FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE FISCAL YEAR ENDED JUNE 30, 1994

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

Commission File Number 1-5318

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

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

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

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

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

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

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

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

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

As of August 31, 1994, 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 $616,425,050. 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, 1994, there were 26,377,648 shares of Capital Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1994 Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

Portions of the Proxy Statement for the 1994 Annual Meeting of Shareholders are incorporated by reference into Parts III and IV.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Overview

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

Business Segment and Product Classes

The company operates predominantly as a tooling supplier specializing in powder metallurgy, which represents a single business segment. While many of the company's products are similar in composition, sales are classified into three major categories: metalworking products, mining and construction products and metallurgical products. The company's sales by product class are presented on page 17 of the 1994 Annual Report to Shareholders and such information is incorporated herein by reference. Information about the company's operations by geographic area is presented on page 31 of the 1994 Annual Report to Shareholders and such information is incorporated herein by reference.

Metalworking Products

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

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

Mining and Construction Products

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

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

Metallurgical Products

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

Recent Acquisition

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

Non-U.S. Operations

The company's principal non-U.S. operations are conducted in Western Europe and Canada. In addition, the company has joint ventures in Japan, India and Italy, sales offices and sales agents in Asia-Pacific and sales agents in eastern Europe and other areas of the world. The company's non-U.S. 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 non-U.S. location involving significant risk.

The company's foreign and export sales are presented on page 17 of the 1994 Annual Report to Shareholders, and such information is incorporated herein by reference. Information pertaining to the effects of foreign currency fluctuations is contained under the caption "Foreign Currency Translation" in the notes to the consolidated financial statements on page 24 of the 1994 Annual Report to Shareholders, and such information is incorporated herein by reference.

Marketing and Distribution

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

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

Competition

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

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

Seasonality

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

Backlog

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

Research and Development

The company is involved in research and development of new products and processes. Research and development expenses totaled $15.2 million, $14.7 million and $13.7 million in 1994, 1993 and 1992, respectively. Additionally, certain costs associated with improving manufacturing processes are included in cost of goods sold. The company holds a number of patents and licenses which, in the aggregate, are not material to the operation of the business.

The company has brought a number of new or improved products to market during the past few years. These include metalcutting inserts that incorporate innovative tool geometries for improved chip control and productivity; improved stationary toolholders and quick-change tooling systems including KM* tooling; KC9010* and KC9025* multi-coated metalcutting inserts for turning applications; and KCD25* diamond-coated metalcutting inserts.

Raw Materials and Supplies

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

Employees

The company employed approximately 6,600 persons at June 30, 1994, of which 4,000 were located in the United States and 2,600 in other parts of the world, principally Europe and Canada. Approximately 1,200 employees were represented by labor unions, of which 130 were hourly-rated employees located at plants in the Latrobe, Pennsylvania area. The remaining 1,070 employees represented by labor unions were employed at eight plants located outside of the United States. The company considers its labor relations to be generally good.

Regulation

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

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* Trademark owned by Kennametal Inc.

ITEM 2. PROPERTIES

Presented below is a summary of principal plants and other significant real property used by the company and its majority-owned subsidiaries as of June 30, 1994. Further information pertaining to the company's corporate headquarters and principal plants is presented under the caption "Locations, Subsidiaries and Affiliates" on page 38 of the company's 1994 Annual Report to Shareholders, and such information is incorporated herein by reference.

United States
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The company owns and operates nine principal manufacturing locations within the United States, including two each in North Carolina, Ohio and Pennsylvania, and one each in Virginia, Tennessee and Nevada. Refining and other metallurgical operations occur at three of these locations (Fallon, Nevada; Latrobe (Kingston), Pennsylvania and Henderson, North Carolina).

Marketing activities are supported by a network of warehouses and customer service centers strategically located throughout the United States. A significant portion of this space is leased. The majority of the company's research and development efforts are conducted in a corporate technology center located adjacent to corporate headquarters in Latrobe, Pennsylvania. The new facility, completed in fiscal 1992, consolidated the research and development activities previously performed at six locations in the Latrobe area.

Hertel Cutting Technologies Inc. leases office facilities in Knoxville, Tennessee.

Canada
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The company owns and operates two manufacturing plants in British Columbia, including a metallurgical plant in Port Coquitlam, British Columbia. Canadian marketing activities are supported by a network of leased warehouses and customer service centers.

Europe
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Kennametal Hertel G.m.b.H. owns office property in Friedrichsdorf, Germany and warehousing facilities in Neunkirchen, Germany.

Kennametal Hertel U.K., a branch of Kennametal Inc. (U.S.), leases a facility in Kingswinford (Birmingham), England, which is used for manufacturing, warehousing and offices.

Kennametal Hertel Belgium S.A. leases a facility in Herstal (Liege), Belgium, which is used for offices and warehousing.

Kennametal Hertel France S.A. leases a facility in Ris Orangis (Paris), France, which is used for warehousing, offices and a limited amount of manufacturing.

Kennametal Hertel AG ("Hertel") owns manufacturing facilities in Ebermannstadt, Mistelgau and Nabburg, Germany. In addition, Hertel leases a manufacturing facility in Vohenstrauss, Germany and warehousing and office facilities in Furth, Germany. Nederlandse Hardmetaal Fabrieken B.V., a wholly-owned subsidiary of Hertel owns property in Arnhem, Netherlands which is used for manufacturing and offices.

Other Non-U.S. Locations
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Kennametal Australia Pty. Ltd. owns property in Sydney, Australia, which is used for offices and warehousing.

Office and warehouse facilities are leased in Korea and Singapore.

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

ITEM 3. LEGAL PROCEEDINGS

(a) On August 13, 1993, the company was served with a Notice of Violation dated August 9, 1993, issued by the United States Environmental Protection Agency ("EPA"). The EPA alleges violations concerning visible emissions from the company's Fallon, Nevada facility. On October 6, 1993, the EPA issued an interim compliance order with respect to this matter. On April 26, 1994, the company was served with a second Notice of Violation dated April 19, 1994, which relates to the first Notice of Violation. The EPA alleges in the second but related notice the violation of a regulation concerning the allowable particulate emission rate. The company anticipates that the EPA will impose a penalty in excess of $100,000 with respect to these violations; however, it is management's opinion, based on its evaluation and discussions with outside counsel, that the ultimate resolution of this matter will not have a material adverse effect on the results of operations or financial position of the company.

(b) At the annual meeting of shareholders of Hertel held on December 6, 1993, two minority shareholders of Hertel (Dr. Bernard Appel and Christa Gotz), one of whom purported to own or control 2,500 shares and the other of whom purported to own 5 shares, filed protests with respect to the resolution adopted by the Hertel shareholders which authorized and approved Hertel entering into the Domination Contract with the company which permits the company to direct Hertel's operations. The filing of a protest is a prerequisite to a shareholder's filing a formal complaint which must be filed within an applicable time period. Only Mrs. Gotz filed a formal complaint within the applicable time period. Her complaint was filed in the District Court at Nuremberg, Bavaria, Germany, and sought to declare null and void the shareholder resolution by arguing that it should not have been considered at the annual meeting because the requisite prior notice period for presenting a resolution to approve a domination contract (30 days) had not expired, even though Hertel had published notice of the proposed Domination Contract more than 30 days prior to the date of the annual meeting, due to Hertel's having also subsequently published, within 30 days prior to the date of the annual meeting, a clarification of certain terms of the Domination Contract relating to payment of German taxes on future minimum dividend payments to minority shareholders. The complaint also asserted that the tax treatment specified in the clarifications is improper under German law which renders the resolution void. On July 14, 1994, the Court in Nuremberg issued its decision. The Court ruled that the tax treatment of payments to Hertel minority shareholders was not correct and voided the clarification regarding the tax treatment of future dividends. However, the Court refused to void the shareholder approval of the Domination Contract which therefore remains in effect. Neither party appealed this decision which has become final. It is management's opinion that the change in tax treatment will not have a material adverse effect on the results of operations or financial position of the company.

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

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

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

During the fourth quarter of fiscal year 1994, 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, 57 (1) President Chief Executive Officer Director	President and Director since 1989. Chief Executive Officer since October 1, 1991. Vice President from 1984 to 1989. Director of Metalworking Systems Division from 1988 to 1989.
David B. Arnold, 55 (1) Vice President Chief Technical Officer	Vice President since 1979. Director of Kennametal International from 1983 to 1988.
James R. Breisinger, 44 Vice President Controller	Vice President since 1990. Named Controller in 1994. Managing Director of Europe from 1991 to 1994. Controller from 1983 to 1991.
David T. Cofer, 49 (1) Vice President Secretary and General Counsel	Vice President since 1986. Secretary and General Counsel since 1982.
Richard P. Gibson, 59 Assistant Treasurer Director of Taxes	Assistant Treasurer since 1985. Director of Taxes since 1980.
Michael E. Godfrey, 61 Director of Financial Projects	Named Director of Financial Projects in 1994. Controller from 1991 to 1994. Manager of Division Accounting from 1985 to 1991.
James W. Heaton, 62 Senior Vice President Director of Customer Satisfaction	Senior Vice President since 1990. Director Engineering for the Metalworking Systems Division from 1978 to 1990.
Richard C. Hendricks, 55 (1) Vice President Director of Corporate Business Development	Vice President since 1982. General Manager of the Mining and Metallurgical Division from 1990 to 1992 and General Manager of Advanced Materials Division from 1986 to 1990.
Timothy D. Hudson, 48 Vice President Director of Human Resources	Elected Vice President in 1994. Director of Human Resources since 1992. Corporate Manager of Human Resources from 1978 to 1992.
H. Patrick Mahanes, Jr., 51 (1) Vice President Director of Operations	Vice President since 1987. Director of Metalworking Manufacturing from 1988 to 1991. Director of Corporate Technology from 1987 to 1988.
Richard V. Minns, 56 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, 43 Vice President Treasurer	Elected Vice President in 1994. Treasurer since 1987.
Kevin G. Nowe, 42 Assistant Secretary Assistant General Counsel	Joined the company as Assistant General Counsel in 1992 and was elected Assistant Secretary in 1993. Previously was Senior Counsel and Corporate Secretary of Emro Marketing Company in Enon, Ohio.
Richard J. Orwig, 53 (1) Vice President Chief Financial and Administrative Officer	Vice President since 1987. Named Chief Financial and Administrative Officer in 1994. Director of Administration from 1991 to 1994. Director of Human Resources from 1989 to 1991.
Alan G. Ringler, 44 (1) Vice President Director of Metalworking Systems Division	Vice President since 1989. Director of Metalworking, North America, from 1991 to 1992, Managing Director, Europe from 1990 to 1991 and Director of Marketing and Customer Service for the Metalworking Systems Division from 1989 to 1990.
Michael W. Ruprich, 38 (1) Vice President, Kennametal Inc. President, J&L America Inc.	Elected Vice President and named President of J&L America Inc. in 1994. General Manager of J&L from 1993 to 1994. National Sales and Marketing Manager from 1992 to 1993. General Manager-East Coast Region from 1990 to 1992.
P. Mark Schiller, 46 Vice President Director of Kennametal Distribution Services	Elected Vice President in 1992. Joined the company in 1988 as Project Manager, Logistics. Director of Materials Management from 1988 to 1990. Prior to 1988, he held various systems development and distribution positions at Fisher Scientific Company.

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 1994 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 1994 Annual Report
Item 5. Market for the Registrant's Capital Stock and Related Stockholder Matters	Note 5 to the Consolidated Financial Statements, Term Debt and Capital Leases (with respect to dividend restrictions) on page 26. Quarterly Financial Data (Unaudited) on page 32.
Item 6. Selected Financial Data	Eleven Year Summary (information with respect to the years 1990 to 1994) on pages 34 and 35.
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion & Analysis on pages 16 to 19.
Item 8. Financial Statements and Supplementary Data	Item 14(a)1. herein and Quarterly Financial Data (Unaudited) on page 32.
Item 9. Changes in and Disagreements on Accounting and Financial Disclosure	Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information set forth in Part I under the caption "Officers of the Registrant," and the information set forth under the caption "Election of Directors" in the company's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after June 30, 1994 (1994 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 1994 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 1994 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is certain information set forth in the notes to the table under the caption "Election of Directors" and under the caption "Certain Transactions" in the 1994 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, 1994 and 1993, the consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1994,and the notes to consolidated financial statements, together with the report thereon of Arthur Andersen & Co. dated August 1, 1994, presented in the company's 1994 Annual Report to Shareholders, are incorporated herein by reference.

2. Financial Statement Schedules

The financial statement schedules shown below should be read in conjunction with the financial statements contained in the 1994 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 subsidiaries included in the consolidated financial statements are wholly-owned, with the exception of Kennametal Hertel AG, in which the company has an 82 percent interest.

Financial Statement Schedules:

Report of Independent Public Accountants

V - Property, Plant and Equipment for the Three Years Ended June 30, 1994

VI - Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Three Years Ended June 30, 1994

VIII - Valuation and Qualifying Accounts for the Three Years Ended June 30, 1994

IX - Short-Term Borrowings for the Three Years Ended June 30, 1994

X - Supplementary Income Statement Information for the Three Years Ended June 30, 1994

3. Exhibits

(3) Articles of Incorporation and Bylaws	
3(i) Articles of Incorporation	Exhibit 3.1 of the company's September 30, 1993 Form 10-Q is incorporated herein by reference.
3(ii) Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q is incorporated herein by reference.
(4) Instruments Defining the Rights of Security Holders, Including Indentures	
(4.1) Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 is incorporated herein by reference.
(4.2) Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K is incorporated herein by reference.
	Note: Copies of instruments with respect to long-term debt or capitalized lease obligations which do not exceed 10% of consolidated assets will be furnished to the Securities and Exchange Commission upon request.
(10) Material Contracts	
(10.1)* Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1994 Proxy Statement is incorporated herein by reference.
(10.2)* Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q is incorporated herein by reference.
(10.3)* Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
(10.4)* Form of Stock Option Agreement with respect to the Plan set forth as Exhibit 10.3 hereof	Exhibit 10.2 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
(10.5)* Officer employment agreements, as amended	Exhibit 10.3 of the company's 1988 Form 10-K is incorporated

	and restated	herein by reference.
(10.6)*	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K is incorporated herein by reference.
(10.7)*	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K is incorporated herein by reference.
(10.8)*	Form of Employment Agreement with certain executive officers	Exhibit 10.8 of the company's 1990 Form 10-K is incorporated herein by reference.
(10.9)*	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.10)*	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
(10.11)*	Severance Agreement executed by and between Kennametal Inc. and H. L. Dykema	Exhibit 10.11 of the company's 1993 Form 10-K is incorporated herein by reference.
(10.12)	Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.12 of the company's 1993 Form 10-K is incorporated herein by reference.
(10.13)	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.14)	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
(10.15)	Amendment No. 1 dated as of October 26, 1993 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Filed herewith.
(10.16)	Amendment No. 2 dated as of June 15, 1994 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Filed herewith.
(13)	Annual Report to Shareholders	The 1994 Annual Report is included as an exhibit hereto. With the exception of the information specifically incorporated by reference in this Form 10-K, the 1994 Annual Report is not to be deemed filed as a part hereof.
(21)	Subsidiaries of the Registrant	Filed herewith.
(23)	Consent of Independent Public Accountants	Filed herewith.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended June 30, 1994.

