Bank, N.A., as Administrative Agent, shall have received counterparts hereof duly executed by the Borrower, the Administrative Agent, and the Required Lenders (as defined in the Credit Agreement).

(b) EFFECT. The Credit Agreement, as amended hereby, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except to the extent expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Credit Agreement or constitute a waiver of any provision of the Credit Agreement.

SECTION 3. MISCELLANEOUS. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document. Section and other headings herein are for reference purposes only and shall not affect the interpretation of this Amendment in any respect. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to choice of law rules. This Amendment is a requested amendment within the meaning of Section 10.06(a)(ii) of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KENNAMETAL INC.

By /s/ JAMES E. MORRISON

James E. Morrison
Vice President and Treasurer

MELLON BANK, N.A.,
individually and as Administrative Agent

By /s/ DAVID R. JARDINI

David R. Jardini
Vice President

CONSENTED AND AGREED:
BANKBOSTON, N.A.

By /s/ M. PAULA ZAIKEN

M. Paula Zaiken
Director

DEUTSCHE BANK AG, NEW YORK BRANCH
AND/OR CAYMAN ISLANDS BRANCH

By /s/ HANS-JOSEF THIELE

Hans-Josef Thiele
Director

By /s/ STEPHAN WIEDEMANN

Stephan Wiedemann
Director

PNC BANK, NATIONAL ASSOCIATION

By /s/ LAWRENCE W. JACOBS

Lawrence W. Jacobs
Vice President

EXHIBIT 10.19

AMENDMENT TO TRANSACTION DOCUMENTS

THIS AMENDMENT, dated as of December 19, 1997, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), the Lenders party to the Credit Agreement referred to below, and MELLON BANK, N.A., as Administrative Agent under such Credit Agreement.

RECITALS:

A. The Borrower has entered into a Credit Agreement (as amended, the "Credit Agreement") dated as of November 17, 1997 among the Borrower, the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent. The Credit Agreement has been amended by an Amendment to Transaction Documents dated as of November 26, 1997.

B. The parties hereto desire to amend further the Credit Agreement as set forth herein.

NOW THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENTS RELATING TO RECAPTURE INDEBTEDNESS.

(a) Section 2.07(b)(i) of the Credit Agreement is hereby amended by deleting the first two sentences thereof and replacing them with the following:

> "Reduction Event" shall mean any of the events defined as such in Section 2.07(b)(ii), (iii), (iv), (v), (vi) or (vii). If a Reduction Event shall occur, an amount not less than the corresponding Reduction Event Application Amount shall be applied (x) first, to prepayment of the unpaid principal amount of outstanding Term Loans, if any, and then (y) the balance, if any, shall be applied to reduction of the aggregate Revolving Credit Committed Amounts; provided, that the Borrower shall not be obligated to make any application pursuant to the foregoing clause (y) in the event that (A) such Reduction Event does not arise under Section 2.07(b)(vii) (relating to Recapture Indebtedness) and the Investment Grade Rating Condition is satisfied on the Reduction Event Date corresponding to such Reduction Event, or (B) such Reduction Event arises under Section 2.07(b)(vi) (relating to Excess Cash Flow).

(b) Section 2.07(b) of the Credit Agreement is hereby amended by adding the following new Section 2.07(b)(vii) following Section 2.07(b)(vi):

> (vii) RECAPTURE INDEBTEDNESS. "Reduction Event" shall include the following: incurrence by the Borrower of any Recapture Indebtedness; provided, that incurrence of successor Recapture Indebtedness to refinance predecessor Recapture Indebtedness shall not constitute a Reduction Event to the extent of the principal amount of the predecessor Recapture Indebtedness so refinanced. The "Reduction Event Application Amount" corresponding to the foregoing Reduction Event shall be the principal amount of such Recapture Indebtedness. The "Reduction Event Date" corresponding to the foregoing Reduction Event shall be five Business Days after the date the Borrower incurs such Recapture Indebtedness.

(c) Section 7.02 of the Credit Agreement is hereby amended as follows: (i) in Section 7.02(h), the word "and" following the semicolon is deleted, (ii) in Section 7.02(i), the period at the end thereof is replaced with a semicolon, and (iii) the following new Section 7.02(j) is added following Section 7.02(i):

> (j) Other unsecured Indebtedness ("Recapture Indebtedness") for borrowed money of the Borrower (and not of any Subsidiary) incurred by the Borrower after the date of this Agreement; provided, that Recapture Indebtedness may not be Disqualified Indebtedness, unless
>
> > (i) at the time the Borrower incurred such Recapture Indebtedness the Investment Grade Rating Condition was satisfied, or
> >
> > (ii) such Recapture Indebtedness is incurred to refinance predecessor Recapture Indebtedness which was incurred in compliance with this subsection (j), the principal amount of such successor Recapture Indebtedness does not exceed that of the predecessor Recapture Indebtedness so refinanced, and by the terms of such successor Recapture Indebtedness no direct or indirect payment, prepayment, purchase, redemption, retirement, defeasance, acquisition, or other payment on account of principal of such successor Recapture Indebtedness shall be required (whether at stated maturity or upon the happening of an event) earlier or in greater amount than under the terms of the predecessor Recapture Indebtedness so refinanced; and
>
> further provided, that the Borrower shall not, and shall not permit any Subsidiary of the Borrower to, directly or indirectly, pay, prepay, purchase, redeem, retire, defease or acquire, or otherwise make any payment on account of principal of, any Recapture Indebtedness, except
>
> > (x) as and when required to do so by the mandatory terms thereof,
> >
> > (y) at a time when the Investment Grade Rating Condition is satisfied, or
> >
> > (z) as part of a refinancing of predecessor Recapture Indebtedness by successor Recapture Indebtedness incurred in compliance with this subsection (j).

(d) Section 7.09(e) of the Credit Agreement is hereby amended to read as follows:

> (e) with respect to the foregoing clause (x), (i) restrictions on property subject to a Permitted Lien in favor of the holder of such Permitted Lien, and (ii) restrictions contained in agreements governing Recapture Indebtedness;

(e) Annex A to the Credit Agreement, Section 1.01, is hereby amended by adding the following definitions of "Disqualified Indebtedness" and "Recapture Indebtedness" in the appropriate places in alphabetical order:

> "Disqualified Indebtedness" shall mean any Indebtedness that, other than solely at the option of the issuer thereof, by its terms (or by the terms of any security, instrument or obligation into which it is convertible or exchangeable), (i) matures in whole or in part on or prior to the Revolving Credit Maturity Date, (ii) is (or upon the happening of an event or the passage of time would be) required to be redeemed or repurchased, in whole or in part, on or prior to the Revolving Credit Maturity Date, or (iii) has (or upon the happening of an event or the passage of time would have) a redemption or similar payment, in whole or in part, due on or prior to the Revolving Credit Maturity Date.
>
> "Recapture Indebtedness" has the meaning given that term in Section 7.02(j).

(f) Exhibit D to the Credit Agreement (form of Compliance Certificate), is hereby amended by inserting in paragraph 2 the term "7.02(j)," between the terms "7.02(h)," and "7.04(f),".

SECTION 2. AMENDMENT RELATING TO THE REQUIRED RATE HEDGE. Section 6.12(a) is hereby amended by deleting the first sentence thereof and replacing it with the following:

The Borrower shall, not later than the 150th day after the Term Loans are made, enter into one or more Interest Rate Hedging Agreements on such terms as shall be reasonably satisfactory to the Administrative Agent and which (when taken together with the Borrower's obligations under the Term Loans) have the economic effect of fixing the Borrower's effective interest cost on at least 50% of the scheduled outstanding principal amount of Term Loans (taking into account any prepayments of the Term Loans before such 150th day) for the period through and including the thirteenth Quarterly Amortization Date.