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* Denotes management contract or compensatory plan or arrangement.

SIGNATURES

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

KENNAMETAL INC.

By RICHARD J. ORWIG

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

Date: September 21, 1994

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

Signature	Title	Date
QUENTIN C. MCKENNA - - - ----------------------- Quentin C. McKenna	Chairman of the Board	September 21, 1994
ROBERT L. MCGEEHAN - - - ----------------------- Robert L. McGeehan	President, Chief Executive Officer and Director	September 21, 1994
JAMES R. BREISINGER - - - ----------------------- James R. Breisinger	Vice President, Controller and Chief Accounting Officer	September 21, 1994
RICHARD J. ORWIG - - - ----------------------- Richard J. Orwig	Vice President, Chief Financial and Administrative Officer	September 21, 1994
RICHARD C. ALBERDING - - - ----------------------- Richard C. Alberding	Director	September 21, 1994
PETER B. BARTLETT - - - ----------------------- Peter B. Bartlett	Director	September 21, 1994
ROBERT N. ESLYN - - - ----------------------- Robert N. Eslyn	Director	September 21, 1994
WARREN H. HOLLINSHEAD - - - ------------------------ Warren H. Hollinshead	Director	September 21, 1994
ALOYSIUS T. MCLAUGHLIN, JR. - - - --------------------------- Aloysius T. McLaughlin, Jr.	Director	September 21, 1994
WILLIAM R. NEWLIN - - - ----------------------- William R. Newlin	Director	September 21, 1994
EUGENE R. YOST - - - ----------------------- Eugene R. Yost	Director	September 21, 1994
LARRY YOST - - - ----------------------- Larry Yost	Director	September 21, 1994

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders of
Kennametal Inc.

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Kennametal Inc.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated August 1, 1994. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index in Item 14(a)2 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not a part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
August 1, 1994

KENNAMETAL INC. SCHEDULE V

PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED JUNE 30, 1994

(Dollars in thousands)

Classification	Balance at Beginning of Year	Additions At Cost	Retirements	Foreign Currency Translation Adjustments	Business Combinations, Transfers and Adjustments	Balance at End of Year
1994						
Land	$ 10,069	$ 639	$ 117	$ 30	$ (228)(a)(b)	$ 10,393
Buildings and improvements	104,882	1,047	8,009	3,800	26,843 (a)(b)	128,563
	$114,951	$ 1,686	$ 8,126	$3,830	$26,615	$138,956
Machinery and equipment	$205,720	$17,388	$14,801	$2,648	$23,203 (a)(b)	$234,158
Furniture and fixtures	80,385	8,085	6,479	(449)	11,615 (a)(b)	93,157
Automotive equipment	1,372	154	199	29	25 (b)	1,381
	$287,477	$25,627	$21,479	$2,228	$34,843	$328,696
1993						
Land	$ 10,200	$ -	$ 32	$ (99)	$ -	$ 10,069
Buildings and improvements	96,140	11,351	965	(1,644)	-	104,882
	$106,340	$11,351	$ 997	$(1,743)	$ -	$114,951
Machinery and equipment	$208,672	$ 6,674	$ 4,634	$(4,992)	$ -	$205,720
Furniture and fixtures	82,628	4,812	5,670	(1,385)	-	80,385
Automotive equipment	1,867	262	695	(62)	-	1,372
	$293,167	$11,748	$10,999	$(6,439)	$ -	$287,477
1992						
Land	$ 10,226	$ -	$ 170	$ 95	$ 49	$ 10,200
Buildings and improvements	70,572	13,134	2,606	1,702	13,338	96,140
	$ 80,798	$13,134	$ 2,776	$ 1,797	$ 13,387	$106,340
Machinery and equipment	$215,891	$19,690	$11,768	$ 6,078	$(21,219)(c)	$208,672
Furniture and fixtures	74,423	3,389	3,540	1,259	7,097	82,628
Automotive equipment	4,848	342	3,306	(17)	-	1,867
	$295,162	$23,421	$18,614	$ 7,320	$(14,122)	$293,167

(a) Includes the reclassification of assets relating to the Neunkirchen manufacturing facility which are held for sale.

(b) Includes the fair value of property, plant and equipment acquired in connection with the purchase of an 81 percent interest in Hertel AG.

(c) Represents transfer of assets relating to the completion of the Corporate Technology Center.

KENNAMETAL INC. SCHEDULE VI

ACCUMULATED DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
FOR THE THREE YEARS ENDED JUNE 30, 1994

(Dollars in thousands)

Classification	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Retirements	Foreign Currency Translation Adjustments	Transfers and Adjustments	Balance at End of Year
1994						
Buildings and improvements	$ 26,235	$ 3,993	$ 2,122	$ 122	$(2,805)(a)	$ 25,423
Machinery and equipment	127,995	25,668	14,032	(283)	(125)(a)	139,223
Furniture and fixtures	55,086	9,209	4,944	239	(548)(a)	59,042
Automotive equipment	807	190	117	5	(19)	866
	$210,123	$39,060	$21,215	$ 83	$(3,497)	$224,554
1993						
Buildings and improvements	$ 23,570	$ 3,649	$ 354	$ (630)	$ -	$ 26,235
Machinery and equipment	122,692	13,730	4,390	(4,037)	-	127,995
Furniture and fixtures	51,711	9,855	5,428	(1,052)	-	55,086
Automotive equipment	1,032	268	474	(19)	-	807
	$199,005	$27,502	$10,646	$(5,738)	$ -	$210,123
1992						
Buildings and improvements	$ 21,084	$ 2,989	$ 1,149	$ 646	$ -	$ 23,570
Machinery and equipment	115,185	13,859	10,746	4,394	-	122,692
Furniture and fixtures	43,723	10,333	3,247	902	-	51,711
Automotive equipment	2,138	668	1,774	-	-	1,032
	$182,130	$27,849	$16,916	$ 5,942	$ -	$199,005

(a) Includes the reclassification of assets relating to the Neunkirchen manufacturing facility which are held for sale.

KENNAMETAL INC. SCHEDULE VIII
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED JUNE 30, 1994

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Recoveries	Additions: Business Combinations (a)	Deductions from Reserves (b)	Balance at End of Year
1994						
Allowance for doubtful accounts	$2,062	$ 608	$334	$6,682	$358	$9,328
1993						
Allowance for doubtful accounts	$2,054	$754	$247	$ -	$993	$2,062
1992						
Allowance for doubtful accounts	$2,142	$605	$237	$ -	$930	$2,054

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

KENNAMETAL INC. SCHEDULE IX

SHORT-TERM BORROWINGS

FOR THE THREE YEARS ENDED JUNE 30, 1994

(Dollars in thousands)

Category of Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period (a)	Weighted Average Interest Rate During the Period (a)
1994					
Amounts payable to banks	$52,753	6.0%	$89,880	$51,231	5.9%
1993					
Amounts payable to banks	$20,553	7.0%	$39,327	$28,626	5.6%
1992					
Amounts payable to banks	$28,490	5.5%	$48,608	$35,512	6.0%

(a) Average borrowings are based on month-end balances. The average interest rate is based on the month-end balances and the month-end interest rates.

KENNAMETAL INC. SCHEDULE X

SUPPLEMENTARY INCOME STATEMENT INFORMATION

FOR THE THREE YEARS ENDED JUNE 30, 1994

(Dollars in thousands)

	Charged to Costs and Expenses		
	1994	1993	1992
Maintenance and repairs	$34,630	$25,161	$25,917
Rent expense	$11,522	$ 8,545	$ 9,666
Advertising costs	$ 7,671	$ 6,752	$ 6,127

EXHIBIT INDEX

Exhibit No.		Reference
3.1	Articles of Incorporation	Exhibit 3.1 of the company's September 30, 1993 Form 10-Q is incorporated herein by reference.
3.2	Bylaws	Exhibit 3.1 of the company's March 31, 1991 Form 10-Q is incorporated herein by reference.
4.1	Rights Agreement dated October 25, 1990	Exhibit 4 of the company's Form 8-K dated October 23, 1990 is incorporated herein by reference.
4.2	Form of Note Agreement with various creditors dated as of May 1, 1990	Exhibit 4.3 of the company's 1990 Form 10-K is incorporated herein by reference.
10.1	Management Performance Bonus Plan	The discussion regarding the Management Performance Bonus Plan under the caption "Report of the Board of Directors Committee on Executive Compensation" contained in the company's 1994 Proxy Statement is incorporated herein by reference.
10.2	Stock Option Plan of 1982, as amended	Exhibit 10.3 of the company's December 31, 1985 Form 10-Q is incorporated herein by reference.
10.3	Stock Option and Incentive Plan of 1988	Exhibit 10.1 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
10.4	Form of Stock Option Agreement with respect to the Plan set forth as Exhibit 10.3 hereof	Exhibit 10.2 of the company's December 31, 1988 Form 10-Q is incorporated herein by reference.
10.5	Officer employment agreements, as amended and restated	Exhibit 10.3 of the company's 1988 Form 10-K is incorporated herein by reference.
10.6	Deferred Fee Plan for Outside Directors	Exhibit 10.4 of the company's 1988 Form 10-K is incorporated herein by reference.
10.7	Executive Deferred Compensation Trust Agreement	Exhibit 10.5 of the company's 1988 Form 10-K is incorporated herein by reference.
10.8	Form of Employment Agreement with certain executive officers	Exhibit 10.8 of the company's 1990 Form 10-K is incorporated herein by reference.
10.9	Stock Option and Incentive Plan of 1992	Exhibit 10.1 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.10	Directors Stock Incentive Plan	Exhibit 10.2 of the company's September 30, 1992 Form 10-Q is incorporated herein by reference.
10.11	Severance Agreement executed by and between Kennametal Inc. and H.L. Dykema	Exhibit 10.11 of the company's 1993 Form 10-K is incorporated herein by reference.
10.12	Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Exhibit 10.12 of the company's 1993 Form 10-K is incorporated herein by reference.
10.13	Underwriting Agreement (U.S. Version)	Exhibit 1.1 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.14	Underwriting Agreement (International Version)	Exhibit 1.2 of the company's March 31, 1994 Form 10-Q is incorporated herein by reference.
10.15	Amendment No. 1 dated as of October 26, 1993 to Credit Agreement dated as of July 29, 1993 by and among Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	Filed herewith.
10.16	Amendment No. 2 dated as of June 15, 1994 to Credit Agreement dated as of July 29, 1993 by and among	Filed herewith.

	Kennametal Inc. and Deutsche Bank AG, Mellon Bank N.A. and PNC Bank, National Association	
13	Annual Report to Shareholders	Filed herewith.
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Independent Public Accountants	Filed herewith.

EXHIBIT 10.15

AMENDMENT NO. 1

THIS AMENDMENT NO.1 is made and entered into this 26th day of October, 1993, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), and DEUTSCHE BANK AG, NEW YORK BRANCH AND/OR CAYMAN ISLANDS BRANCH, MELLON BANK, N.A., and PNC BANK, NATIONAL ASSOCIATION (the "Lenders").

RECITAL:

WHEREAS, the Borrower and the Lenders entered into a Credit Agreement dated as of July 29, 1993, (the "Agreement") which they now desire to amend as set forth below.

NOW, THEREFORE, in consideration of the promises and of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Article 6, Section 6.06, is hereby amended and the following is added to and made a part of said Article 6, Section 6.06, as a new Subsection 6.06(f):

   "(f) Sales, conveyances, assignments, leases, abandonments, or other transfers or dispositions of properties (other than accounts receivable) between Subsidiaries of the Borrower."

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed and delivered this Amendment No. 1 on the day and year first written above.

MELLON BANK, N.A.	KENNAMETAL INC.
BY /s/ DANIEL A. BRAILER	BY /s/ JAMES E. MORRISON
Daniel A. Brailer	James E. Morrison
IT'S Vice President	IT'S Vice President & Treasurer
PNC BANK NATIONAL ASSOCIATION	DEUTSCHE BANK AG, NEW YORK BRANCH AND/OR CAYMAN ISLAND BRANCH
BY /s/ PETER M. HILTON	BY /s/ BOWEN T. DEPKE
Peter M. Hilton	Bowen T. Depke
IT'S Vice President	IT'S A.V.P.
	AND
	BY /s/ ROLF-PETER MIKOLAYCZYK
	Rolf-Peter Mikolayczyk
	IT'S Director

EXHIBIT 10.16

AMENDMENT NO. 2

This AMENDMENT NO. 2 (this "Amendment") dated as of June 15, 1994, by and among KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), and DEUTSCHE BANK AG, New York Branch and/or Cayman Islands Branch, MELLON BANK, N.A. and PNC BANK, NATIONAL ASSOCIATION (the "Lenders"):

RECITALS:

A. The Borrower and the Lenders entered into a Credit Agreement dated as of July 29, 1993, as amended by Amendment No. 1 thereto dated as of October 26, 1993 (the "Credit Agreement").

B. The Borrower has requested the Lenders to amend the Credit Agreement in certain respects and the Lenders have agreed to such amendments as are set forth herein.

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

SECTION 1. DEFINITIONS. In addition to other words and terms defined elsewhere in this Amendment, capitalized terms not otherwise defined herein shall have the meanings given to them in the Credit Agreement.

SECTION 2. AMENDMENTS TO CREDIT AGREEMENT. The Credit Agreement is amended in the following respects:

(a) DEFINITIONS. (i) The following definitions are deleted from Section 1.01: Funding Period, Notes.

(ii) The following definitions are added to the table at the beginning of Section 1.01:

Bid Loan Maturity Date	2.02A(e)
Bid Loan Confirmation	2.02A(c)
Bid Rate	2.02A(b)(iii)

(iii) The following definitions are added to Section 1.01:

"Adjusted Borrower Total Assets" shall mean all assets of the Borrower determined on an unconsolidated basis in accordance with GAAP, LESS investments in subsidiaries and intangible assets determined in accordance with GAAP.