SECTION 3. AMENDMENTS RELATING TO AVAILABILITY OF ADDITIONAL LIBOR FUNDING PERIODS THROUGH MARCH 31, 1998. Section 2.03(c) of the Credit Agreement is hereby amended to read as follows:

(c) FUNDING PERIODS. At any time when the Borrower shall select, convert to or renew the Euro-Rate Option to apply to any part of the Committed Loans, the Borrower shall specify one or more Funding Periods during which such Option shall apply, such Funding Periods being as set forth in the table below:

INTEREST RATE OPTION	AVAILABLE FUNDING PERIODS
Euro-Rate	Option One, two, three or six months or, subject to the following clause (iv), one, two or three weeks (each, a "Euro-Rate Funding Period");

provided, that:

(i) Each Euro-Rate Funding Period shall begin on a London Business Day, and the terms "month" and "week," when used in connection with a Euro-Rate Funding Period, shall be construed in accordance with prevailing practices in the interbank eurodollar market at the commencement of such Euro-Rate Funding Period, as determined by the Administrative Agent (which determination shall be conclusive absent manifest error);

(ii) The Borrower may not select a Euro-Rate Funding Period that would end after the Revolving Credit Maturity Date;

(iii) The aggregate number of Funding Segments of the Euro-Rate Portions of the Committed Loans at any time shall not exceed 15, and

(iv) The Borrower may not select a Euro-Rate Funding Period shorter than one month that would end after March 31, 1998.

SECTION 4. EFFECTIVENESS AND EFFECT, ETC. This Amendment shall become effective when Mellon Bank, N.A., as Administrative Agent, shall have received counterparts hereof duly executed by the Borrower, the Administrative Agent and the Required Lenders (as defined in the Credit Agreement). The Credit Agreement, as amended by the Amendment to Transaction Documents dated as of November 26, 1997 and as further amended hereby, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except to the extent expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Credit Agreement or constitute a waiver of any provision of the Credit Agreement.

SECTION 5. MISCELLANEOUS. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document. Section and other headings herein are for reference purposes only and shall not affect the interpretation of this Amendment in any respect. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to choice of law principles. This Amendment is a requested amendment within the meaning of Section 10.06(a)(ii) of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KENNAMETAL INC.

By /s/ JAMES E. MORRISON

James E. Morrison
Vice President and Treasurer

MELLON BANK, N.A.,
individually and as Administrative Agent

By /s/ DAVID R. JARDINI

David R. Jardini
Vice President

EXHIBIT 10.20

AMENDMENT TO TRANSACTION DOCUMENTS

THIS AMENDMENT, dated as of March 19, 1998, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), the Lenders party to the Credit Agreement referred to below, and MELLON BANK, N.A., as Administrative Agent under such Credit Agreement.

RECITALS:

A. The Borrower has entered into a Credit Agreement (as amended, the "Credit Agreement") dated as of November 17, 1997 among the Borrower, the Lenders parties thereto from time to time, and Mellon Bank, N.A., as Administrative Agent. The Credit Agreement has been amended by an Amendment to Transaction Documents dated as of November 26, 1997 and an Amendment to Transaction Documents dated as of December 19, 1997.

B. The parties hereto desire to amend further the Credit Agreement as set forth herein.

NOW THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. AMENDMENT RELATING TO THE REQUIRED RATE HEDGE. Section 6.12(a) is hereby amended by deleting the first sentence thereof and replacing it with the following:

> The Borrower shall, not later than December 31, 1998, enter into one or more Interest Rate Hedging Agreements on such terms as shall be reasonably satisfactory to the Administrative Agent and which (when taken together with the Borrower's obligations under the Term Loans) have the economic effect of fixing the Borrower's effective interest cost on at least 50% of the scheduled outstanding principal amount of Term Loans (taking into account any prepayments of the Term Loans before October 15, 1998) for the period through and including the thirteenth Quarterly Amortization Date.

SECTION 2. AMENDMENT RELATING TO PERMITTED LOANS, ADVANCES AND INVESTMENTS. Section 7.05(e) of the Credit Agreement is hereby amended to by deleting the term "$50,000,000" and replacing it with the term "$100,000,000."

SECTION 3. EFFECTIVENESS AND EFFECT, ETC. This Amendment shall become effective when Mellon Bank, N.A., as Administrative Agent, shall have received counterparts hereof duly executed by the Borrower and the Administrative Agent, and consents hereto duly executed by the Required Lenders (as defined in the Credit Agreement). The Credit Agreement, as amended by the Amendments to Transaction Documents dated as of November 26, 1997 and December 19, 1997 and as further amended hereby, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except to the extent expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Credit Agreement or constitute a waiver of any provision of the Credit Agreement.

SECTION 4. MISCELLANEOUS. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same document. Section and other headings herein are for reference purposes only and shall not affect the interpretation of this Amendment in any respect. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to choice of law principles. This Amendment is a requested amendment within the meaning of Section 10.06(a)(ii) of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KENNAMETAL INC.

By /s/ JAMES E. MORRISON

James E. Morrison
Vice President and Treasurer

MELLON BANK, N.A.,
individually and as Administrative Agent

By /s/ DANIEL A. BRAILER

Daniel A. Brailer
Senior Vice President

EXHIBIT 13

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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.

COMPARISON OF FISCAL 1998 AND FISCAL 1997

OVERVIEW. Net income for 1998 was $71.2 million, compared to $72.0 million in 1997. 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, diluted earnings per share would have been $3.23 per share. Fiscal 1998 results include an additional 3.45 million shares of common stock issued on March 20, 1998.

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.

SALES AND MARKETS. Sales for the year ended June 30, 1998, were $1.7 billion, up 45 percent from $1.2 billion last year. 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.

Sales of traditional metalworking products sold through all sales channels in North America, including sales of these products to the Industrial Supply market, increased 10 percent over 1997. Sales 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, as reflected in the North America Metalworking market, increased 7 percent over 1997.

Sales in the Europe Metalworking market increased 16 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 such as 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, Europe Metalworking sales increased 12 percent in 1998.

In the Asia Pacific Metalworking market, sales decreased 16 percent. The results were affected by weak economic conditions across most Asia Pacific countries. Excluding foreign currency translation effects, sales in the Asia Pacific Metalworking market decreased 4 percent.

SALES AND GEOGRAPHIC AREA

Year ended June 30	1998			1997			1996
(in thousands)	Percent of Total	Amount	Percent Change	Percent of Total	Amount	Percent Change	Percent of Total	Amount
SALES								
Metalworking:								
North America	24%	$ 405,863	7%	33%	$ 378,679	3%	34%	$ 368,481
Europe	17	291,898	16	22	251,304	(7)	25	271,004
Asia Pacific	2	34,947	(16)	4	41,425	16	3	35,854
Industrial Supply	26	438,434	33	28	328,531	28	24	256,703
Mining and Construction	10	164,148	5	13	156,404	6	14	147,921
Greenfield Industries	21	343,098	--	--	--	--	--	--
Net sales	100%	$1,678,388	45%	100%	$1,156,343	7%	100%	$1,079,963
GEOGRAPHIC AREA								
Within the United States	68%	$1,134,966	51%	65%	$ 752,268	13%	62%	$ 665,510
International	32	543,422	34	35	404,075	(3)	38	414,453
Net sales	100%	$1,678,388	45%	100%	$1,156,343	7%	100%	$1,079,963

Sales in the Industrial Supply market increased 33 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 General Electric Full Service Supply contract disengagement in April 1997. During 1998, the company's JLK subsidiary continued to implement its acquisition strategy and acquired six metalworking distribution companies with combined annual sales of approximately $137.0 million. Additionally, during 1998, JLK added nine showroom locations, including a distribution center in the United States, and a distribution center in Germany. At June 30, 1998, the company's operations included over 50 locations with 33 showrooms, including seven distribution centers in the United States, one in the United Kingdom and one in Germany, and provided Full Service Supply programs to approximately 115 customers covering 194 different facilities.

Sales in the Mining and Construction market increased 5 percent from 1997 as a result of increased domestic demand, including certain international markets 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.

Sales at Greenfield during the year rose 3 percent from the same period of a year ago. Overall, sales primarily increased as a result of strong economic conditions in the United States.

COSTS AND EXPENSES. As a percentage of sales, the gross profit margin was 40.7 percent, compared to 42.2 percent last year. Excluding the effects of the Greenfield acquisition, 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 as a percentage of sales were 28.2 percent, compared to 31.0 percent last year. 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.

Interest expense increased $49.1 million as a result of additional borrowings and included approximately $7.2 million for the amortization of bank financing fees related to the acquisition of Greenfield.

Other expense primarily increased as a result of the write-off of deferred financing costs related to a postponed 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 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.

The 1998 effective tax rate was 41.3 percent compared to a tax rate of 38.0 percent in 1997. The increase in the effective tax rate is directly attributable to higher nondeductible goodwill related to the Greenfield acquisition.

COMPARISON OF FISCAL 1997 AND FISCAL 1996

OVERVIEW. Net income for 1997 was $72.0 million, compared to $69.7 million in 1996. While 1997 revenues and earnings rose to record levels, earnings were affected by weakness in the European market, primarily in Germany, and from negative effects of foreign currency translations due to the strength of the U.S. dollar. Earnings for 1997 also were affected by additional costs related to the J&L Industrial Supply (J&L) showroom expansion program, integration of new client-server information systems and relocation and related costs associated with the construction of a new world headquarters in Latrobe, Pa. Earnings in 1997 benefited from slightly higher sales of metalworking products in North America and from higher sales of metalworking products and industrial supplies sold to the Industrial Supply market through mail-order and Full Service Supply programs.

SALES AND MARKETS. Sales for the year ended June 30, 1997, were $1.2 billion, up 7 percent from $1.1 billion in the previous year. Sales primarily increased in 1997 because of higher sales of metalworking products and industrial supplies sold to the Industrial Supply market through J&L and through Full Service Supply programs. The increase in sales was offset in part by lower sales of metalworking products in Europe due to weak economic conditions, especially the German market, and from negative foreign currency translation effects.

Sales in the North America Metalworking market increased 3 percent over 1996, despite the transfer of small customer accounts to J&L, as a result of improved economic conditions in the United States and from the continued emphasis on milling and drilling products. Sales in Canada rose 15 percent because of increased sales of metalworking products to aerospace and automotive companies. Additionally, sales of traditional metalworking products sold through all sales channels in North America, including sales through the Industrial Supply market, increased 7 percent.

Sales in the Europe Metalworking market decreased 7 percent. Demand for metalworking products continued to be slow due to weak economic conditions in Europe, primarily in the German market. Demand in Europe was weak for most of 1997 but began to show improvement during the fourth quarter of fiscal 1997. Despite the economic situation in Europe, sales continued to post gains in the United Kingdom and France. In the Asia Pacific Metalworking market, sales rose 16 percent as a result of increased demand in China, Japan and Taiwan, although sales were affected by soft economic conditions in Korea and Thailand. Excluding foreign currency translation effects, sales in the Europe Metalworking market decreased 2 percent, while sales in the Asia Pacific Metalworking market increased 21 percent.

The Industrial Supply market was the major contributor to the overall sales increase because of the continued growth of mail-order and Full Service Supply programs. Sales rose 28 percent primarily because of the expanded product offering of more than 20,000 new stock keeping units (SKUs) in the J&L 1997 master catalog, from the addition of five new showrooms and from innovative marketing programs. Sales through Full Service Supply increased, to a lesser extent, from the continued ramp-up of existing Full Service Supply programs. Also contributing to the sales increase was the acquisition of two industrial supply companies during the fourth quarter of 1997. The acquired companies had annual sales of $36.0 million in their latest fiscal year and provided four additional locations in the Midwest. Excluding these acquisitions, the Industrial Supply market sales increased 26 percent. At June 30, 1997, the company operated 28 showrooms, including six distribution centers in the United States and one in the United Kingdom, and provided Full Service Supply programs to approximately 60 customers covering approximately 120 different facilities.

Sales in the Mining and Construction market increased 6 percent from 1996 as a result of increased domestic and international demand for mining tools. Highway construction tool sales were flat in the United States, while international sales declined slightly as a result of weak economic conditions in Europe.

COSTS AND EXPENSES. As a percentage of sales, gross profit margin in 1997 was 42.2 percent, compared to 42.1 percent in 1996. The gross profit margin improved slightly as a result of the positive effects of productivity improvements related to the Focused Factory initiative. These benefits were partially offset by a less favorable sales mix coupled with unfavorable foreign currency translation effects.

Operating expenses as a percentage of sales were 31.0 percent, compared to 30.4 percent in 1996, excluding the effects of the one-time restructuring charge in 1996. Operating expenses increased primarily because of higher costs related to the J&L showroom expansion program, including higher direct mail costs and increased direct marketing in new territories in the United States and in Europe. Operating expenses also increased from higher costs to support new and existing Full Service Supply programs, from the integration of new client-server information systems, from higher research and development costs and from relocation and related costs of $4.7 million associated with the construction of the new world headquarters.

Interest expense decreased 8 percent because of lower average borrowings coupled with slightly lower interest rates. The effective tax rate was 38.0 percent in 1997 and 1996.

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 totaling $900.0 million, of which $290.7 million was unused at June 30, 1998. The company and its subsidiaries generally obtain local financing through credit lines with commercial banks.

During 1998, the company generated $101.5 million in cash from operations. Cash provided by operations increased slightly 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 amounted to $104.8 million and 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.

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Net cash flow from financing activities was $710.1 million. The increase in net cash flow from financing activities resulted from increased borrowings under a new Bank Credit Agreement related primarily to the acquisition of Greenfield. The company also sold 3.45 million shares of its common stock and its JLK subsidiary completed its initial public offering of approximately 20 percent of its outstanding common stock. The proceeds received from the respective stock offerings were used to repay outstanding debt. Additionally, the company paid $18.5 million in dividends during 1998.

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 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 business. Annual sales of the Marine Products division are 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 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. JLK operates the industrial supply operations consisting of the company's wholly owned J&L subsidiary and its Full Service Supply programs. The net proceeds from the offering were $90.4 million and represented 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 additional acquisitions.

On June 8, 1998, the company's JLK subsidiary 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 1998, JLK repurchased 628,700 shares of its Class A common stock at a total cost of $14.2 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.

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.

During 1996, the company generated $85.5 million in cash from operations that was used primarily to finance $57.6 million of capital expenditures and to pay $16.0 million of cash dividends. Capital expenditures were made to modernize facilities, to upgrade machinery and equipment, and to acquire new information systems.

Capital expenditures for fiscal 1999 are estimated to be $100-$110 million and will be used primarily to modernize facilities and upgrade machinery and equipment and to acquire additional client-server information systems.

FINANCIAL CONDITION

At June 30, 1998, Kennametal's total assets were $2.1 billion, compared to $869.3 million in 1997. Net working capital was $441.8 million, up 151 percent from the previous year. The ratio of current assets to current liabilities was 2.2 in 1998, compared with 1.6 in 1997.

Accounts receivable increased 66 percent to $332.7 million because of increased sales and from the effects of acquisitions. Inventories rose to $436.5 million due to the effects of acquisitions and from the growth of sales to the Industrial Supply market. Inventory turnover was 3.1 in 1998 and 3.2 in 1997.

Total debt (including capital lease obligations) increased to $967.7 million in 1998, primarily as a result of the Greenfield acquisition. The ratio of total debt-to-total-capital was 55.4 percent in 1998 as compared with 27.1 percent in 1997. To maintain financial flexibility and to optimize the cost of capital, Kennametal's financial objective is to maintain a total debt-to-total-capital ratio of 40 to 45 percent or less over the long term through cash flow from operations, sale of non-productive assets and other cash sources. 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 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 has been named as a potentially responsible party at one Superfund site 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. See Note 15 to the consolidated financial statements.

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 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 estimates the total year 2000 expenditures to be approximately $45.0 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. The majority of these costs were incurred in 1997 and 1996. Expenditures to rectify non-compliant personal computers and various non-information technology items are estimated to be an additional $5.0 million. Total expenditures expected to be incurred in fiscal 1999 are estimated to be approximately $12.0 million related to the year 2000 issues. These costs include both internal and external personnel costs related to the assessment process, 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 company has currently completed more than 70 percent of the tasks identified to remediate the year 2000 exposure, with the remaining tasks to be completed by June 1999.

Management currently 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. Contingency plans include the search for alternate certified vendors and the increase of safety stock of critical materials and supplies.

NEW ACCOUNTING STANDARDS

The company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," issued in February 1997. This statement requires the disclosure of basic and diluted earnings per share and revises the method required to calculate these amounts. The adoption of this standard did not have a material impact on previously reported earnings per share amounts. The company also adopted SFAS No. 129, "Disclosure of Information about Capital Structure," issued in February 1997. This statement requires specific disclosure requirements related to a company's capital structure. The adoption of this standard did not have a material impact on the company.

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," were issued by the Financial Accounting Standards Board requiring implementation for years beginning after December 15, 1997.

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The company will adopt SFAS No. 130 in fiscal 1999 and does not anticipate that the statement will have a significant impact on its disclosures.

SFAS No. 131 introduces 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. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. The company is in the process of evaluating the effect of applying this statement.

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In February 1998, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued. The implementation of SFAS No. 132 will revise certain footnote disclosure requirements related to pension and other retiree benefits. The new standard will not have a financial impact on the company. Implementation is required for fiscal 1999.