"Bid Loan Borrowing" shall mean a borrowing consisting of a Bid Loan or concurrent Bid Loans having the same Funding Period.

"Bid Loan" shall mean a Loan from a Lender to the Borrower pursuant to the procedures described in Section 2.02A.

"Bid Loan Notes" shall mean the promissory notes of the Borrower executed and delivered under Section 2.02A(k), and any promissory note issued in substitution therefor pursuant to Section 8.14(c), together with all extensions, renewals, refinancings or refundings thereof in whole or in part.

"Funding Period" shall mean the period during which an interest rate Option or Bid Rate shall apply, selected in accordance with Section 2.04(c) or 2.02A(j).

"Note" or "Notes" shall mean the Revolving Credit Note(s), the Bridge Loan Note(s) or the Bid Loan Note(s), as the case may be, of the Borrower executed and delivered under this Agreement, together with all extensions, renewals, refinancings or refundings of any thereof in whole or part.

"Total Tranche B Committed Amounts" shall mean the sum of the Tranche B Revolving Credit Committed Amounts of all Lenders.

(b) THE CREDITS. Article II is amended in the following respects:

(i) TRANCHE B COMMITMENTS. Section 2.01(a)(ii) is amended by deleting the first two sentences thereof and substituting the following:

Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender, severally and not jointly, agrees (such agreement being herein called such Lender's "Tranche B Revolving Credit Commitment") to make loans (the "Tranche B Revolving Credit Loans") to the Borrower at any time or from time to time on or after the date hereof and to but not including the Tranche B Maturity Date; PROVIDED (A) at no time shall the sum

of the outstanding aggregate principal amount of all Tranche B Revolving Credit Loans and Bid Loans exceed the Total Tranche B Committed Amount (or an equivalent amount thereof in the Alternate Currency) and (B) at all times the outstanding aggregate principal amount of all Tranche B Revolving Credit Loans made by each Lender shall be equal to the product of the percentage which its Tranche B Revolving Credit Committed Amount represents of the Total Tranche B Committed Amount times the outstanding aggregate principal amount of all Tranche B Revolving Credit Loans.

(ii) REDUCTION OF THE REVOLVING CREDIT COMMITTED AMOUNTS. Section 2.01(e) is amended by deleting the first sentence thereof and substituting the following:

The Borrower may at any time or from time to time reduce Pro Rata the Tranche A Revolving Credit Committed Amounts or the Tranche B Revolving Credit Committed Amounts of the Lenders to an aggregate amount (which may be zero) not less than the sum of the unpaid principal amount of the Tranche A Revolving Credit Loans or the sum of the Tranche B Revolving Credit Loans and the Bid Loans, as the case may be, then outstanding plus the principal amount of all Tranche A Revolving Credit Loans or the sum of the Tranche B Revolving Credit Loans and the Bid Loans, as the case may be, not yet made as to which notice has been given by the Borrower under Section 2.03 or 2.02A hereof.

(iii) BID LOANS. Section 2.02A is added to the Credit Agreement to read in its entirety as follows:

2.02A BID LOANS.

(a) BID LOANS. The Borrower may, as set forth in this Section 2.02A, request one or more of the Lenders to make one or more Bid Loans to the Borrower at any time or from time to time prior to the Tranche B Maturity Date. Each Lender may, but shall have no obligation to, offer to make one or more such Bid Loans and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section 2.02A. The sum of the outstanding aggregate principal amount of all Bid Loans and all Tranche B Revolving Credit Loans

shall at no time exceed the Total Tranche B Committed Amount (or an equivalent amount thereof in the Alternate Currency). All Bid Loans shall be denominated in Dollars.

(b) BID LOAN PROCEDURES. Prior to 11:00 a.m., Pittsburgh time, on the Business Day of any Bid Loan, the Borrower and the Lender making such Bid Loan shall have verbally agreed (in a recorded telephone conversation) that such Lender will make and the Borrower will accept such Bid Loan, which agreement shall include agreement as to the following matters:

(i) the proposed date of such Bid Loan and the Funding Period therefor;

(ii) the principal amount of such Bid Loan, selected in accordance with Section 2.02A(i);

(iii) the fixed rate of interest per annum, calculated on the basis of a 365-day year (rounded upwards, if necessary, to the nearest 1/10,000th of 1%) (the "Bid Rate") applicable to such Bid Loan; and

(c) CONFIRMATION TO THE LENDERS. The Borrower shall, by 11:30 a.m., Pittsburgh time, on the day (which shall be a Business Day) of a proposed Bid Loan, deliver to each Lender, by telex or telecopy, confirmation of the Bid Loans it has agreed to accept and that Lenders have agreed to make on such day in substantially the form of Exhibit H (a "Bid Loan Confirmation"). The Bid Loan Confirmation shall specify (i) the principal amount of each such Bid Loan; (ii) the Funding Period for each such Bid Loan; (iii) the Bid Rate applicable to each such Bid Loan and (iv) the identity of the Lender for each such Bid Loan.

(d) FUNDING OF BID LOANS. Not later than 1:00 p.m. Pittsburgh time, on the date agreed to by the Borrower and a Lender pursuant to Section 2.02A(b), such Lender shall make the amount of its Bid Loan available to the Borrower at such Lender's Domestic Lending Office in immediately available funds. If any Lender makes a new

Bid Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Bid Loan from such Lender, such Lender shall apply the proceeds of its new Bid Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Lender to the Borrower as provided by this Section 2.02A(d), or remitted by the Borrower to such Lender as provided in Section 2.09, as the case may be.

(e) BID LOAN MATURITY DATES. The principal amount of each Bid Loan shall be due and payable on the last day of the applicable Funding Period agreed to by the Borrower and the Lender making such Bid Loan (the "Bid Loan Maturity Date").

(f) BID LOAN INTEREST PAYMENT DATES. Interest on each Bid Loan shall be due and payable on the Bid Loan Maturity Date thereof and thereafter on demand at the rates provided for in Section 2.09(c).

(g) UTILIZATION OF TRANCHE B REVOLVING CREDIT COMMITMENT. For purposes of determining the available Tranche B Revolving Credit Commitments of the Lenders at any time (but not for purposes of Section 2.08(a)), each outstanding Bid Loan shall be deemed to have utilized the Tranche B Revolving Credit Commitments of the Lenders (including those Lenders that have not made such Bid Loan) Pro Rata in accordance with their Tranche B Revolving Credit Commitments.

(h) INTEREST RATES FOR BID LOANS. The outstanding principal amount of each Bid Loan shall bear interest for each day until due at a rate per annum equal to the Bid Rate quoted by the Lender making such Bid Loan.

(i) PRINCIPAL AMOUNTS. The aggregate principal amount of each Bid Loan shall be at least $1,000,000 or a higher integral multiple of $100,000.

(j) FUNDING PERIODS. The Funding Period for any Bid Loan shall be for any period up to and including 90 days; PROVIDED, (i) no such Funding Period shall end after

the Tranche B Revolving Credit Maturity Date and (ii) the Borrower shall, in selecting such Funding Periods, allow for foreseeable mandatory repayments of the Loans.

(k) BID LOAN NOTES. The obligation of the Borrower to repay the unpaid principal amount of the Bid Loans made to it by each Lender and to pay interest thereon shall be evidenced in part by promissory notes of the Borrower, dated June 15, 1994 in substantially the form attached hereto as Exhibit K, payable to the order of such Lender.

(iv) INTEREST RATES. Section 2.04(b) is deleted and the following is substituted:

(b) APPLICABLE MARGIN. The "Applicable Margin" for the Euro-Rate Portion and As-Offered Rate Portion of the Revolving Credit Loans for any day shall mean 0.375%.

(v) FUNDING PERIODS. Section 2.04(c) is amended by deleting the clause preceding the table and substituting the following:

> At any time when the Borrower shall select, convert to or renew the Euro-Rate Option or As-Offered Rate Option to apply to any part of the Loans, the Borrower shall specify one or more Funding Periods during which each such Option shall apply, such Funding Periods being as set forth below:

(vi) REPAYMENTS. (A) Sections 2.06(a)(i) and (iv) are deleted and the following are substituted:

> (i) Whether such repayment is to be applied to the Tranche A Revolving Credit Loans, Tranche B Revolving Credit Loans, Bridge Loans or Bid Loans;
>
> * * *
>
> (iv) The principal amounts selected in accordance with Section 2.04(d) hereof of the Base Rate Portion and each part of each Funding Segment of the Euro-Rate Portion or the As-Offered Rate Portion and the principal amount selected in accordance with Section 2.02A(i) hereof of Bid Loans (identified by reference to their Funding Period).

(B) Sections 2.06(b)(a) is redesignated Section 2.06(b)(i) and Section 2.06(b)(b) is deleted and the following is substituted:

> (ii) At the expiration of any Funding Period with respect to repayment of any Bid Loan, or the Euro-Rate Portion or the As-Offered Rate Portion with respect to any part of the Funding Segment corresponding to such expiring Funding Period.

(viii) FEES. (A) Section 2.08(a) is amended by deleting the first sentence thereof and substituting the following:

> (a) TRANCHE B COMMITMENT FEES. The Borrower shall pay to each Lender a commitment fee (the "Tranche B Commitment Fee") equal to .10% per annum (based on a year of 360 days and actual days elapsed), for each day from and including

> the date of this Agreement to but not including June 1, 1994 and equal to .05% per annum (based on a year of 360 days and actual days elapsed), for each day from and including June 1, 1994 to but not including the Tranche B Maturity Date, on the amount (not less than zero) equal to (i) such Lender's Tranche B Revolving Credit Committed Amount on such day, MINUS (ii) the Dollar equivalent of the aggregate principal amount of such Lender's Tranche B Revolving Credit Loans outstanding on such day. For purposes of calculating the Tranche B Commitment Fee payable to a Lender, the outstanding principal amount of Bid Loans made by such Lender shall be deemed to be outstanding Tranche B Revolving Credit Loans of such Lender, but the outstanding principal amounts of Bid Loans made by another Lender shall not be deemed to be outstanding Tranche B Revolving Credit Loans of such Lender.

(B) Section 2.08(c) is amended by deleting the first sentence and substituting the following:

> The Borrower shall pay to each Lender a facility fee (the "Facility Fee) equal to (i) .15% per annum (based on a year of 360 days and actual days elapsed), for each day from and including the date of this Agreement to but not including June 1, 1994, and .125% per annum (based on a year of 360 days and actual days elapsed), for each day from and including June 1, 1994 to but not including the Tranche A Maturity Date on the amount (not less than zero) equal to such Lender's Tranche A Revolving Credit Committed Amount on such day and (ii) .15% per annum (based on a year of 360 days and actual days elapsed), for each day from and including the date of this Agreement to but not including the Tranche B Maturity Date on the amount (not less than zero) equal to such Lender's Tranche B Revolving Credit Committed Amount on such day.

(ix) PRO RATA TREATMENT. Section 2.09(a) is deleted and the following is substituted:

(a) PRO RATA TREATMENT. Each borrowing of Revolving Credit Loans and each conversion and renewal of interest rate Options hereunder shall be made, and all payments made in respect of principal of and interest on Revolving Credit Loans and Fees due from the Borrower hereunder or under the Revolving Notes shall be applied, Pro Rata from and to each Lender, as the case may be, except for payments of interest involving an Affected Lender as provided in Section 2.04(e) hereof and payments to a Lender subject to a withholding deduction under Section 2.12(c) hereof. All payments made in respect of principal of any Bid Loan Borrowing due from the Borrower hereunder or under the Bid Loan Notes shall be made to each Lender participating in such Bid Loan Borrowing in proportion to the respective principal amounts of their outstanding Bid Loans comprising such Bid Loan Borrowing. All payments made in respect of interest on any Bid Loan Borrowing due from the Borrower hereunder or under the Bid Loan Notes shall be made to each Lender participating in such Bid Loan Borrowing in proportion to the respective amounts of accrued and unpaid interest on their Bid Loans comprising such Bid Loan Borrowing, except for payments to a Lender subject to a withholding deduction under Section 2.12(c) hereof. The failure of any Lender to make a Loan shall not relieve any other Lender of its obligation to lend hereunder; no Lender shall be responsible for the failure of any other Lender to make a Loan.

(x) INTEREST ON OVERDUE AMOUNTS. Section 2.09(c)(i) is deleted and the following is substituted:

(i) In the case of any part of the Euro-Rate Portion or As-Offered Rate Portion of any Loans or any Bid Loan, (A) until the end of the applicable then-current Funding Period at a rate per annum 2% above the rate otherwise applicable to such part, and (B) thereafter in accordance with the following clause (ii); and

(c) CONDITIONS TO ALL LOANS. Section 4.03 is amended by deleting the reference to "Section 2.03" and substituting a reference to "Section 2.02A or 2.03".

(d) FORM 5500 REPORTS. Section 5.01(e)(iii) is deleted.

(e) USE OF PROCEEDS. Section 5.09(iv) is deleted and the following is substituted:

(iv) the proceeds of all other Loans for general corporate purposes (other than for the Hertel Acquisition).

(f) HERTEL DEBT. Section 5.11 is deleted and the following is substituted:

5.11. HERTEL DEBT. The Borrower shall cause Hertel (or the Subsidiary of the Borrower acquiring substantially all of the assets of Hertel) to maintain at all times bank lines of at least 70,000,000 Deutsche Mark.

(g) CONSOLIDATED FIXED CHARGE COVERAGE RATIO. The last five lines of the table set forth in Section 6.01(c) are deleted and the following is substituted:

Four fiscal quarters ending 6/30/94 and the four fiscal quarters ending at each fiscal quarter end thereafter	1.0 to 1

(h) MAINTENANCE OF ADJUSTED BORROWER TOTAL ASSETS. A new Section 6.01(d) is added to the Credit Agreement to read as follows:

(d) MAINTENANCE OF ADJUSTED BORROWER TOTAL ASSETS. The Borrower shall at all times maintain Adjusted Borrower Total Assets of at least $300,000,000.

(i) INDEBTEDNESS. Section 6.03 is deleted and the following is substituted:

6.03. INDEBTEDNESS. The Borrower shall not, and shall not permit any Subsidiary to, at any time create, incur, assume or suffer to exist any Restricted Indebtedness, or agree, become or remain liable (contingently or otherwise) to do any of the foregoing, except Restricted Indebtedness the outstanding principal amount of which does not exceed (a) $200,000,000 in the aggregate at any time on or prior to June 30, 1994, (b) $225,000,000 in the aggregate at any time from July 1, 1994 to and including June 30, 1995 or (c) $250,000,000 at any time thereafter.