EFFECTS OF INFLATION

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

OUTLOOK

In looking to fiscal 1999, management expects consolidated sales to increase from the $1.7 billion achieved this year. The outlook for the upcoming year will be based in part on stable economic conditions in the United States and from steadily improving market conditions throughout Europe. In addition, future results could be affected to the extent that the company would make acquisitions or divestitures.

Sales in the North America Metalworking market should benefit from stable economic conditions in the United States and Canada. Sales in the Europe Metalworking market also are expected to benefit from improved economic conditions in Europe, primarily in Germany. Sales in the Asia Pacific Metalworking market are expected to remain weak due to poor economic conditions in most countries in this region.

Sales in the Industrial Supply market should continue to benefit from recent acquisitions, the expansion of new showroom locations, an expanded product offering in the new J&L master catalog and from new Full Service Supply programs. Lastly, sales of mining and highway construction tools should benefit from increased infrastructure spending in the United States and from increased demand in developing markets.

This annual report, including the letter to shareholders and the business discussion on pages 5-34, contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results can materially differ from those in the forward-looking statements to the extent that the economic conditions in the United States, Europe and, to a lesser extent, Asia Pacific and the effect of third party or company failures to achieve timely remediation of year 2000 issues, change from the company's expectations. 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 contained on Page 35 are not included. All graph data is contained in the ten-year financial highlights on Pages 52 and 53.

CONSOLIDATED STATEMENTS OF INCOME . . .

Year ended June 30	1998	1997	1996
(in thousands, except per share data)			
OPERATIONS			
Net sales	$ 1,678,388	$1,156,343	$1,079,963
Cost of goods sold	994,481	668,415	625,473
Gross profit	683,907	487,928	454,490
Research and development expenses	20,397	24,105	20,585
Selling, marketing and distribution expenses	339,772	263,980	242,375
General and administrative expenses	112,519	69,911	65,417
Amortization of intangibles	15,648	2,907	1,596
Restructuring charge	--	--	2,666
Operating income	195,571	127,025	121,851
Interest expense	59,536	10,393	11,296
Other income (expense)	(5,459)	1,531	4,821
Income before income taxes and minority interest	130,576	118,163	115,376
Provision for income taxes	53,900	44,900	43,900
Minority interest	5,479	1,231	1,744
Net income	$ 71,197	$ 72,032	$ 69,732
PER SHARE DATA			
Basic earnings per share	$ 2.61	$ 2.71	$ 2.62
Diluted earnings per share	$ 2.58	$ 2.69	$ 2.60
Dividends per share	$ 0.68	$ 0.66	$ 0.60
Weighted average shares outstanding	27,263	26,575	26,635
Diluted average shares outstanding	27,567	26,786	26,825

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS . . .

As of June 30	1998	1997
(in thousands)		
ASSETS		
Current assets:		
Cash and equivalents	$ 18,366	$ 21,869
Accounts receivable, less allowance for doubtful accounts of $11,974 and $7,325	332,677	200,515
Inventories	436,472	210,111
Deferred income taxes	31,316	25,384
Total current assets	818,831	457,879
Property, plant and equipment:		
Land and buildings	241,482	156,292
Machinery and equipment	671,087	473,850
Less accumulated depreciation	(386,642)	(329,756)
Net property, plant and equipment	525,927	300,386
Other assets:		
Investments in affiliated companies	13,740	11,736
Intangible assets, less accumulated amortization of $39,408 and $23,960	706,619	49,915
Deferred income taxes	39,426	34,307
Other	34,450	15,086
Total other assets	794,235	111,044
Total assets	$ 2,138,993	$ 869,309
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	$ 78,632	$ 13,853
Notes payable to banks	48,103	120,166
Accounts payable	115,373	60,322
Accrued payroll	30,600	3,311
Accrued vacation pay	21,523	18,176
Other current liabilities	82,838	66,174
Total current liabilities	377,069	282,002
Long-term debt and capital leases, less current maturities	840,932	40,445
Deferred income taxes	45,253	21,055
Other liabilities	98,073	57,060
Total liabilities	1,361,327	400,562
Minority interest in consolidated subsidiaries	42,206	9,139
SHAREHOLDERS' EQUITY		
Preferred stock, 5,000 shares authorized; none issued	--	--
Capital stock, $1.25 par value; 70,000 shares authorized; 32,820 and 29,370 shares issued	41,025	36,712
Additional paid-in capital	320,645	91,049
Retained earnings	458,805	406,083
Treasury shares, at cost; 2,991 and 3,263 shares held	(59,131)	(62,400)
Cumulative translation adjustments	(25,884)	(11,836)
Total shareholders' equity	735,460	459,608
Total liabilities and shareholders' equity	$ 2,138,993	$ 869,309

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS . . .

Year ended June 30	1998	1997	1996
(in thousands)			
OPERATING ACTIVITIES			
Net income	$ 71,197	$ 72,032	$ 69,732
Adjustments for noncash items:			
Depreciation and amortization	67,311	41,399	40,240
Other	29,705	5,356	9,000
Changes in certain assets and liabilities, net of effects from acquisitions and divestiture:			
Accounts receivable	(17,006)	(8,032)	(20,359)
Inventories	(37,231)	1,379	(9,758)
Accounts payable and accrued liabilities	(8,791)	(600)	(1,342)
Other	(3,661)	(11,684)	(2,034)
Net cash flow from operating activities	101,524	99,850	85,479
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(104,774)	(73,779)	(57,556)
Disposals of property, plant and equipment	5,132	1,063	6,348
Acquisitions, net of cash	(755,338)	(18,995)	(1,441)
Divestiture, net of cash	62,052	--	--
Purchase of subsidiary stock	(14,197)	--	--
Other	(5,992)	907	2,614
Net cash flow used for investing activities	(813,117)	(90,804)	(50,035)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	(71,537)	55,689	5,019
Increase in long-term debt	803,400	943	7,780
Reduction in long-term debt	(270,455)	(19,359)	(28,278)
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	10,764	5,623	2,652
Cash dividends paid to shareholders	(18,475)	(17,543)	(15,976)
Other	(5,511)	--	--
Net cash flow from (used for) financing activities	710,055	(3,304)	(28,803)
Effect of exchange rate changes on cash	(1,965)	(963)	(378)
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	(3,503)	4,779	6,263
Cash and equivalents, beginning	21,869	17,090	10,827
Cash and equivalents, ending	$ 18,366	$ 21,869	$ 17,090
SUPPLEMENTAL DISCLOSURES			
Interest paid	$ 61,692	$ 10,563	$ 11,436
Income taxes paid	47,052	45,307	39,521

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY . . .

Year ended June 30	1998	1997	1996
(in thousands)			
CAPITAL STOCK			
Balance at beginning of year	$ 36,712	$ 36,712	$ 36,712
Issuance of common stock	4,313	--	--
Balance at end of year	41,025	36,712	36,712
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	91,049	87,417	85,768
Dividend reinvestment and stock purchase plan	819	1,132	882
Employee stock plans	6,676	2,500	767
Issuance of common stock	167,126	--	--
Issuance of subsidiary stock	54,975	--	--
Balance at end of year	320,645	91,049	87,417
RETAINED EARNINGS			
Balance at beginning of year	406,083	351,594	297,838
Net income	71,197	72,032	69,732
Cash dividends	(18,475)	(17,543)	(15,976)
Balance at end of year	458,805	406,083	351,594
TREASURY SHARES			
Balance at beginning of year	(62,400)	(35,734)	(36,737)
Purchase of treasury stock	--	(28,657)	--
Dividend reinvestment and stock purchase plan	292	708	537
Employee stock plans	2,977	1,283	466
Balance at end of year	(59,131)	(62,400)	(35,734)
CUMULATIVE TRANSLATION ADJUSTMENTS			
Balance at beginning of year	(11,836)	(1,040)	8,304
Current year translation adjustments	(14,048)	(10,796)	(9,344)
Balance at end of year	(25,884)	(11,836)	(1,040)
Total shareholders' equity, June 30	$ 735,460	$ 459,608	$ 438,949

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 and services primarily for the metalworking, mining and highway construction industries, including wear-resistant parts used in various 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.

ACCOUNTS RECEIVABLE included $15.1 million and $12.8 million of receivables from affiliates at June 30, 1998 and 1997, respectively.