(j) GUARANTEES, INDEMNITIES, ETC. Section 6.04(d) is amended by increasing the amount $150,000,000 to $165,000,000.

(k) DISPOSITION OF PROPERTIES. Section 6.06 is deleted and the following is substituted:

> 6.06. DISPOSITIONS OF ACCOUNTS. The Borrower shall not sell, assign, discount, transfer, or otherwise dispose of, voluntarily or involuntarily, any of its accounts receivable or chattel paper, with or without recourse, or agree, become or remain liable (contingently or otherwise) to do any of the foregoing, except
>
> (a) sales, assignments, transfers and other dispositions in the ordinary course of business; and
>
> (b) financings based upon direct or indirect security interests in, or purchase of, accounts receivable not exceeding $5,000,000 aggregate principal amount at any one time outstanding.

(l) ASSIGNMENTS. Section 8.14(c) is amended by adding the following sentence after clause (iv):

> Notwithstanding the foregoing, any Lender assigning its rights and obligations under this Agreement may retain any Bid Loans made by it outstanding at such time, and in such case shall retain its rights hereunder in respect of any Bid Loans so retained until such Bid Loans have been repaid in full in accordance with this Agreement.

(m) EXHIBITS. (i) Exhibit D-1 is amended by deleting the references to Sections 6.03(f), 6.03(h), 6.03(k), 6.03(l), 6.06(c) and Section 6.06(d) contained in Paragraph 2 thereof and by adding a reference to Section 6.03.

(ii) Exhibit H to the Credit Agreement is deleted and new Exhibits H and K are added to the Credit Agreement to read in their entireties as set forth in Exhibits H and K to this Amendment.

(n) TRANSFER SUPPLEMENT. Schedule II to Exhibit E to the Credit Agreement is amended by adding the following after "Bridge Loans" in the table for the Transferor Lender and the Purchasing Lender:

Bid Loans $

SECTION 3. REPRESENTATIONS AND WARRANTIES. The Borrower represents and warrants to the Lenders that:

(a) POWER AND AUTHORITY. The Borrower has power and authority to execute, deliver and carry out the provisions of this Amendment and the Loan Documents, as amended hereby (collectively, the "Amended Credit Documents"). The execution and delivery of this Amendment and the Bid Loan Notes have been duly authorized by all necessary action on the part of the Borrower. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required in connection with the execution and delivery of this Amendment or the Bid Loan Notes.

(b) ENFORCEABILITY. This Amendment and the Bid Loan Notes have been duly and validly executed and delivered by the Borrower and the Amended Credit Documents constitute legal, valid and binding agreements of the Borrower enforceable in accordance with their respective terms, except as enforceability of the foregoing may be limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

(c) CONFLICT WITH OTHER INSTRUMENTS. Neither the execution and delivery of this Amendment or the Bid Loan Notes nor consummation of the transactions contemplated herein or in the Amended Credit Documents or compliance with the terms and provisions hereof or thereof will conflict with or result in a breach of any of the terms, conditions or provisions of the articles of incorporation or by-laws (or other constituent documents) of the Borrower or any of its Subsidiaries (other than the Excluded Hertel Subsidiaries), any Law or any agreement or instrument which is material to the Borrower and its Subsidiaries taken as a whole or constitute a default thereunder.

(d) REPRESENTATIONS AND WARRANTIES UNDER THE CREDIT AGREEMENT. The representations and warranties contained in the Amended Credit Documents are true on and as of the date hereof

with the same effect as though such representations and warranties had been made on and as of the date hereof.

(e) EVENTS OF DEFAULT. No Event of Default and no Potential Default has occurred and is continuing or exists under the Amended Credit Documents or will occur or exist after giving effect to this Amendment.

For purposes of Section 7.01(c) of the Credit Agreement, the foregoing representations and warranties shall be deemed to have been made in connection with the Credit Agreement.

SECTION 4. CONDITIONS OF AMENDMENT. Subject to the following conditions, the provisions of Section 2 of this Amendment shall become effective:

(a) CORPORATE ACTION. The Borrower shall have furnished to each Lender a certificate certifying as to (i) the corporate action referred to in Section 3(a) hereof, (ii) any amendments to the Borrower's articles of incorporation or by-laws since June 29, 1993 (or a statement that there have been no such amendments), and (iii) the incumbency of the officers authorized to sign this Amendment, the Bid Loan Notes and any other documents, instruments or certificates required under this Amendment, together with true signatures of such officers. The Lenders may conclusively rely on such certificate.

(b) BID LOAN NOTES. The Borrower shall have furnished to each Lender a Bid Loan Note conforming to the requirements of Section 2.02A(k) of the Credit Agreement, as amended hereby.

(c) OPINION OF COUNSEL. Each Lender shall have received an opinion addressed to each Lender, dated the date hereof, of David Cofer, Esquire, General Counsel of the Borrower, covering the same matters as were covered by his opinion and the opinion of Buchanan Ingersoll attached as Exhibits F-1 and F-2, respectively, to the Credit Agreement, but taking into account the execution and delivery of this Amendment and the Bid Loan Notes.

(d) AMENDMENT FEE. The Borrower shall have paid each Lender an amendment fee of $3,000.

(e) ADDITIONAL MATTERS. Each Lender shall have received such other certificates, opinions, documents and instruments as may be requested by any Lender. All corporate and other proceedings, and all documents, instruments and other matters in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be satisfactory in form and substance to each Lender.

SECTION 5. MISCELLANEOUS. The Borrower agrees to reimburse the Lenders for their reasonable out-of-pocket expenses arising in connection with the negotiation, preparation and execution of this Amendment, including the reasonable fees and expenses of Reed Smith Shaw & McClay, counsel for the Lenders.

Except as amended or waived hereby, the provisions of the Loan Documents shall remain in full force and effect.

This Amendment shall be deemed to be a contract under the laws of the Commonwealth of Pennsylvania and for all purposes shall be construed in accordance with and governed by the laws of such Commonwealth.

This Amendment may be executed in as many counterparts as may be deemed necessary and convenient and by the separate parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to constitute an original, but all such separate counterparts shall constitute but one and the same instrument.

If any provision of this Amendment, or the application thereof to any party hereto, shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions or applications of this Amendment which can be given effect without the invalid and unenforceable provision or application, and to this end the parties hereto agree that the provisions of this Amendment are and shall be severable.

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

[Corporate Seal]

Attest: KENNAMETAL INC.

/s/ DAVID T. COFER — By /s/ JAMES E. MORRISON

David T. Cofer — James E. Morrison

Title Secretary — Title Vice President & Treasurer

DEUTSCHE BANK AG,
New York Branch and/or
Cayman Islands Branch

MELLON BANK, N.A.

By /s/ ROLF-PETER MIKOLAYCZYK — By /s/ DANIEL A. BRAILER

Rolf-Peter Mikolayczyk — Daniel A. Brailer

Title Director — Title First Vice President

By /s/ ROSS A. HOWARD

Ross A. Howard

Title Assistant Vice President

PNC BANK, NATIONAL ASSOCIATION

By /s/ PETER M. HILTON

Peter M. Hilton

Title Vice President

EXHIBIT H

KENNAMETAL INC.
REVOLVING CREDIT FACILITY - STANDARD NOTICE/BID LOAN CONFIRMATION
DATE: / /

INTEREST RATE QUOTES (U.S.$)

PER BANK	BASE RATE (OVERNIGHT)	AS - OFFERED RATE	AS - OFFERED FUNDING PERIOD(DAYS)	BID LOAN RATE	BID LOAN FUNDING PERIOD(DAYS)	EURO (U.S.$) LOAN RATE	EURO (U.S.$) LOAN FUNDING PERIOD(DAYS)
MELLON							
PNC							
DEUTSCHE							

TRANCHE B

CURRENCY	EFFECTIVE DATE	MATURITY DATE	INTEREST RATE	OPTION	MELLON	PNC	DEUTSCHE
USD							
USD							
USD							

TRANCHE A

CURRENCY	EFFECTIVE DATE	MATURITY DATE	EURO RATE	MELLON	PNC	DEUTSCHE	TOTAL

NOTE: Bld, As-Offered & Base Rates Are On A 365/366 Day A Year Bases. Euro Rates Are On A 360 Day Year Basis.

EXHIBIT K

KENNAMETAL INC.

BID LOAN NOTE

$45,000,000 Pittsburgh, Pennsylvania
June 15, 1994

FOR VALUE RECEIVED, the undersigned, KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), promises to pay to the order of DEUTSCHE BANK AG, New York Branch and/or Cayman Islands Branch (the "Lender") (i) on the last day of the Funding Period, the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement to which such Funding Period applies and (ii) on the Tranche B Maturity Date, the lesser of the principal sum of FORTY-FIVE MILLIONS DOLLARS ($45,000,000) and the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement. The Borrower further promises to pay to the order of the Lender interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to the Agreement, payable on the dates set forth in the Agreement.

This Note is one of the "Bid Loan Notes" as referred to in, and is entitled to the benefits of, the Credit Agreement, dated as of July 29, 1993, by and among the Borrower and the Lenders parties thereto from time to time (as the same may be amended, modified or supplemented from time to time, the "Agreement"), which among other things provides for the acceleration of the maturity hereof upon the occurrence of certain events and for repayments in certain circumstances and upon certain terms and conditions. Terms defined in the Agreement have the same meanings herein.

The Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note and the Agreement, and an action for amounts due hereunder or thereunder shall immediately accrue.

This Note shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, without regard to principles of choice of law.

KENNAMETAL INC.

BY: /s/ JAMES E. MORRISON

Vice President & Treasurer

KENNAMETAL INC.

BID LOAN NOTE

$45,000,000 Pittsburgh, Pennsylvania
June 15, 1994

FOR VALUE RECEIVED, the undersigned, KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Lender") (i) on the last day of the Funding Period, the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement to which such Funding Period applies and (ii) on the Tranche B Maturity Date, the lesser of the principal sum of FORTY-FIVE MILLIONS DOLLARS ($45,000,000) and the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement. The Borrower further promises to pay to the order of the Lender interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to the Agreement, payable on the dates set forth in the Agreement.

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This Note shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, without regard to principles of choice of law.

KENNAMETAL INC.

BY: /s/ JAMES E. MORRISON

Vice President & Treasurer

KENNAMETAL INC.

BID LOAN NOTE

$45,000,000 Pittsburgh, Pennsylvania
June 15, 1994

FOR VALUE RECEIVED, the undersigned, KENNAMETAL INC., a Pennsylvania corporation (the "Borrower"), promises to pay to the order of MELLON BANK, N.A., (the "Lender") (i) on the last day of the Funding Period, the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement to which such Funding Period applies and (ii) on the Tranche B Maturity Date, the lesser of the principal sum of FORTY-FIVE MILLIONS DOLLARS ($45,000,000) and the aggregate unpaid principal amount of all Bid Loans made by the Lender to the Borrower pursuant to Section 2.02A of the Agreement. The Borrower further promises to pay to the order of the Lender interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to the Agreement, payable on the dates set forth in the Agreement.

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The Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note and the Agreement, and an action for amounts due hereunder or thereunder shall immediately accrue.

This Note shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, without regard to principles of choice of law.

KENNAMETAL INC.

BY: /s/ JAMES E. MORRISON

Vice President & Treasurer

EXHIBIT 13

1994 KENNAMETAL INC. ANNUAL REPORT

[Photograph]

(Front Cover)

PROFILE Kennametal is a manufacturer, marketer and distributor of a broad range of tools for the metalworking, mining and highway construction industries. Kennametal is one of the world's leading producers of cutting tools and wear resistant parts made of cemented carbides and other hard materials.

METALWORKING PRODUCTS Kennametal provides a full line of products and services for the metalworking industry. The company provides cutting tools and accessories for metalcutting applications, including turning, milling and drilling.

MINING AND CONSTRUCTION PRODUCTS Kennametal is the world's leading producer of mining and construction tools. Mining tools include drums, blocks, bits, compacts and accessories. Construction tools include blocks, bits, grader blades and snowplow blades.

METALLURGICAL PRODUCTS Kennametal produces proprietary metallurgical powders for use in its metalworking, mining and construction products. In addition, the company produces a variety of powders for specialized markets.

MISSION STATEMENT Kennametal is a global, customer-needs-driven provider of tools, tooling systems, supplies and services to the metalworking industry. In addition, Kennametal operates businesses having a technical commonality with core businesses, given they meet minimum financial goals.

CONTENTS

ABOUT THE REPORT Kennametal continues to make significant progress in its efforts to be the world's premier provider of tools, tooling systems, supplies and services to the metalworking industry. This year's report highlights significant changes which have affected that progress.

(Inside Front Cover)

FINANCIAL HIGHLIGHTS

Year ended June 30 (dollars in thousands, except per share data)	1994	1993	Percent Change
OPERATING HIGHLIGHTS			
Net sales	$802,513	$598,496	+34
Net income (loss)	(4,088)	20,094	n.m.
Earnings (loss) per share (1)	(0.17)	0.93	n.m.
Return on equity (2)	(1.5)%	8.1%	n.m.
Cash flow from operations	30,249	42,018	-28
BALANCE SHEET HIGHLIGHTS			
Total assets	$697,532	$448,263	+56
Total debt	147,295	110,628	+33
Shareholders' equity	322,836	255,141	+27
Debt to capital ratio	31.3%	30.2%	n.m.
INVESTMENT SPENDING			
Capital expenditures	$ 27,313	$ 23,099	+18
Research and development expenses	15,201	14,714	+3
STOCK DATA (1)			
Stock price - high	$ 29 9/16	$ 19 7/8	
Stock price - low	15 3/8	12 15/16	
Stock price - year-end	24 5/8	16 3/4	
Dividends per share	0.58	0.58	

n.m. - not meaningful.

1 Reflects the increased number of shares resulting from a 2-for-1 stock

split in the form of a 100 percent stock dividend in August 1994.

2 Without the restructuring charge and accounting changes, the return on equity was 11.4 percent in 1994.

[Graphs]

TO OUR SHAREHOLDERS

[Photograph]

CAPTION: Our expanded global presence enables us to participate fully in the recovery of the world's economies and to build our competitive leadership by providing the highest level of service to customers anywhere in the world.

ROBERT L. MCGEEHAN
President and Chief Executive Officer

IN 1994, KENNAMETAL NAVIGATED A COMPLEX DOMESTIC AND GLOBAL MARKETPLACE IN WHICH WE WERE ABLE TO CREATE OPPORTUNITIES, AS WELL AS WEATHER DISAPPOINTMENTS.