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

PROPERTY, PLANT AND EQUIPMENT are carried at cost. Major improvements are capitalized, while maintenance and repairs are generally expensed as incurred. Retirements and disposals are removed from cost and accumulated depreciation accounts, with the gain or loss reflected in income. Interest is capitalized during the construction of major facilities. Capitalized interest is included in the cost of the constructed asset and 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, which include the excess of cost over net assets of acquired companies, are amortized using the straight-line method over periods ranging from 3 to 40 years. 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 $690.6 million and $42.5 million at June 30, 1998 and 1997, respectively.

DEFERRED FINANCING COSTS 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 303,539, 210,706 and 189,444 shares in 1998, 1997 and 1996, 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 are expensed as incurred.

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

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

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

NEW ACCOUNTING STANDARDS. The company adopted SFAS No. 128, "Earnings per Share," issued in February 1997. This statement requires the disclosure of basic and diluted earnings per share and revises the method required to calculate these amounts. The adoption of this standard did not have a material impact on previously reported earnings per share amounts. The company also adopted SFAS No. 129, "Disclosure of Information about Capital Structure," issued in February 1997. This statement requires specific disclosure requirements related to a company's capital structure. The adoption of this standard did not have a material impact on the company.

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," were issued by the Financial Accounting Standards Board requiring implementation for years beginning after December 15, 1997.

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The company will adopt SFAS No. 130 in fiscal 1999 and does not anticipate that the statement will have a significant impact on its disclosures.

SFAS No. 131 introduces 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. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. The company is in the process of evaluating the effect of applying this statement.

In February 1998, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued. The implementation of SFAS No. 132 will revise certain footnote disclosure requirements related to pension and other retiree benefits. The new standard will not have a financial impact on the company. Implementation is required for fiscal 1999.

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

NOTE 3

ACQUISITIONS

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 the 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 forty years.

Additionally, the company also has made several other acquisitions in 1998 and 1997 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 impact 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 are 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 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. Pending such uses, the net proceeds were loaned to the company, under an intercompany debt/investment and cash management agreement at a fluctuating rate of interest equal to the company's short-term borrowing cost. Additional net proceeds of $50.4 million have been used to make acquisitions in 1998. The company currently owns approximately 83 percent of the outstanding common stock of JLK.

NOTE 5

INVENTORIES

Inventories consisted of the following:

(in thousands)	1998	1997
Finished goods	$302,374	$183,961
Work in process and powder blends	117,428	50,351
Raw materials and supplies	53,449	16,494
Inventories at current cost	473,251	250,806
Less LIFO valuation	(36,779)	(40,695)
Total inventories	$436,472	$210,111

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 45 and 56 percent of total inventories at June 30, 1998 and 1997, respectively. The company uses the LIFO method for valuing the majority of its inventories in order to more closely match current costs with current revenues, thereby reducing the effects of inflation on earnings.

NOTE 6

OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following:

(in thousands)	1998	1997
Payroll, state and local taxes	$13,973	$ 6,098
Accrued benefits	8,578	6,894
Accrued employee programs	7,227	5,211
Accrued interest expense	4,894	766
Accrued product warranty costs	4,266	4,621
Federal and state income taxes	--	17,563
Other accrued expenses	43,900	25,021
Total other current liabilities	$82,838	$66,174

NOTE 7

LONG-TERM DEBT AND CAPITAL LEASES

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

(in thousands)	1998	1997
Bank Credit Agreement:		
Revolving credit loans, 6.785% to 6.815%, due 2003	$609,300	$ --
Term loan, 6.785%, due in installments through 2003	266,250	--
Senior notes, 9.64%, due in installments through 2000	--	30,000
Borrowings outside the U.S., varying from 6.25% to 10.25% in 1998 and 6.60% to 10.25% in 1997, due in installments through 2013	18,462	6,750
Leases, primarily office facilities, with terms expiring through 2008 at 6.75% to 7.55%	11,004	11,068
Other	14,548	6,480
Total debt and capital leases	919,564	54,298
Less current maturities:		
Long-term debt	(77,522)	(12,287)
Capital leases	(1,110)	(1,566)
Total current maturities	(78,632)	(13,853)
Long-term debt and capital leases	$840,932	$ 40,445

In connection with the acquisition of Greenfield, the company entered into a new $1.4 billion Bank Credit Agreement (Agreement). Subject to certain conditions, the Agreement permits 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 under the Agreement is subject to mandatory amortization commencing on November 30, 1998, and matures on August 31, 2002. The revolving credit loans also mature on August 31, 2002. During fiscal 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 $77.5 million, $124.2 million, $75.9 million, $2.8 million and $611.6 million, respectively, in fiscal years 1999 through 2003.

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

(in thousands)	
Year ending June 30:	
1999	$ 1,979
2000	1,993
2001	1,383
2002	1,296
2003	1,099
After 2003	8,131
Total future minimum lease payments	15,881
Less amount representing interest	(4,877)
Present value of minimum lease payments	$11,004

Future minimum lease payments under operating leases with noncancelable terms beyond one year were not significant at June 30, 1998.

NOTE 8
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NOTES PAYABLE TO BANKS

Notes payable to banks of $48.1 million and $120.2 million at June 30, 1998 and 1997, respectively, represent short-term borrowings under U.S. and international credit lines with commercial banks. These credit lines totaled approximately $134.9 million at June 30, 1998, of which $86.8 million was unused. The weighted average interest rate for short-term borrowings was 7.4 percent and 6.3 percent at June 30, 1998 and 1997, respectively.

During 1997, the company's J&L subsidiary obtained a $25 million line of credit with a bank and borrowed $20 million under the line of credit to fund a dividend to the company. Interest payable under the line of credit was based on LIBOR plus 0.25%. The company guaranteed repayment of the line of credit in the event of default by J&L. The line of credit was repaid in full and canceled during July 1997.

NOTE 9

INCOME TAXES

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

(in thousands)	1998	1997	1996
Income before income taxes:			
United States	$ 93,775	$ 95,029	$ 76,020
International	36,801	23,134	39,356
Total income before income taxes	$130,576	$118,163	$115,376
Current income taxes:			
Federal	$ 17,200	$ 30,600	$ 28,100
State	5,700	6,000	5,500
International	10,100	4,400	1,800
Total	33,000	41,000	35,400
Deferred income taxes	20,900	3,900	8,500
Provision for income taxes	$ 53,900	$ 44,900	$ 43,900
Effective tax rate	41.3%	38.0%	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)	1998	1997	1996
Income taxes at U.S. statutory rate	$45,702	$41,357	$40,382
State income taxes, net of federal tax benefits	3,684	3,917	3,575
Nondeductible goodwill	3,944	397	283
Combined tax effects of international income	2,944	(1,990)	(2,942)
International losses with no related tax benefits	1,562	102	421
Other	(3,936)	1,117	2,181
Provision for income taxes	$53,900	$44,900	$43,900

Deferred tax assets and liabilities consisted of the following:

(in thousands)	1998	1997
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$20,270	$27,160
Other postretirement benefits	18,350	15,153
Inventory valuation and reserves	12,779	7,981
Accrued vacation compensation	4,582	4,316
Other accruals	11,793	7,436
Pension benefits	(2,860)	(2,133)
Accumulated depreciation	(36,557)	(17,663)
Total	28,357	42,250
Less valuation allowance	(2,868)	(3,614)
Net deferred tax assets	$25,489	$38,636

Deferred income taxes have not been provided on cumulative undistributed earnings of international subsidiaries and affiliates. At June 30, 1998, 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, 1998, are unrealized tax benefits totaling $20.3 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 $15.6 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, which expire at various dates through 2003. The company established a valuation allowance of $2.9 million to offset the deferred tax benefits that may not be realized before the expiration of the carryforward periods.

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 10

PENSION BENEFITS

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

(in thousands)	1998	1997	1996
Service cost	$ 8,284	$ 7,728	$ 6,722
Interest cost	17,075	14,569	13,688
Return on plan assets	(47,220)	(46,845)	(45,888)
Net amortization and deferral	16,964	22,457	24,682
Net pension credit	$ (4,897)	$ (2,091)	$ (796)

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

(in thousands)	1998	1997
Plan assets, at fair value	$ 395,930	$318,229
Present value of accumulated benefit obligations:		
Vested benefits	221,736	161,160
Nonvested benefits	2,433	2,271
Accumulated benefit obligations	224,169	163,431
Effect of future salary increases	48,745	48,054
Projected benefit obligations	272,914	211,485
Plan assets in excess of projected benefit obligations	123,016	106,744
Amounts not recognized in the financial statements:		
Unrecognized net assets from July 1, 1986	(10,149)	(12,329)
Unrecognized prior service costs	5,719	672
Unrecognized net gains	(111,839)	(87,118)
Prepaid pension costs	$ 6,747	$ 7,969

Prepaid pension costs are included in other noncurrent assets.