Revenues for the year rose to a record $803 million, up 34 percent from 1993. A significant portion of this growth resulted from the alliance with Hertel AG, a German toolmaker in which we acquired an 81 percent interest in August 1993. Excluding Hertel, sales were up nine percent over the preceding year.

The slow but steady economic recovery in the United States resulted in an increase in domestic revenues, despite the negative impact of decreased sales of metalworking and highway construction tools due to widespread floods in the Midwest, an unusually severe winter and the Los Angeles earthquake.

In spite of these unusual events during the year, sales of highway construction tools increased 15 percent as the pace of road construction and rehabilitation projects intensified in many parts of the U.S. Mining tool sales, however, were flat in the midst of a United Mineworkers strike in the U.S. and weak demand internationally.

Strong growth in production among our customers in the automotive, heavy construction equipment and agricultural equipment industries led the U.S. economic recovery and created increased demand for Kennametal tools. We also saw sales improvements to aircraft engine and oil and gas producers, who began to emerge in 1994 after a long period of contraction.

Sales of our traditional product lines, metalcutting inserts and toolholding devices, rose 11 percent in the U.S. Strong demand for hardfacing products produced a 19 percent gain in sales of metallurgical products, and growth in our full-service supply programs and our expanding mail-order catalog business drove sales of industrial supply products to a 22 percent gain.

Outside the United States, we faced a varied and challenging economic landscape. Asia-Pacific markets, struggling through a deep and widespread economic downturn, remained weak. Notable exceptions were Australia and South Korea, where we achieved significant gains in sales in 1994.

[Photograph]

CAPTION: Our customers' paramount concern is to increase the productivity of their capital-intensive production processes. Our challenge is to meet this need through not only our products, but also our people, our technology and our commitment to be not just a supplier, but a partner.

QUENTIN C. MCKENNA
Chairman of the Board

Sales in Canada also increased 16 percent as that economy began to recover. But the European market posed difficult challenges, and, without the acquisition of Hertel, international sales of metalworking products would have remained flat.

As a result of the acquisition of Hertel, we were able to achieve a 78 percent increase in international sales. Economic conditions in most of Europe remained weak, though we now see indications that an economic recovery could, after several years of contraction, be at hand.

WE STRENGTHENED KENNAMETAL'S RESOURCES FOR THE LONG-TERM BY RAISING NEW CAPITAL, REDUCING DEBT AND PUTTING BEHIND US CHARGES ASSOCIATED WITH OUR ACQUISITION, RESTRUCTURING ACTIVITIES AND REQUIRED NEW ACCOUNTING STANDARDS.

In anticipation of solid earnings performance in 1994, we made a decision that it was the right time to take one-time charges against earnings rather than defer them and at the same time to strengthen Kennametal's asset base and capital structure for the future.

Prior to these one-time charges, Kennametal had net income of $31.3 million. Against this, we took a restructuring charge of $20.4 million after taxes plus the adoption of new accounting standards had a negative impact of $15 million, net of income tax effect.

As a result, Kennametal recorded a net loss of $4.1 million, or $0.17 per share, compared with net income of $20.1 million, or $0.93 per share in 1993. The average number of shares outstanding in 1994 was 2.6 million greater than those outstanding in the prior year.

In December 1993, we moved to strengthen our company's long-term financial position through an offering of new shares of Kennametal common stock. This sale was received enthusiastically by investors, providing net proceeds to the company of approximately $74 million in new equity capital.

We undertook this offering primarily to finance the acquisition of Hertel and to maintain the company's capital structure within our previously established guidelines. Kennametal's

inherent financial strength and cash flows would have enabled us to finance the acquisition with debt, but we concluded that the resulting debt-service burden would have limited our ability to capture future opportunities.

Since the market awarded Kennametal a strong share price, we determined that an equity offering would be a timely step that would provide the company with increased financial flexibility and resources for investment in our future.

Beyond raising capital, the share offering enabled us to convey the Kennametal story to a wider audience in the investment community at an exciting time in the history of our company. We attracted new domestic and international investors, increased investor interest in our stock, as well as liquidity in the market for our shares. The result has been record share prices.

WE ARE POSITIONING KENNAMETAL AS A BORDERLESS GLOBAL COMPANY, PREPARED TO PURSUE OPPORTUNITIES AND MEET CUSTOMER DEMANDS WHEREVER WE CAN IDENTIFY THEM IN THE WORLD MARKETPLACE.

The ability to win and serve customers anywhere in the global marketplace is the foundation on which we are building not only increased growth and profitability, but stability in cash flow and earnings.

The acquisition of Hertel gives Kennametal the engineering, manufacturing and logistical infrastructure we need to become a more viable competitor in Europe and to strengthen our position in the markets in Eastern Europe and the Asia-Pacific region that we believe offer superior long-term growth opportunities.

Both Kennametal and Hertel possess resources and skills unique to each partner, from manufacturing and marketing expertise to excellence in specific product lines. The integration of these strengths enables our merged companies to provide a comprehensive response to the needs of our metalworking customers worldwide, and, in addition, while the two companies are being integrated operationally, both will retain their own brand name identities in the marketplace -- valuable assets we will use to maximize market penetration and return on our investment.

We are currently in the process of integrating Kennametal's business with that of Hertel. As part of this integration, we closed the Kennametal manufacturing facility in Neunkirchen, Germany.

We also developed a restructuring plan for Hertel operations, which is improving profitability by reducing working capital requirements and overall expenses, as well as improving capacity utilization.

Some 20 integration teams made up of Kennametal and Hertel employees are currently dedicated to realizing the benefits of combining the two companies. These teams are empowered to manage the wide variety of issues involved in the integration, from manufacturing changes and consolidations to marketing and legal concerns, research and development, information systems and communication.

The pace of integration is progressing ahead of our expectations, enabling us to realize more immediate value from the synergies created by the alliance and to accelerate our advance toward the goal of being the low-cost, highest-quality producer of metalworking tooling in the world.

OUR FOCUS IS ON MAKING IT EASIER TO DO BUSINESS WITH KENNAMETAL.

Today, manufacturers seek to reduce the number of suppliers they deal with, while forging closer and more productive working ties with those who can add value to the relationship. Because companies which can meet this challenge will uncover important new opportunities for growth, we are taking the initiative to explore and develop new and more productive ways of meeting our customers' needs.

Our customers' paramount concern is to increase the productivity of their capital-intensive production processes. Our challenge is to meet this need through not only our products, but also our people, our technology and our commitment to be not just a supplier, but a partner.

Our investment in the Corporate Technology Center continues to pay dividends with an ongoing stream of new and improved products developed in response to the changing needs of our customers in all manufacturing industries.

We also expanded and enhanced our worldwide management information system network, a vital competitive asset, to increase our control of the many marketing channels for Kennametal's expanding product range.

The Metalworking Systems Division undertook a thorough reengineering of its marketing and sales organization in 1994 to improve the speed and quality of response to our customers. The process created integrated sales teams made up of employees from direct sales,

telemarketing, order entry, application support and sales management. Through a new customer contact model, customers are now connected directly with the team member who possesses the specific skill or knowledge needed and who can provide an immediate and thorough response.

KENNAMETAL'S STRATEGIES ARE WORKING BECAUSE EMPLOYEES SUPPORT THEM TIRELESSLY.

Through a tough economic downturn, and now amid the challenges of integrating Hertel, Kennametal employees have shown that they understand and support the company's strategies and goals. Their efforts have been reinforced by the Hertel employees who have joined us, whose tradition of dedication and hard work matches our own. Now numbering 6,600 worldwide, Kennametal's employees are the foundation of the company and will continue to be the key to our success.

THE ACTIONS TAKEN OVER THE PAST YEAR POSITION KENNAMETAL FOR SUSTAINED GROWTH.

The success of our efforts to control costs and rationalize our operations has resulted in a structure that today provides Kennametal with significant earnings leverage. Our expanded global presence enables us to participate fully in the recovery of the world's economies and to build our competitive leadership by providing the highest level of service to customers anywhere in the world.

Today, we are in an excellent position to take advantage of global economic and manufacturing trends. New and exciting partnerships will enable Kennametal to expand mutually beneficial relationships with a growing number of customers.

We are confident that the successes achieved in 1994 will serve as a model for our future growth.

QUENTIN C. MCKENNA   ROBERT L. MCGEEHAN
- - - ---------------------   -----------------------------
Quentin C. McKenna   Robert L. McGeehan
Chairman of the Board   President and Chief Executive
Officer

Latrobe, Pennsylvania
August 1, 1994

KENNAMETAL OVERVIEW

For Kennametal, 1994 was a year of careful investment and untiring effort that produced solid signs of growth. A wide variety of factors contributed to the year's successes:

Teamwork as well as outstanding individual efforts by Kennametal employees -- New relationships with customers -- Continuing research and development efforts that reinforce Kennametal's technological leadership -- Aggressive pursuit of emerging markets
- - - -- Ongoing evolution of products to meet changing customer needs
- - - -- Integration efforts building on Kennametal and Hertel manufacturing, marketing and product strengths -- Execution of our channel marketing strategy -- Continued development of global logistics systems

The following selection of photos are representative of some of the key factors contributive to Kennametal's present and future prosperity.

[Photograph]

[Photograph]

The KM-LOC (TM) clamping device is the most recent addition to Kennametal's proven KM (TM) modular quick-change tooling system.

The new device employs a cam and a preloaded disc spring pack to provide positive stop-to-stop locking and unlocking with less than half a turn of a wrench, making the KM (TM) system even more user-friendly. Kennametal products continually evolve to meet ever-changing customer demands.

Global manufacturers require world-class tooling. Kennametal tools, including KM (TM) quick-change toolholders and carbide turning and milling inserts, machined these six-cylinder engine crankshafts for Ford Motor Company's new "world car." Successfully launched last year in Europe as the Mondeo, the car is coming to the U.S. in the fall of 1994 as the Ford Contour and Mercury Mystique. Kennametal tools meet Ford's legendary standards for performance and quality, and three of Kennametal's manufacturing facilities have earned the Ford Q1 status as preferred suppliers to Ford Motor Company.

Globalization of industry has produced new business relationships between Kennametal and its customers. In addition to its traditional role as a tooling supplier, Kennametal now offers tooling application and purchasing and management services in a variety of forms. Typical of these partnerships and "win-win" arrangements is the Full Service Supply program in which Kennametal stocks and maintains the customer's tool crib, supplying all the cutting tool requirements of a metalworking operation.

[Photograph]

Teamwork propels Kennametal's success. Throughout the company, employees from various functional areas work in units that are dedicated to getting the job done faster and better. For example, some 20 integration teams, consisting of both Kennametal and Hertel employees, are expediting the progress of the Hertel integration. Pictured here are some members of one of those groups, the Business Systems team. Including employees from customer service, metalworking manufacturing, finance and management information systems, the team defined the needs of the business systems of the combined operations and implemented such systems to enable both companies to eliminate quickly unnecessary redundancies and better serve our customers.

[Photograph]

Kennametal and Hertel are combining their technological and manufacturing strengths to provide customers with the best product available in the marketplace. Prime examples are Kennametal's new general-use KC9010 (TM) and KC9025 (TM) coated carbide metalcutting insert grades, which benefit from Kennametal's expertise in tungsten carbide manufacturing at the Orwell, Ohio, plant. The substrates are then coated at the Hertel facility in Ebermannstadt, Germany, to take advantage of Hertel's advanced coating and manufacturing automation technologies, including the coating operations shown here.

[Photograph]

[Photograph]

Kennametal's new KCD25 (TM) thin-film diamond-coated insert grade is engineered to machine new energy-efficient manufacturing materials, such as abrasive aluminum alloys and nonmetallics. Kennametal Corporate Technology developed a chemical vapor deposition process for diamond coatings that produces inserts combining the outstanding wear resistance of diamonds with a carbide substrate's economy and ability to support complex chip control geometries. This sequence shows a chip-control KCD25 (TM) insert poised to begin a cut; amidst a flow of metalcutting coolant; then beginning to machine an aluminum workpiece.

[Photograph]

These tungsten carbide tips for mining roof drill bits, arranged for sintering at the Mining and Construction Division manufacturing plant in Bedford, Pennsylvania, are destined for customers around the world. Following a year of record sales, the Division is moving to take advantage of promising opportunities for global growth by aggressively pursuing emerging markets, such as Eastern Europe and China.

One clear benefit of the acquisition of Hertel is a synergy of product expertise. Hertel is known for leadership in rotating tooling, including solid carbide drills and milling cutters, as shown here. These tools complement Kennametal's traditional strength in tools for lathe applications, enabling the combined companies to offer customers a comprehensive selection of the world's most productive cutting tools.

A growing number of customers are reaching for J&L Industrial Supply catalogs. The company continues its record of growth and profitability by effectively serving the needs of smaller customers. Through mail order catalogs and retail outlets, J&L provides one-stop shopping for a comprehensive selection of metalworking tools and supplies, including selected Kennametal products. J&L has grown to a total of eight U.S. locations, stocking more than six million tools and serving customers in all 50 states, as well as Canada, Mexico, and Puerto Rico.

[Photograph]

[Photograph]

[Photograph]

This year's Alex G. McKenna award winners, Jack Taylor (left) and Rolf Chudzick, work on separate continents, but share the high standards and limitless enthusiasm displayed by Alex G. McKenna, former Kennametal board chairman and the first recipient of this award. Jack Taylor joined Kennametal in 1959 in the engineering department and moved to the Mining Tool Division (now Mining and Construction Division) in 1975. Since then, his efforts in marketing and sales management for highway construction products have helped to make Kennametal the world-market leader in highway and construction tooling. Rolf Chudzick's work in sales and manufacturing management at Kennametal G.m.b.H. in Germany has spanned more than twenty-five years and has demonstrated his unique ability to motivate people from varied cultures to work together.

Global logistics is the foundation for global competitiveness. Through its Kennametal Distribution Services group, Kennametal coordinates manufacturing, inventories and delivery on a worldwide basis. Kennametal has consolidated its worldwide warehouse capacity to include nine U.S. locations and three outside the U.S., resulting in efficiencies that produce same-day shipping performance exceeding 98 percent.

[Photograph]

FINANCIAL GRAPHS

[Graphs]

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS: 1994 COMPARED WITH 1993

OVERVIEW. For the fiscal year ended June 30, 1994, Kennametal recorded a net loss of $4.1 million, or $0.17 per share, as compared with net income of $20.1 million, or $0.93 per share in 1993. All share and per share data (except where noted) reflect the retroactive effect of a 2-for-1 stock split in the form of a 100 percent stock dividend declared for holders of record as of August 10, 1994.