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

	1998	1997
Discount rate	7.00%	7.50%
Rate of future salary increases	4.50%	4.50%
Rate of return on plan assets	9.00%	9.00%

In connection with the acquisition of Greenfield during 1998, the company recorded an aggregate net liability of $8.0 million in purchase accounting for the excess of the estimated projected benefit obligation over the fair value of plan assets. This plan was frozen in 1995 and benefits were frozen at 1995 levels.

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

(in thousands)	1998	1997	1996

Service cost	$ 3,526	$ 877	$ 735
Interest cost	2,571	1,480	1,573
Return on plan assets	(1,931)	(709)	(661)
Net amortization and deferral	30	(45)	(45)
Net pension cost	$ 4,196	$1,603	$1,602

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

(in thousands)	1998		1997	
	Assets Exceed ABO	ABO Exceed Assets	Assets Exceed ABO	ABO Exceed Assets
Plan assets, at fair value	$ 26,250	$ --	$ 9,417	$ --
Present value of accumulated benefit obligations (ABO):				
Vested benefits	22,111	12,455	5,643	11,863
Nonvested benefits	391	1,576	13	1,465
Accumulated benefit obligations	22,502	14,031	5,656	13,328
Effect of future salary increases	2,742	205	1,393	210
Projected benefit obligations	25,244	14,236	7,049	13,538
Plan assets greater (less) than projected benefit obligations	1,006	(14,236)	2,368	(13,538)
Amounts not recognized in the financial statements:				
Unrecognized net assets	470	--	(850)	--
Unrecognized net gains	(1,449)	11	(1,550)	--
Net pension asset (liability)	$ 27	$(14,225)	$ (32)	$(13,538)

Accrued pension costs are included in other noncurrent liabilities. Plan assets consist principally of common stocks, corporate bonds and government securities.

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

	1998	1997
Discount rate	7.00%-6.00%	8.00%-7.00%
Rate of future salary increases	4.50%-4.00%	5.50%-4.00%
Rate of return on plan assets	8.00%-7.00%	9.00%

Total pension cost for U.S. and international plans amounted to $13.1 million, $8.7 million and $2.1 million in 1998, 1997 and 1996, respectively.

NOTE 11

OTHER POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

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 at or after age 65 with five or more years of service after age 40. Employees (and their spouses) retiring under age 65 before January 1, 1998, with 20 or more years of service after age 40 also are eligible to receive postretirement health care benefits. 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 components of other postretirement benefit costs for the company's U.S. plans were as follows:

(in thousands)	1998	1997	1996
Service cost	$1,080	$1,220	$1,100
Interest cost	2,646	2,427	2,661
Net amortization and deferral	(60)	(70)	--
Other postretirement benefit costs	$3,666	$3,577	$3,761

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

(in thousands)	1998	1997
Present value of accumulated benefit obligations:		
Retirees	$24,720	$17,446
Fully eligible active participants	8,372	2,742
Other active participants	7,535	14,392
Accumulated benefit obligations	40,627	34,580
Plan assets, at fair value	--	--
Accumulated benefit obligations in excess of plan assets	40,627	34,580
Unrecognized net gains	2,896	4,340
Accrued postretirement benefits	$43,523	$38,920

Included in other noncurrent liabilities were accrued postretirement benefits of $40.2 million and $36.0 million at June 30, 1998 and 1997, respectively.

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

	1998	1997

- --

Discount rate	7.00%	7.50%
Rate of increase in health care costs:		
Initial rate	7.50%	8.00%
Ultimate rate in 2003 and after	5.00%	5.00%

A 1 percent increase in the health care cost trend rate would have increased other postretirement benefit costs by $0.1 million in 1998 and the accumulated benefit obligation by $1.0 million at June 30, 1998.

In connection with the acquisition of Greenfield during 1998, the company recorded an aggregate net liability of $4.8 million in purchase accounting for the estimated accumulated benefit obligation. This plan was frozen in 1995 and benefits were frozen at 1995 levels.

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 1998, 1997 and 1996, respectively.

NOTE 12
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RESTRUCTURING CHARGE

In 1996, the Board of Directors approved the company's plan (the Plan) to relocate its North America Metalworking Headquarters from Raleigh, N.C., to Latrobe, Pa. In connection with the Plan, the company constructed a new world headquarters at a cost of approximately $20.0 million. The relocation was made to globalize key functions and to provide a more efficient corporate structure. As a result, a pretax charge of $2.0 million was recorded in the fourth quarter of fiscal 1996 to cover the one-time costs of employee separation arrangements and early retirement costs. The costs resulting from the relocation of employees, hiring and training new employees, and other costs resulting from the temporary duplication of certain operations were not included in the one-time charge and are included in operating expenses as incurred. The company also recorded a one-time pretax charge of $0.7 million related to the closure of a manufacturing facility in Canada. The restructuring was completed in 1998.

NOTE 13
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FINANCIAL INSTRUMENTS

FAIR VALUE. The company had $18.4 million in cash and equivalents at June 30, 1998, which approximates fair value because of the short maturity of these investments.

The estimated fair value of long-term debt was $909.1 million at June 30, 1998. Fair value was determined using discounted cash flow analysis and the company's incremental borrowing rates for similar types of arrangements.

OFF-BALANCE-SHEET RISK. The company uses forward foreign exchange contracts in the normal course of business to hedge foreign currency exposures of underlying receivables and payables. These financial instruments involve credit risk in excess of the amount recognized in the financial statements. The company controls credit risk through credit evaluations, limits and monitoring procedures. These financial instruments are not used for trading purposes. There were no financial instruments with significant off-balance-sheet risk at June 30, 1998.

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, 1998, the company had no significant concentrations of credit risk.

NOTE 14
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STOCK OPTIONS

Under stock option plans approved by shareholders in 1996, 1992 and 1988, 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. No options may be granted under the 1988 plan after October 1998, no options may be granted under the 1992 plan after October 2002 and no options may be granted under the 1996 plan after October 2006. No charges to income have resulted from the operation of the plans.

Under provisions of the plans, participants may deliver Kennametal stock in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. Shares valued at $0.2 million (3,961 shares), $0.5 million (11,684 shares) and $0.9 million (22,740 shares) were delivered in 1998, 1997 and 1996, respectively.

Under the 1996, 1992 and 1988 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 shareholder, subject to certain restrictions or forfeitures. Such awards were not significant in 1998, 1997 and 1996.

The company measures compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, 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 1998, 1997 and 1996, consistent with the methodology in SFAS No. 123, "Accounting for Stock-Based Compensation," the effect on the company's 1998, 1997 and 1996 net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands)	1998	1997	1996

Net income:			
As reported	$71,197	$72,032	$69,732
Pro forma	65,671	70,140	65,610
Basic earnings per share:			
As reported	$ 2.61	$ 2.71	$ 2.62
Pro forma	2.41	2.64	2.46
Diluted earnings per share:			
As reported	$ 2.58	$ 2.69	$ 2.60
Pro forma	2.38	2.62	2.45

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:

	1998	1997	1996
Risk-free interest rate	6.12%	6.64%	6.28%
Expected life (years)	5	5	5
Expected volatility	23.8%	27.9%	30.2%
Expected dividend yield	1.6%	2.0%	1.9%

Stock option activity for 1998, 1997 and 1996 is set forth below:

	1998		1997		1996	
Number of Shares	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,169,367	$30.85	994,244	$30.41	521,148	$20.55
Granted	727,900	49.82	327,000	31.42	580,500	36.86
Exercised	(224,061)	33.05	(116,877)	22.65	(105,904)	17.16
Lapsed and forfeited	(53,000)	50.76	(35,000)	36.45	(1,500)	37.06
Options outstanding, end of year	1,620,206	$38.40	1,169,367	$30.85	994,244	$30.41
Options exercisable, end of year	1,592,854	$38.64	1,132,111	$31.16	960,970	$30.88
Weighted average fair value of options granted during the year		$13.90		$ 9.48		$11.56

Stock options outstanding at June 30, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$16.13-$20.53	179,706	3.73	$18.92	158,354	$19.19
24.75	135,862	6.15	24.75	135,862	24.75
30.81	177,700	8.09	30.81	177,700	30.81
31.06- 36.38	83,000	8.10	33.40	83,000	33.40
37.06	363,038	7.08	37.06	363,038	37.06
48.56	491,400	9.08	48.56	491,400	48.56
49.25- 52.09	88,000	9.52	50.08	82,000	50.02
53.97	101,500	9.46	53.97	101,500	53.97
	1,620,206	7.68	$38.40	1,592,854	$38.64

NOTE 15

ENVIRONMENTAL MATTERS

The company has been involved in various environmental cleanup and remediation activities at several of its manufacturing facilities. In addition, the company has been named as a potentially responsible party at one Superfund site 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 SFAS No. 5, "Accounting for Contingencies."