The net loss for the fiscal year ended June 30, 1994, includes the unfavorable cumulative noncash effect of adopting Statement of Financial Accounting Standards (SFAS) No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" ($20.1 million net of income tax effect) and the favorable cumulative noncash effect of adopting SFAS No. 109 "Accounting for Income Taxes" ($5.1 million). In addition, the results include a restructuring charge ($20.4 million after taxes) and the impact of additional operating costs resulting from the adoption of SFAS No. 106 ($1.2 million). Sales were $803 million, as compared with $598 million last year. The increase in sales resulted primarily from the acquisition of an 81 percent interest in Hertel AG (Hertel). Excluding Hertel, sales were $652 million.

The Hertel acquisition increased the net loss for fiscal year 1994 by $2.6 million. Excluding the cumulative effect of accounting changes, the restructuring charge and the acquisition impacts, the company had net income of $33.9 million as compared with $20.1 million last year.

SALES AND MARKETS. Excluding the effects of the acquisition of Hertel, worldwide sales of metalworking products increased 11 percent from last year as a result of strong domestic demand for metalcutting tools. Excluding price increases and negative foreign currency translation effects, worldwide metalworking volume increased 12 percent.

In the United States, excluding the effects of the acquisition of Hertel, sales of metalcutting inserts and toolholding devices increased 11 percent while sales of industrial supply products increased 22 percent.

Worldwide sales of mining and construction tools increased two percent from last year as a result of comparatively weak international demand for highway construction and mining tools. However, domestic sales of mining and construction tools increased seven percent because of strong demand for highway construction tools. Worldwide sales of metallurgical products increased 19 percent as a result of strong domestic demand for hardfacing products.

Foreign and export sales increased 78 percent from last year. A significant portion of the increase relates to the acquisition of Hertel.

Management expects higher sales of metalworking products in fiscal 1995 as the U.S. economy continues to expand and the European economy continues to emerge from the recession. Metalworking sales in the U.S. should continue to benefit from catalog sales. Mining and construction tool sales should continue to increase primarily because of greater domestic coal production.

COSTS AND EXPENSES. As a percentage of sales, the gross margin was 41.1 percent, the same as last year. The gross margin was unfavorably affected by the inclusion of Hertel's financial results.

Operating expenses, consisting of research and development, marketing and general and administrative expenses, increased 31 percent. The increase primarily relates to the impact of the Hertel acquisition. As a percentage of sales, operating expenses were 32.8 percent, down from 33.6 percent, mostly because of higher sales in the U.S.

Average total employment increased 31 percent from last year. The increase in average total employment relates principally to the acquisition of Hertel.

Interest expense increased 45 percent from 1993. The increase was primarily due to debt incurred and assumed in connection with the Hertel acquisition. Average debt outstanding was $164 million in 1994 as compared with $125 million in 1993. Approximately 35 and 44 percent of the company's total debt was subject to variable interest rates at June 30, 1994 and 1993, respectively.

The effective tax rate was 59.7 percent in 1994, up from 41.1 percent in 1993. Excluding the effects of the restructuring charge, the adjusted effective tax rate was 39.1 percent in 1994. The adjusted effective tax rate for 1994 benefited from the use of greater foreign tax credits when compared to the effective tax rate for 1993.

SALES BY PRODUCT CLASS AND GEOGRAPHIC AREA

Year ended June 30		1994		1993		1992
(Dollars in thousands)	Percent of Total	Amount	Percent Change	Amount	Percent Change	Amount
By Product Class:						
Metalworking products	84%	$676,355	+41%	$478,137	-1%	$482,058
Mining and construction products	13	101,575	+2	99,614	+12	89,257
Metallurgical products	3	24,583	+19	20,745	+4	19,852
Other products	-	-	-	-	-	3,366
Net sales	100%	$802,513	+34%	$598,496	+1%	$594,533
By Geographic Area:						
Within the U.S.	65%	$517,856	+18%	$438,910	+1%	$434,195
Foreign and export	35	284,657	+78	159,586	-	160,338
Net sales	100%	$802,513	+34%	$598,496	+1%	$594,533

RESULTS OF OPERATIONS: 1993 COMPARED WITH 1992

OVERVIEW. Net income for 1993 was $20.1 million, up 56 percent from $12.9 million in 1992. The 1993 results include a nonrecurring after-tax gain of $1.0 million ($0.05 per share) related to the settlement of a patent infringement suit. Excluding the nonrecurring gain, net income for 1993 was up 48 percent.

Earnings for 1993 increased primarily because of increased sales of metalcutting inserts and toolholding devices in the United States. In addition, earnings were favorably affected by lower manufacturing costs associated with higher production levels in the company's metalworking operations. However, operating expenses increased slightly from 1992 because of increased selling and marketing efforts.

SALES AND MARKETS. Worldwide sales of metalworking products decreased one percent from 1992 because of lower sales volume in Europe and lower overall sales of industrial supply products. Excluding price increases and negative foreign currency translation effects, worldwide metalworking volume declined one percent from 1992.

In the United States, metalworking sales were flat compared with those of 1992. Sales of metalcutting inserts and toolholding devices increased two percent while sales of industrial supply products decreased three percent as a result of product rationalization efforts. Sales of industrial supply products through full service supply programs and mail-order catalogs continued to experience growth.

Sales of mining and construction tools increased 12 percent from 1992 because of higher volume and greater demand for highway construction and mining tools.

Foreign and export sales declined one percent from 1992 because of lower sales volume in Europe and negative foreign currency translation effects. However, sales continued to grow in Asia-Pacific markets. Excluding foreign currency translation effects, foreign and export sales increased one percent from 1992.

COSTS AND EXPENSES. As a percentage of sales, the gross margin was 41.1 percent for 1993, up from 38.9 percent in 1992. The gross margin for 1993 was favorably affected by higher production levels, more favorable sales mix, cost containment and productivity efforts. However, the gross margin for 1993 was adversely affected by negative foreign currency translation effects.

Operating expenses, consisting of research and development, marketing and general and administrative expenses, increased two percent from 1992 because of increased selling and marketing efforts, higher salaries, wages and employee benefit costs, additional depreciation charges related to the new Corporate Technology Center and the start-up of a catalog sales branch in Los Angeles, California, in August 1992. As a percentage of sales, operating expenses were 33.6 percent for 1993, up from 33.1 percent in 1992.

Payroll and related expenses totaled $221 million in 1993, up slightly from $216 million in 1992. Average total employment decreased three percent from 1992 because of cost reduction programs.

Interest expense decreased five percent from 1992 because of lower average borrowings and slightly lower interest rates. Average debt outstanding was $125 million in 1993, down five percent from $132 million in 1992. Approximately 44 and 50 percent of the company's total debt was subject to variable interest rates at June 30, 1993 and 1992, respectively.

The effective tax rate was 41.1 percent in 1993, up from 38.6 percent in 1992. Excluding the effects of certain nonrecurring items in 1992, the adjusted effective tax rate was 42.5 percent. The effective tax rate for 1993 benefited from the use of greater foreign tax credits when compared to the adjusted effective tax rate for 1992.

LIQUIDITY AND CAPITAL RESOURCES

Kennametal generates sufficient cash from operations to meet most of its financing needs. In addition, at June 30, 1994, the company had global lines of credit with banks totaling $225 million, of which $172 million was unused. Non-U.S. subsidiaries generally obtain financing through revolving credit agreements with local banks.

During 1994, the company generated $30 million in cash from operations. Cash provided from operations decreased from last year primarily because of spending in connection with restructuring and integration related activities. Capital expenditures, totaling $27 million, were utilized to upgrade machinery and equipment and to modernize facilities. The company paid $14 million of cash dividends.

On August 4, 1993, the company completed the acquisition of an 81 percent interest in Hertel. In connection with the acquisition, the company obtained a new $130 million credit agreement dated as of July 29, 1993 (the "credit agreement"). The credit agreement provided a $40 million bridge loan facility earmarked to purchase Hertel shares ($38.7 million of which was borrowed) and $90 million of revolving credit lines in two equal tranches. The bridge loan was repaid on December 24, 1993, and, therefore, expired. The Tranche A line of credit matured on July 27, 1994, while the Tranche B line of credit matures on July 27, 1996.

On December 23, 1993, the company completed the sale of 1,972,250 shares of common stock (exclusive of the 2-for-1 stock split impact), resulting in net proceeds of $73,594,000. The company used $38,700,000 of the proceeds from the offering to repay the bridge loan and $34,894,000 to reduce borrowings under the revolving credit lines.

During 1993, the company generated $42 million in cash from operations which was used primarily to finance $23 million of capital expenditures and pay $13 million of cash dividends. Capital expenditures were utilized to upgrade machinery and equipment, to upgrade management information systems and to relocate and expand the J&L Industrial Supply facility in Charlotte, North Carolina.

During 1992, the company generated $47 million in cash from operations which was used primarily to finance $37 million of capital expenditures and pay $12 million of cash dividends. Capital expenditures were used to complete construction of the new $27 million Corporate Technology Center, to expand and modernize facilities, to upgrade machinery and equipment and to acquire management information systems.

Capital expenditures for fiscal 1995, which have been estimated at approximately $50-55 million, will be employed to modernize facilities and upgrade machinery and equipment. The company plans to finance these expenditures with cash from operations and borrowings under existing revolving credit agreements.

FINANCIAL POSITION

Kennametal maintained its strong financial position through fiscal 1994. Working capital was $131 million and $121 million as of June 30, 1994 and 1993, respectively. Total debt was $147 million and $111 million as of June 30, 1994 and 1993, respectively. The ratio of total debt to capital was 31.3 percent and 30.2 percent as of June 30, 1994 and 1993, respectively. Over the long-term, the company's financial objective is to maintain a debt to capital ratio of not more than 40 percent.

In the first quarter of fiscal year 1994, the company recorded cumulative effect charges aggregating $15 million after taxes for the adoption of SFAS No. 106 and SFAS No. 109. While these charges did not involve the use of cash, they significantly affected various components of the company's consolidated financial position at June 30, 1994.

NEW ACCOUNTING STANDARD

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112 "Employers' Accounting for Postemployment Benefits," which requires companies to recognize the obligation to provide benefits to their former or inactive employees after employment, but before retirement. The company will adopt this new standard in fiscal 1995. The company does not expect the new accounting requirement to have a material effect on its financial statements.

INFLATION

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

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

Year ended June 30	1994	1993	1992
OPERATIONS			
Net sales	$802,513	$598,496	$594,533
Costs and expenses:			
Cost of goods sold	472,533	352,773	362,967
Research and development	15,201	14,714	13,656
Marketing	189,487	144,850	137,494
General and administrative	58,612	41,348	45,842
Interest expense	13,811	9,549	10,083
Amortization of intangibles	3,996	3,425	3,479
Restructuring charge	24,749	-	-
Patent litigation income	-	(1,738)	-
Total costs and expenses	778,389	564,921	573,521
Other income (expense)	1,860	519	(40)
Income before taxes on income, minority interest and cumulative effect of accounting changes	25,984	34,094	20,972
Provisions for income taxes:			
Current	17,200	11,100	10,300
Deferred	(1,700)	2,900	(2,200)
Total provisions for income taxes	15,500	14,000	8,100
Minority interest in losses of Hertel AG	431	-	-
Income before cumulative effect of accounting changes	10,915	20,094	12,872
Cumulative effect of accounting changes, net of income taxes:			
Postretirement benefits	(20,060)	-	-
Income taxes	5,057	-	-
Net income (loss)	$ (4,088)	$ 20,094	$ 12,872
PER SHARE DATA			
Earnings before cumulative effect of accounting changes	$ 0.45	$ 0.93	$ 0.60
Cumulative effect of accounting changes:			
Postretirement benefits	(0.83)	-	-
Income taxes	0.21	-	-
Earnings (loss) per share	$ (0.17)	$ 0.93	$ 0.60
Dividends per share	$ 0.58	$ 0.58	$ 0.58

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

As of June 30	1994	1993
ASSETS		
Current Assets:		
Cash and equivalents	$ 17,190	$ 4,149
Accounts receivable, less allowance for doubtful accounts of $9,328 and $2,062	143,691	89,496
Inventories	158,179	115,230
Deferred income taxes	13,744	-
Total current assets	332,804	208,875
Property, Plant and Equipment:		
Land and buildings	138,956	114,951
Machinery and equipment	328,696	287,477
Less accumulated depreciation	(224,554)	(210,123)
Net property, plant and equipment	243,098	192,305
Other Assets:		
Investments in affiliated companies	6,393	4,819
Intangible assets, less accumulated amortization of $16,540 and $12,368	32,141	29,766
Deferred income taxes	65,606	-
Other	17,490	12,498
Total other assets	121,630	47,083
Total assets	$697,532	$448,263
LIABILITIES		
Current Liabilities:		
Current maturities of term debt and capital leases	$ 4,364	$ 2,184
Notes payable to banks	52,753	20,553
Accounts payable	52,148	32,492
Accrued vacation pay	15,569	12,233
Other	77,193	20,536
Total current liabilities	202,027	87,998
Term Debt and Capital Leases, Less Current Maturities	90,178	87,891
Deferred Income Taxes	19,279	10,744
Other Liabilities	51,800	6,489
Total liabilities	363,284	193,122
Minority Interest in Hertel AG	11,412	-
SHAREHOLDERS' EQUITY		
Shareholders' Equity:		
Capital stock, $1.25 par value; 30,000,000 shares authorized; 29,369,658 and 12,712,579 shares issued	36,712	15,891
Preferred stock, 5,000,000 shares authorized; none issued	-	-
Additional paid-in capital	83,839	28,135
Retained earnings	245,428	263,531
Treasury shares, at cost (3,015,466 and 1,754,744 shares)	(39,247)	(44,974)
Pension liability adjustment	(536)	-
Cumulative translation adjustments	(3,360)	(7,442)
Total shareholders' equity	322,836	255,141
Total liabilities and shareholders' equity	$697,532	$448,263

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)