NOTE 16

SHAREHOLDER RIGHTS PLAN

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

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

NOTE 17

SEGMENT DATA

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

(in thousands)	1998	1997	1996
Sales:			
United States	$1,304,149	$ 867,321	$ 784,295
Europe	390,700	306,065	328,732
Other international	157,054	125,856	114,432
Total	1,851,903	1,299,242	1,227,459
Intersegment transfers:			
United States	126,713	100,000	97,343
Europe	38,823	33,629	38,452
Other international	7,979	9,270	11,701
Total	173,515	142,899	147,496
Net sales	$1,678,388	$1,156,343	$1,079,963
Operating income:			
United States	$ 144,043	$ 90,421	$ 79,517
Europe	36,743	18,876	27,614
Other international	17,512	15,949	15,247
Eliminations	(2,727)	1,779	(527)
Total operating income	195,571	127,025	121,851
Interest expense	59,536	10,393	11,296
Other income (expense)	(5,459)	1,531	4,821
Income before income taxes and minority interest	$ 130,576	$ 118,163	$ 115,376
Identifiable assets:			
United States	$1,676,436	$ 560,631	$ 495,452
Europe	328,933	210,711	239,594
Other international	156,388	79,477	83,130
Eliminations	(43,335)	(10,390)	(37,884)
Corporate	20,571	28,880	19,199
Total assets	$2,138,993	$ 869,309	$ 799,491

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

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

Sales to a single customer did not aggregate 10 percent or more of total sales. Export sales from U.S. operations to unaffiliated customers were $64.7 million, $15.1 million and $21.4 million in 1998, 1997 and 1996, respectively.

NOTE 18

OTHER INCOME (EXPENSE)

Other expense includes approximately $4.6 million as a result of the write-off of deferred financing costs related to a postponed 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. The company subsequently postponed the proposed offerings and terminated the interest rate hedges resulting in a loss of $3.5 million. The company also wrote-off other related offering expenses of $1.1 million resulting in a combined total of $4.6 million.

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QUARTERLY FINANCIAL INFORMATION . . .
(UNAUDITED)

(in thousands, except per share data)	Quarter Ended Sep. 30	Dec. 31	Mar. 31	Jun. 30
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
FISCAL 1997:				
Net sales	$275,203	$273,435	$295,365	$312,340
Gross profit	114,710	113,346	126,566	133,306
Net income	15,203	14,567	19,928	22,334
Basic earnings per share	0.57	0.54	0.75	0.85
Diluted earnings per share	0.57	0.54	0.74	0.84

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

STOCK PRICE RANGES AND DIVIDENDS PAID

The company's capital stock is traded on the New York Stock Exchange (symbol KMT). The number of shareholders of record as of August 10, 1998, was 2,884. Stock price ranges and dividends declared and paid were as follows:

	Quarter Ended Sep. 30	Dec. 31	Mar. 31	Jun. 30
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
FISCAL 1997:				
High	$34 3/8	$39	$43 1/8	$44 1/8
Low	28 7/8	32 3/4	34 7/8	33 1/8
Dividends	0.15	0.17	0.17	0.17

REPORT OF MANAGEMENT . . .

TO THE SHAREHOLDERS 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

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Robert L. McGeehan
President and Chief Executive Officer
Shareholder

/s/ RICHARD J. ORWIG

- ---

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

REPORT OF AUDIT COMMITTEE . . .

TO THE SHAREHOLDERS OF KENNAMETAL INC.

The Audit Committee of the Board of Directors, composed of four independent directors, met four times during fiscal year 1998.

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
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Larry Yost
Chairman, Audit Committee
Shareholder

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS . . .

TO THE SHAREHOLDERS OF KENNAMETAL INC.

We have audited the accompanying consolidated balance sheets of Kennametal Inc. and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kennametal Inc. and subsidiaries as of June 30, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP
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Arthur Andersen LLP
Pittsburgh, Pennsylvania
July 21, 1998

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TEN-YEAR FINANCIAL HIGHLIGHTS . . .

(dollars in thousands, except per share data)	Notes	10-YR CAGR	1998	1997	1996
OPERATING RESULTS					
Net sales		14.9%	$1,678,388	$1,156,343	$1,079,963
Cost of goods sold		15.1	994,481	668,415	625,473
Research and development expenses		7.7	20,397	24,105	20,585
Selling, marketing and distribution expenses		14.9	339,772	263,980	242,375
General and administrative expenses		14.3	112,519	69,911	65,417
Interest expense		21.3	59,536	10,393	11,296
Unusual or nonrecurring items	(1)	n.m.	4,595	--	2,666
Income taxes		10.9	53,900	44,900	43,900
Accounting changes, net of tax	(2)	n.m.	--	--	--
Net income (loss)	(3)	11.3	71,197	72,032	69,732
FINANCIAL POSITION					
Net working capital		16.1%	$ 441,762	$ 175,877	$ 217,651
Inventories		16.3	436,472	210,111	204,934
Property, plant and equipment, net		12.5	525,927	300,386	267,107
Total assets		19.5	2,138,993	869,309	799,491
Long-term debt, including capital leases		27.4	840,932	40,445	56,059
Total debt, including capital leases		25.0	967,667	174,464	131,151
Total shareholders' equity	(4)	14.7	735,460	459,608	438,949
PER SHARE DATA					
Basic earnings (loss)	(3)	8.2%	$ 2.61	$ 2.71	$ 2.62
Diluted earnings (loss)		8.2	2.58	2.69	2.60
Dividends		2.7	0.68	0.66	0.60
Book value (at year-end)		10.6	24.66	17.61	16.44
Market price (at year-end)		8.6	41.75	43.00	34.00
OTHER DATA					
Capital expenditures		8.5%	$ 104,774	$ 73,779	$ 57,556
Number of employees (at year-end)		11.2	14,380	7,550	7,260
Average sales per employee		6.0	$ 152	$ 159	$ 152
Weighted average shares outstanding (in thousands)	(4)	2.9	27,263	26,575	26,635
Diluted average shares outstanding (in thousands)	(4)	2.9	27,567	26,786	26,825
KEY RATIOS					
Sales growth			45.1%	7.1%	9.8%
Gross profit margin			40.7	42.2	42.1
Operating profit margin	(5)		11.7	11.0	11.5
Return on sales	(3)		4.2	6.2	6.5
Return on equity	(3)		12.2	15.8	17.0
Total debt to total capital			55.4	27.1	22.5
Dividend payout	(6)		25.7	25.0	35.8
Inventory turnover			3.1x	3.2x	3.0x

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

Notes

1. Unusual charges (credits) reflect 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).

3. 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.