Year ended June 30	1994	1993	1992
Capital Stock			
Balance at beginning of year	$ 15,891	$ 15,891	$ 15,891
Issuance of common stock	2,465	-	-
Two-for-one stock split	18,356	-	-
Balance at end of year	36,712	15,891	15,891
Additional Paid-in Capital			
Balance at beginning of year	28,135	27,594	27,274
Dividend reinvestment and stock purchase plan	424	144	340
Employee stock plans	2,507	397	(20)
Issuance of common stock	71,129	-	-
Two-for-one stock split	(18,356)	-	-
Balance at end of year	83,839	28,135	27,594
Retained Earnings			
Balance at beginning of year	263,531	256,016	255,584
Net income (loss)	(4,088)	20,094	12,872
Cash dividends	(14,015)	(12,579)	(12,440)
Balance at end of year	245,428	263,531	256,016
Treasury Shares			
Balance at beginning of year	(44,974)	(48,734)	(52,080)
Dividend reinvestment and stock purchase plan	590	1,567	1,516
Employee stock plans	5,137	2,193	1,830
Balance at end of year	(39,247)	(44,974)	(48,734)
Pension Liability Adjustment			
Additional minimum pension liability	(536)	-	-
Cumulative Translation Adjustments			
Balance at beginning of year	(7,442)	744	(3,134)
Current year translation adjustments	4,082	(8,186)	3,878
Balance at end of year	(3,360)	(7,442)	744
Total shareholders' equity, June 30	$322,836	$255,141	$251,511

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

Year ended June 30	1994	1993	1992
OPERATING ACTIVITIES			
Net income (loss)	$ (4,088)	$ 20,094	$ 12,872
Adjustments for non-cash items:			
Depreciation and amortization	43,232	30,927	31,328
Other	14,984	3,202	(958)
Changes in certain assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(11,352)	(1,644)	8,562
Inventories	9,638	(1,524)	5,493
Accounts payable and accrued liabilities	(18,007)	(1,422)	(9,929)
Other	(4,158)	(7,615)	(98)
Net cash flow from operating activities	30,249	42,018	47,270
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(27,313)	(23,099)	(36,555)
Disposals of property, plant and equipment	6,716	1,460	3,968
Purchase of Hertel AG, net of cash	(19,595)	-	-
Other	(2,344)	(2,373)	(2,503)
Net cash flow used for investing activities	(42,536)	(24,012)	(35,090)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	11,246	(7,310)	(1,536)
Increase in term debt	5,715	1,000	700
Reduction in term debt	(64,098)	(9,266)	(4,473)
Net proceeds from issuance of common stock	73,594	-	-
Dividend reinvestment and employee stock plans	8,658	4,301	3,666
Cash dividends paid to shareholders	(14,015)	(12,579)	(12,440)
Other	2,731	1,180	(371)
Net cash flow from (used for) financing activities	23,831	(22,674)	(14,454)
Effect of exchange rate changes on cash	1,497	(190)	(7)
CASH AND EQUIVALENTS			
Net increase (decrease) in cash and equivalents	13,041	(4,858)	(2,281)
Cash and equivalents, beginning	4,149	9,007	11,288
Cash and equivalents, ending	$ 17,190	$ 4,149	$ 9,007
SUPPLEMENTAL DISCLOSURES			
Interest paid	$ 12,403	$ 9,617	$ 10,564
Income taxes paid	16,296	13,232	9,221

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

ACCOUNTS RECEIVABLE include $6,293,000 and $3,786,000 of receivables from affiliates at June 30, 1994 and 1993, 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 domestic inventories. The remainder of inventories are determined under the first-in, first-out (FIFO) or average cost methods.

PROPERTY, PLANT AND EQUIPMENT are carried at cost. Major additions and betterments are capitalized, while maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. Retirements and disposals are removed from cost and accumulated depreciation accounts, with the gain or loss reflected in income. Interest is capitalized during construction of major facilities. Capitalized interest, which is included in the asset's cost, is amortized over the estimated useful life of the asset.

DEPRECIATION, for financial reporting purposes, is computed using the straight-line method over the estimated useful lives of the assets ranging from 4 to 40 years. Assets recorded under capital leases are amortized over the term of the related leases by use of the straight-line method.

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 5 to 40 years.

RESEARCH AND DEVELOPMENT costs are expensed as incurred.

INCOME TAXES. Effective July 1, 1993, the company adopted Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." The statement requires the use of an asset and liability approach for financial accounting and reporting for income taxes. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company does not provide for federal income taxes on unremitted earnings of non-U.S. subsidiaries and unconsolidated affiliates. Any federal income taxes on such earnings, if remitted, would generally be offset by available foreign tax credits. There were no significant unremitted earnings from unconsolidated affiliates at June 30, 1994.

FOREIGN CURRENCY TRANSLATION. For the most part, assets and liabilities of non-U.S. 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.

EARNINGS PER SHARE is computed using the weighted average number of shares outstanding during the year. Weighted average shares outstanding were 24,304,000, 21,712,000 and 21,452,000 in 1994, 1993 and 1992, respectively.

PENSION PLANS cover substantially all employees. Pension benefits are based on years of service and, for certain plans, on average compensation immediately preceding retirement. Pension costs are determined in accordance with 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.

2 ACQUISITION AND RESTRUCTURING

On August 4, 1993, the company completed the acquisition of an 81 percent interest in Hertel AG (Hertel) for $43 million in cash and $55 million of assumed debt. Hertel is a manufacturer of cemented carbide tools and tooling systems based in Furth, Germany.

The Hertel acquisition was recorded under the purchase method of accounting and, accordingly, the results of operations of Hertel for the period beginning as of August 4, 1993, forward are included in the accompanying consolidated financial statements. The purchase price has been allocated to assets acquired and liabilities assumed based on fair market value at the date of acquisition. The excess of the purchase price over the fair market value of the net assets acquired has been recorded as goodwill and is being amortized over twenty years.

The fair values (as adjusted) of assets acquired and liabilities assumed are summarized below:

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

As presented above, current liabilities includes a reserve of approximately $36.0 million (pretax) for the restructuring of Hertel. The restructuring costs primarily include amounts for severance, phaseout and relocation. The charges to the restructuring reserve were $16.1 million, leaving a balance of $20.3 million at June 30, 1994. It is expected that the restructuring, which began in fiscal 1994, will be substantially completed during fiscal year 1995.

In connection with the acquisition of Hertel, the company recognized a special charge in the September 1993 quarter of approximately $20.4 million after taxes in connection with the closure of its manufacturing facility in Neunkirchen, Germany, and other integration related actions. The charges to the related reserve were $18.5 million, a significant portion of which was cash charges, leaving a balance of $6.2 million at June 30, 1994. It is expected that the spending related to this charge will be substantially completed during fiscal year 1995.

The effect of the purchase on the company's operations, assuming the transaction had occurred on July 1, 1992, would be as follows:

PRO FORMA (UNAUDITED)

(Dollars in thousands, except per share data)	1994	1993
Net sales	$815,195	$808,711
Income before cumulative effect of accounting changes	$ 9,136	$ 15,156
Net income (loss)	$ (5,867)	$ 15,156
Per share data:		
Earnings before cumulative effect of accounting changes	$ 0.38	$ 0.70
Cumulative effect of accounting changes:		
Postretirement benefits	(0.83)	-
Income taxes	0.21	-
Earnings (loss) per share	$ (0.24)	$ 0.70

The pro forma financial information presented above does not purport to present what the company's results of operations would actually have been if the acquisition of Hertel had occurred on July 1, 1992, or to project the company's results of operations for any future period.

3 INVENTORIES

Inventories consisted of the following:

(Dollars in thousands)	1994	1993
Finished goods	$112,202	$ 97,365
Work in process and powder blends	54,831	38,177
Raw materials and supplies	20,571	8,803
Inventories at current cost	187,604	144,345
Less LIFO valuation	(29,425)	(29,115)
Total inventories	$158,179	$115,230

Inventories are stated at lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for a significant portion of domestic inventories and the first-in, first-out (FIFO) method or average cost for other inventories. The company used the LIFO method of valuing its inventories for approximately 55 percent and 70 percent of total inventories at June 30, 1994 and 1993, respectively. The company uses the LIFO method for valuing the majority of its inventories in order to match more closely current costs with current revenues, thereby reducing the effects of inflation on earnings.

4 CURRENT LIABILITIES

Included in other current liabilities at June 30 were the following:

(Dollars in thousands)	1994	1993
Accrued liabilities related to restructuring	$ 25,631	$ -
Accrued compensation	11,961	4,299
Payroll, state and local taxes	8,172	3,289
Federal and state income taxes	5,546	4,633
Accrued warranty	4,651	-
Postretirement benefits other than pensions	2,074	-
Accrued interest	1,114	1,303
Other accrued expenses	18,044	7,012
Total other current liabilities	$ 77,193	$ 20,536

5 TERM DEBT AND CAPITAL LEASES

Term debt and capital lease obligations consisted of the following:

(Dollars in thousands)	1994	1993
Senior notes, 9.64%, due in installments through 2000	$ 50,000	$ 50,000
Notes payable under domestic revolving credit agreements, varying from 3.70% to 3.75% (1993)	-	20,000
Industrial Revenue Notes, 8.05% tax exempt, due in installments through 1996	1,667	6,000
Foreign borrowings, varying from 5.0%-10.25% (1994) and 5.0%-8.4% (1993), due in installments through 2006	20,291	6,116
Lease of office facilities with lease periods expiring through 2010 at 6.75% - 7.55%	13,182	-
Other	9,402	7,959
Total term debt and capital leases	94,542	90,075
Less current maturities:		
Term debt	(2,811)	(2,184)
Capital leases	(1,553)	-
	(4,364)	(2,184)
Long-term debt and capital leases	$ 90,178	$ 87,891

Future principal maturities of term debt are $2.8 million, $15.2 million, $17.4 million, $12.5 million and $12.3 million, respectively, in fiscal years 1995 through 1999.

Certain of the term debt agreements contain various restrictions relating to, among other things, net worth, incurrence of additional debt, transactions in the company's own stock and dividends.

Minimum lease payments under capital leases expiring subsequent to June 30, 1994, are (in thousands):

YEARS ENDED	
1995	$ 1,553
1996	1,553
1997	1,553
1998	1,553
1999	1,553
Thereafter	14,449
Total minimum lease payments	22,214
Less amount representing interest	(9,032)
Present value of net minimum lease payments	$ 13,182

The company has no significant obligations under operating lease agreements.

6 NOTES PAYABLE AND LINES OF CREDIT

Notes payable to banks of $52.8 million at June 30, 1994, and $20.6 million at June 30, 1993, represent short-term borrowings under domestic and foreign credit lines with banks.

Domestic and foreign credit lines totaled approximately $225 million of which $172 million was unused at June 30, 1994.

Domestic credit lines are covered by one revolving credit agreement totaling $90 million. Borrowings under this agreement are available at fixed or variable interest rates. The credit lines expire during fiscal 1995 and 1996 and require the company to pay a facility fee on the total line or a commitment fee on unborrowed amounts under one of the lines. The company has the option to terminate this agreement in whole or in part at any time.

7 INCOME TAXES

Effective July 1, 1993, the company adopted SFAS No. 109 "Accounting for Income Taxes." The company previously accounted for income taxes pursuant to the provisions of APB No. 11. The new standard requires the use of the liability method to recognize deferred income tax assets and liabilities using enacted tax rates. Financial statements for prior years have not been restated to apply the provisions of SFAS No. 109. As a result of implementing the change in accounting principle, a net deferred tax liability of $5.6 million was recognized relating to net operating loss carryforwards and other tax attributes existing as of July 1, 1993. In addition, the income tax effect of the new method of accounting related to the company's adoption of SFAS No. 106 as of July 1, 1993, was the recognition of additional deferred tax assets of $13.9 million. The combined effect of these items resulted in the recognition of an $8.3 million net deferred tax asset and a net income tax benefit of $5.1 million.

The current provisions for income taxes, excluding the effects of accounting changes, consisted of the following:

(Dollars in thousands)	1994	1993	1992
Federal	$15,000	$ 7,100	$ 6,000
State	3,100	2,000	800
Foreign	(900)	2,000	3,500
Total	$17,200	$11,100	$10,300

The components of income before taxes on income were as follows:

(Dollars in thousands)	1994	1993	1992
Domestic	$39,095	$33,655	$19,920
Foreign	(13,111)	439	1,052
Total	$25,984	$34,094	$20,972

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

(Dollars in thousands)	1994	1993	1992
Income taxes at U.S. statutory rate	$ 9,094	$11,592	$ 7,130
State taxes, net of federal income tax benefit	2,018	1,331	540
Foreign tax effects	2,883	(255)	1,674
Foreign losses not currently benefited	2,325	540	249
Divestiture of subsidiary	-	-	(921)
Other	(820)	792	(572)
Total provision for income taxes	$15,500	$14,000	$ 8,100

Deferred tax assets and liabilities as of June 30, 1994, and July 1, 1993, were comprised of the following:

(Dollars in Thousands)	June 30, 1994	July 1, 1993
Deferred tax assets:		
Net operating loss carryforwards	$50,839	$ 1,086
Deductible temporary differences:		
Inventories	8,071	6,375
Property, plant and equipment	3,889	1,902
Vacation pay	3,471	3,287
Pensions and other long-term liabilities	1,630	2,288
Postretirement benefits other than pensions	13,972	13,940
Other deductible temporary differences	4,575	2,424
Total deferred tax assets	86,447	31,302
Valuation allowance	(5,760)	(1,086)
Net deferred tax asset	$80,687	$30,216
Deferred tax liabilities:		
Accumulated depreciation	$20,617	$21,953

The sources of deferred income taxes in 1993 and 1992 were as follows:

(Dollars in thousands)	1993	1992
Depreciation	$ 200	$ 200
Inventory	400	(600)
Patent litigation	2,200	-
Vacation pay	200	(1,000)
Other timing differences	(100)	(800)
Total	$ 2,900	$(2,200)

As a component of its cumulative adjustment from implementing SFAS No. 109, the company recognized a charge of $1.1 million to establish a valuation reserve related to certain tax attributes comprising its net deferred tax asset. As of July 1, 1993, deferred tax liabilities associated with existing taxable temporary differences exceeded deferred tax assets from future deductible temporary differences, excluding those attributable to SFAS No. 106, by approximately $5.7 million. The recognition by the company as of July 1, 1993, of the entire transition obligation related to adopting the provisions of SFAS No. 106 resulted in the recognition of a $13.9 million deferred tax asset. Future operating costs under SFAS No. 106 are expected to exceed deductible amounts for income tax purposes for many years. In addition, under current federal tax regulations, should the company incur tax losses in future periods, such losses may be carried forward to offset taxable income for a period of up to 15 years. Based upon the length of the period during which the SFAS No. 106-generated deferred tax asset can be utilized, the company believes that it is more likely than not that future taxable income will be sufficient to offset fully these future deductions and a valuation allowance for this deferred tax asset is not necessary.