(dollars in thousands, except per share data)	Notes	1995	1994	1993	1992
OPERATING RESULTS					
Net sales		$983,873	$802,513	$598,496	$594,533
Cost of goods sold		560,867	472,533	352,773	362,967
Research and development expenses		18,744	15,201	14,714	13,656
Selling, marketing and distribution expenses		219,271	189,487	144,850	137,494
General and administrative expenses		55,853	58,612	41,348	45,842
Interest expense		12,793	13,811	9,549	10,083
Unusual or nonrecurring items	(1)	--	24,749	(1,738)	--
Income taxes		45,000	15,500	14,000	8,100
Accounting changes, net of tax	(2)	--	15,003	--	--
Net income (loss)	(3)	68,294	(4,088)	20,094	12,872
FINANCIAL POSITION					
Net working capital		$184,072	$130,777	$120,877	$108,104
Inventories		200,680	158,179	115,230	118,248
Property, plant and equipment, net		260,342	243,098	192,305	200,502
Total assets		781,609	697,532	448,263	472,167
Long-term debt, including capital leases		78,700	90,178	87,891	95,271
Total debt, including capital leases		149,730	147,295	110,628	127,954
Total shareholders' equity	(4)	391,885	322,836	255,141	251,511
PER SHARE DATA					
Basic earnings (loss)	(3)	$ 2.58	$ (0.17)	$ 0.93	$ 0.60
Diluted earnings (loss)		2.56	(0.17)	0.92	0.60
Dividends		0.60	0.58	0.58	0.58
Book value (at year-end)		14.75	12.25	11.64	11.64
Market price (at year-end)		34.50	24.63	16.75	17.13
OTHER DATA					
Capital expenditures		$ 43,371	$ 27,313	$ 23,099	$ 36,555
Number of employees (at year-end)		7,030	6,600	4,850	4,980
Average sales per employee		$ 146	$ 125	$ 122	$ 116
Weighted average shares outstanding (in thousands)	(4)	26,486	24,304	21,712	21,452
Diluted average shares outstanding (in thousands)	(4)	26,640	24,449	21,753	21,551
KEY RATIOS					
Sales growth		22.6%	34.1%	0.7%	(3.8)%
Gross profit margin		43.0	41.1	41.1	38.9
Operating profit margin	(5)	12.9	7.8	6.9	5.2
Return on sales	(3)	6.9	n.m.	3.4	2.2
Return on equity	(3)	19.3	n.m.	8.1	5.2
Total debt to total capital		27.0	30.6	30.2	33.7
Dividend payout	(6)	53.9	127.9	68.8	55.4
Inventory turnover		3.1x	3.1x	3.1x	3.0x

(dollars in thousands, except per share data)	Notes	1991	1990	1989
OPERATING RESULTS				
Net sales		$617,833	$589,023	$472,200
Cost of goods sold		358,529	342,434	274,929
Research and development expenses		14,750	13,325	11,969
Selling, marketing and distribution expenses		136,319	123,286	94,934
General and administrative expenses		49,219	42,648	31,443
Interest expense		11,832	10,538	8,960
Unusual or nonrecurring items	(1)	6,350	--	--
Income taxes		17,300	23,000	20,900
Accounting changes, net of tax	(2)	--	--	--
Net income (loss)	(3)	21,086	32,113	29,994
FINANCIAL POSITION				
Net working capital		$ 88,431	$108,954	$ 91,032
Inventories		119,767	114,593	105,033
Property, plant and equipment, net		193,830	175,523	166,390
Total assets		476,194	451,379	383,252
Long-term debt, including capital leases		73,113	81,314	57,127
Total debt, including capital leases		130,710	116,212	95,860
Total shareholders' equity	(4)	243,535	231,598	204,465
PER SHARE DATA				
Basic earnings (loss)	(3)	$ 1.00	$ 1.54	$ 1.45
Diluted earnings (loss)		0.99	1.52	1.43
Dividends		0.58	0.58	0.56

Book value (at year-end)		11.42	11.02	9.84
Market price (at year-end)		17.81	17.25	15.88
OTHER DATA				
Capital expenditures		$ 55,323	$ 35,998	$ 28,491
Number of employees (at year-end)		5,360	5,580	5,420
Average sales per employee		$ 113	$ 107	$ 94
Weighted average shares outstanding (in thousands)	(4)	21,094	20,872	20,696
Diluted average shares outstanding (in thousands)	(4)	21,237	21,065	20,915
KEY RATIOS				
Sales growth		4.9%	24.7%	12.5%
Gross profit margin		42.0	41.9	41.8
Operating profit margin	(5)	8.9	10.9	12.3
Return on sales	(3)	3.4	5.5	6.4
Return on equity	(3)	8.7	14.9	15.4
Total debt to total capital		34.9	33.4	31.9
Dividend payout	(6)	43.6	41.6	48.1
Inventory turnover		3.0x	3.1x	2.9x

EXHIBIT 21

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries:	
Kennametal Australia Pty. Ltd.	Australia
Kennametal Foreign Sales Corporation	Barbados
Kennametal Ltd.	Canada
Presto Cutting Tools Canada Limited	Canada
Kennametal (China) Limited	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 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 Hardpoint (Taiwan) Inc.	Taiwan
Kennametal Hertel Co., Ltd.	Thailand
Circle Machine Company	California, United States
Greenfield Industries, Inc.	Delaware, United States
Adaptive Technologies Corp.	Michigan, United States
JLK Direct Distribution Inc.	Pennsylvania, United States
Consolidated Subsidiaries of Kennametal Hertel AG:	
Kennametal Hertel Belgium S.A.	Belgium
Kennametal Hertel Limited	England
Kennametal Hertel France S.A.	France
Materiels de Precision et de Production S.A.	France
Kennametal Hertel G.m.b.H.	Germany
Kennametal Hertel Korea G.m.b.H. Korea Branch	South Korea
Rubig G.m.b.H.	Germany
Kennametal Hertel Nederland B.V.	Netherlands
Nederlandse Hardmetaal Fabrieken B.V.	Netherlands

EXHIBIT 21

PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Consolidated Subsidiaries of JLK Direct Distribution Inc.:	
J&L America, Inc.	Michigan, United States
Consolidated Subsidiaries of J&L America, Inc.:	
J & L Industrial Supply UK (branch)	England
J & L Werkeuge Und Industriebedarf G.m.b.H.	Germany
ATS Industrial Supply Company	Arizona, United States
GRS Industrial Supply Company	Michigan, United States
Strong Tool Co.	Ohio, United States
Dalworth Tool & Supply, Inc.	Texas, United States
Production Tools Sales, Inc.	Texas, United States
Abrasive & Tool Specialties Company	Utah, United States
Consolidated Subsidiaries of Greenfield Industries, Inc.:	
Greenfield Industries Foreign Sales Corporation	Barbados
Greenfield Industries, Inc. Canada	Canada
Cirbo Limited	England
Presto Engineers Cutting Tools Ltd.	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
Cleveland Europe Limited	Scotland
Kemmer AG	Switzerland
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
Remgrit Abrasive Tools, Inc.	Massachusetts, United States
Rule Cutting Tools, Inc.	Massachusetts, United States
Rule Paint and Chemical, Inc.	Massachusetts, United States
Hanita Cutting Tools, Inc.	New Jersey, United States
The Cleveland Twist Drill Co.	Ohio, 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 the Company's previously filed registration statements on Form S-8, Registration No. 2-80182, Form S-8, Registration No. 33-25331, Form S-8, Registration No. 33-55768, Form S-8, Registration No. 33-55766, 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, and Form S-8, Registration No. 333-18437, including the prospectuses therein, relating to the Company's Stock Option Plan of 1982, Stock Option and Incentive Plan of 1988, Stock Option and Incentive Plan of 1992, Directors Stock Incentive Plan, Dividend Reinvestment and Stock Purchase Plan (as amended), Performance Bonus Stock Plan of 1995, Kennametal Thrift Plan, Kennametal Inc. Stock Option and Incentive Plan of 1992 (as amended), and the Kennametal Inc. Stock Option and Incentive Plan of 1996. It should be noted that we have not audited any financial statements of the Company subsequent to June 30, 1998 or performed any audit procedures subsequent to the date of our report.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP

Pittsburgh, Pennsylvania
September 23, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE JUNE 30, 1998 CONSOLIDATED FINANCIAL STATEMENTS, AND THE JUNE 30, 1997 AND 1996 CONSOLIDATED FINANCIAL STATEMENTS, AS RESTATED, FOR THE ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE," AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	YEAR	YEAR
JUN-30-1998	JUN-30-1997	JUN-30-1996
JUL-01-1997	JUL-01-1996	JUL-01-1995
JUN-30-1998	JUN-30-1997	JUN-30-1996
18,366	21,869	17,090
0	0	0
344,651	207,840	199,116
11,974	7,325	9,296
436,472	210,111	204,934
818,831	457,879	436,464
912,569	630,142	571,507
386,642	329,756	304,400
2,138,993	869,309	799,491
377,069	282,002	218,813
0	0	0
0	0	0
0	0	0
41,025	36,712	36,712
694,435	422,896	402,237
2,138,993	869,309	799,491
1,678,388	1,156,343	1,079,963
1,678,388	1,156,343	1,079,963
994,481	668,415	625,473
994,481	668,415	625,473
36,045	27,012	22,181
2,453	1,979	1,810
59,536	10,393	11,296
130,576	118,163	115,376
53,900	44,900	43,900
71,197	72,032	69,732
0	0	0
0	0	0
0	0	0
71,197	72,032	69,732
2.61	2.71	2.62
2.58	2.69	2.60