At June 30, 1994, the company had unused tax benefits of $50.8 million related to non-U.S. net operating loss (NOL) carryforwards for income tax purposes, of which $46.7 million can be carried forward indefinitely with the balance expiring at various dates through 2001. A significant portion ($46.7 million) of the unused tax benefits relate to the Federal Republic of Germany (Germany).

The net change in the valuation allowance for deferred tax assets was an increase of $4.7 million in fiscal 1994 and relates to the acquired NOL carryforwards generated by Hertel subsidiaries prior to the date of acquisition and losses generated by foreign subsidiaries in fiscal 1994. A valuation allowance has been established for those tax credits which are not expected to be realized. No net benefit has been given to the non-German NOL carryforwards because of the limited carryforward periods and/or the uncertain business conditions relating to the operations giving rise to such carryforwards.

The company believes that it is more likely than not that $45.1 million of NOL carryforwards will be utilized in future periods. The recorded tax benefits are expected to be realized by achieving future profitable operations in Germany. The German NOL carryforwards can be carried forward indefinitely.

The $45.1 million of NOL carryforwards relate principally to those generated by Hertel in Germany prior to the date of acquisition. Based on average exchange rates in effect during the respective periods, Hertel had sales of approximately $229 million, $201 million and $136 million for calendar 1991, 1992 and the first six months of 1993 and sustained net losses for those periods of approximately $44.2 million, $60.5 million and $13.5 million, respectively. While Hertel recorded significant tax losses in Germany in the periods immediately preceding the acquisition, prior to those periods the company had a history of profitability. The company was founded in Germany in 1947 and has operated continuously since that time. Prior to the acquisition, Hertel had undertaken a major restructuring program to improve performance by implementing a cost reduction program and enhancing asset utilization. Additionally, subsequent to the acquisition, Kennametal implemented a plan of integration and restructuring at Hertel which was designed to improve Hertel's profitability by lowering working capital requirements, reducing overall expenses and improving capacity utilization.

In addition, Kennametal has a history of profitability in Germany. Kennametal G.m.b.H., Kennametal's wholly-owned subsidiary in Germany, has operated profitably in Germany since its inception in 1964. Kennametal is currently in the process of integrating and rationalizing its businesses with that of Hertel. As part of this rationalization, Kennametal has closed its German manufacturing facility and consolidated other operations.

Based upon the above described facts and circumstances and the improved financial results of Hertel since the date of acquisition, Kennametal believes that it will continue to gain substantial efficiencies and cost savings through rationalizing the combined Kennametal/Hertel German operations and thereby achieve future profitable operations sufficient to realize the recorded tax benefits.

8 PENSION BENEFITS

The following table sets forth the funded status of the company's U.S. pension plans and the amounts recognized in the consolidated balance sheets at June 30, 1994 and 1993:

(Dollars in thousands)	1994	1993
Actuarial present value of benefit obligations:		
Vested benefits	$119,025	$113,041
Nonvested benefits	2,881	4,129
Accumulated benefit obligation	121,906	117,170
Value of future salary projections	39,442	35,866
Projected benefit obligation	161,348	153,036
Fair value of plan assets	203,715	201,622
Plan assets in excess of projected benefit obligation	42,367	48,586
Amounts not recognized in the financial statements:		
Unrecognized net asset from July 1, 1986	(18,868)	(21,048)
Unrecognized prior service cost	1,299	1,609
Unrecognized net gain	(21,959)	(28,657)
Adjustment to recognize minimum liability	(1,624)	-
Prepaid pension asset at June 30	$ 1,215	$ 490

Plan assets consist principally of common stocks, corporate bonds and U.S. government securities. The discount rate used in determining the actuarial present value of benefit obligations was 8.25 percent for 1994 and 1993, and the rate of increase in future compensation levels was 5 percent for 1994 and 5.25 percent for 1993. The expected long-term rate of return on assets was 9 percent for 1994 and 1993.

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

(Dollars in thousands)	1994	1993	1992
Service cost-benefits earned during the period	$ 5,777	$ 6,338	$ 6,355
Interest cost on projected benefit obligation	12,345	12,644	11,601
Return on plan assets	(8,885)	(27,814)	(24,873)
Net amortization and deferral	(11,099)	9,946	8,011
Net pension expense (credit)	$ (1,862)	$ 1,114	$ 1,094

Pension plans of certain non-U.S. subsidiaries are not required to report to U.S. government agencies pursuant to ERISA. In connection with the acquisition of Hertel, the company assumed the unfunded vested benefit obligations of Hertel. The unfunded vested benefit obligation at June 30, 1994, was $12.4 million and is included in other noncurrent liabilities on the consolidated balance sheet. There were no significant unfunded vested benefits for the company's non-U.S. pension plans at June 30, 1993.

Total pension expense (credit) for U.S. and non-U.S. plans amounted to $(1,196,000), $1,799,000 and $2,446,000 in 1994, 1993 and 1992, respectively.

9 OTHER POSTRETIREMENT BENEFITS

The company provides varying levels of postretirement health care and life insurance benefits to most U.S. employees who retire from active service after having attained age 55 and 10 years of service. This plan remains in effect for all current retirees and employees who will retire prior to January 1, 1997. However, for those employees retiring on or after January 1, 1997, the following plan amendments will be effective. The company's retiree health care payments will be capped at 1996 levels. To qualify for medical benefits at normal retirement (age 65 or later), employees must have a minimum of 5 years of service after age 40. Medical benefits will be available for only those retirements that begin on or after the normal retirement age of 65.

Effective July 1, 1993, the company adopted SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." These benefits are now accrued over the period the employee provides services to the company (accrual basis). Prior to the change, costs were charged to expense as incurred (cash basis). The accounting change resulted in a one-time charge to earnings of $20.1 million, net of taxes of $13.9 million.

Postretirement benefit expense was $3.9 million in 1994 (including $2.1 million due to the application of the new rule), $1.9 million in 1993 and $1.6 million in 1992.

The following table presents the components of the company's liability for future retiree health care and life insurance benefits as of June 30, 1994, and July 1, 1993:

(Dollars in thousands)	June 30, 1994	July 1, 1993
Accumulated postretirement benefit obligations:		
Retirees	$(14,800)	$(15,100)
Fully eligible active participants	(8,000)	(7,600)
Other active participants	(13,000)	(11,300)
Total obligation	(35,800)	(34,000)
Assets at fair value	-	-
Accrued postretirement benefit liability	$(35,800)	$(34,000)

As of June 30, 1994, the company's accrued postretirement benefit liability was $35.8 million. The long-term portion of the accrued liability, $33.8 million, is included in other noncurrent liabilities on the consolidated balance sheet.

The components of retiree health care expense for 1994 were as follows:

(Dollars in thousands)	1994
Service cost	$1,080
Interest cost	2,820
Total cost	$3,900

The discount rate used in calculating the accumulated postretirement benefit obligations was 8.5 percent. In determining the accumulated postretirement benefit obligations at July 1, 1993 and June 30, 1994, the assumed rates of increase in health care costs were 15 percent for retirees under age 65 and 10 percent for persons age 65 and older. These rates are assumed to decrease in varying degrees annually to 6 percent for years 2002 and thereafter. A 1 percent increase in the trend rate would increase both the accumulated postretirement benefit obligation at June 30, 1994, and the total cost of the plan for fiscal year 1994 by approximately 8 percent. The accumulated postretirement benefit obligation is unfunded.

In November 1992, the Financial Accounting Standards Board issued Statement No. 112 "Employers' Accounting for Postemployment Benefits." Under the new standard, the company must recognize the obligation to provide benefits to former or inactive employees after employment, but before retirement. The company must adopt this new standard no later than fiscal 1995. Management does not expect that the implementation of the new standard will have a significant effect on the results of operations or financial position of the company.

10 FINANCIAL INSTRUMENTS

FAIR VALUE. The company had $17.2 million in cash and cash equivalents at June 30, 1994, which approximates fair value because of the short maturity of these investments.

The estimated fair value of the company's term debt was $84.1 million at June 30, 1994. The fair value of the company's term debt was estimated using discounted cash flow analyses, based on the company's incremental borrowing rates for similar types of borrowing arrangements.

OFF-BALANCE-SHEET RISK. The company is a party to financial instruments with off-balance-sheet risk in the normal course of business to reduce its own exposure to fluctuations in currency exchange rates. These financial instruments include forward currency contracts which involve credit risk in excess of the amount recognized in the financial statements. The company believes that the actual exposure to loss is minimal and immaterial. As of June 30, 1994, the company had no financial instruments with significant off-balance-sheet risk.

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 places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risks with respect to trade receivables are limited because there are a large number of customers in the company's customer base spread across many industries and geographic areas. As of June 30, 1994, the company had no significant concentrations of credit risk.

11 SHAREHOLDERS' EQUITY

On August 1, 1994, the company's Board of Directors authorized a 2-for-1 stock split in the form of a stock dividend payable on August 22, 1994, to shareholders of record August 10, 1994. The split resulted in the issuance of 14,684,829 additional shares of common stock from authorized but unissued shares. The stated par value of each share was not changed from $1.25. The issuance of authorized but unissued shares resulted in the transfer of $18.4 million from additional paid-in capital to capital stock, representing the par value of the shares issued. All references in the financial statements to average number of shares outstanding and related prices, per share amounts and stock option plan data have been restated to reflect the split.

12 STOCK OPTIONS

Under stock option plans approved by shareholders in 1992 and 1988, stock options are granted to eligible employees at a price not less than fair market value at the date of grant. Options are exercisable under specified conditions for up to ten years from the date of grant. No options may be granted under the 1988 plan after October 1998 and no options may be granted under the 1992 plan after October 2002. No charges to income have resulted from the operation of the plans.

Under provisions of the plans, participants may deliver Kennametal stock in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. Shares valued at $1,246,000 (62,934 shares), $328,000 (20,668 shares) and $307,000 (18,668 shares) were delivered in 1994, 1993 and 1992, respectively.

Under the 1992 and 1988 plans, shares may be awarded to eligible employees without payment. The respective plans specify such shares are awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions or forfeitures. To date, no such awards have been made.

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

	Number of Shares			1994 Option Prices Per Share
	1994	1993	1992	
Options outstanding, beginning of year	914,616	1,115,384	940,760	$17.32-11.41
Granted	100,000	42,000	348,500	20.53
Exercised	(508,966)	(201,196)	(170,676)	17.32-11.41
Lapsed and forfeited	(30,000)	(41,572)	(3,200)	16.94-14.50
Options outstanding, end of year	475,650	914,616	1,115,384	$20.53-14.06
Exercisable at year-end	235,504	741,710	917,182	$16.94-14.06
Available for future grant	961,290	1,031,290	40,894	

13 SHAREHOLDER RIGHTS PLAN

During fiscal 1991, the company adopted a Shareholder Rights Plan to protect shareholders against abusive takeover tactics and to preserve the company's long-range strategic plans from disruption. The Board of Directors declared a distribution of one preferred stock purchase right for each outstanding share of capital stock of the company. Each right will entitle a shareholder to buy one one-hundredth 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 company's capital stock, each right will entitle the shareholder to receive that number of shares of the company's 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.

14 SEGMENT DATA

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

(Dollars in thousands)	1994	1993	1992
Sales:			
Gross sales:			
United States	$610,320	$512,748	$500,141
Europe and other	296,702	156,183	159,637
Total	907,022	668,931	659,778
Less intersegment transfers:			
United States	70,005	52,492	49,718
Europe and other	34,504	17,943	15,527
Total	104,509	70,435	65,245
Net sales	$802,513	$598,496	$594,533
Operating income:			
United States	$ 47,560	$ 39,452	$ 28,876
Europe and other	(8,263)	1,483	1,710
Total operating income	39,297	40,935	30,586
Eliminations	(1,362)	451	509
Interest expense	(13,811)	(9,549)	(10,083)
Patent litigation income	-	1,738	-
Other income (expense)	1,860	519	(40)
Income before taxes on income	$ 25,984	$ 34,094	$ 20,972
Identifiable assets:			
United States	$422,517	$359,996	$370,250
Europe and other	279,558	94,730	100,417
Eliminations	(26,455)	(18,316)	(14,382)
Corporate	21,912	11,853	15,882
Total assets	$697,532	$448,263	$472,167

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. Operating income is defined as net sales less costs and expenses, except interest expense, patent litigation income and other income (expense).

Identifiable assets are those assets that are identified with the operations in each geographic area. Corporate assets consist mainly of cash equivalents, investments in unconsolidated affiliates and the cash surrender value of life insurance.

Sales to a single customer did not aggregate ten percent or more of total sales. Export sales from U.S. operations to unaffiliated customers were $22.7 million, $21.7 million and $16.2 million in 1994, 1993 and 1992, respectively.

15 PATENT LITIGATION

During 1991, a trial court awarded $7.1 million in damages, plus attorneys' fees, to GTE Products Corporation (GTE) in a patent infringement suit filed against the company in the Federal District Court for the Western District of Virginia. The suit involved an infringement of a GTE patent on certain styles of carbide cutter bits used in the road planing industry.

In connection with this litigation, the company recorded a pretax charge to earnings in fiscal 1991 totaling $6.4 million ($0.18 per share). Kennametal settled this suit with GTE for $5.8 million in cash which resulted in a one-time gain of $1.0 million (after-tax), or $0.05 per share in fiscal 1993.

16 PENDING LITIGATION

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

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

QUARTERLY FINANCIAL DATA (UNAUDITED)

SELECTED QUARTERLY FINANCIAL DATA

(Dollars in thousands, except per share data)

	NET SALES	GROSS PROFIT	NET INCOME (LOSS)	EARNINGS (LOSS) PER SHARE
Year ended June 30, 1994				
First quarter	$175,665	$ 70,018	$(33,057)	$ (1.51)
Second quarter	195,167	76,913	4,088	$ 0.18
Third quarter	211,809	88,429	11,090	$ 0.43
Fourth quarter	219,872	94,620	13,791	$ 0.52
Fiscal year	$802,513	$329,980	$ (4,088)	$ (0.17)
Year ended June 30, 1993				
First quarter	$148,830	$ 58,976	$ 3,025	$ 0.14
Second quarter	140,697	54,574	2,078	$ 0.10
Third quarter	153,691	64,943	7,333	$ 0.34
Fourth quarter	155,278	67,230	7,658	$ 0.35
Fiscal year	$598,496	$245,723	$ 20,094	$ 0.93

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

The net loss for the first quarter of fiscal 1994 included the unfavorable cumulative noncash effect of adopting SFAS No. 106 ($20.1 million net of income tax effect) and the favorable cumulative noncash effect of adopting SFAS No. 109 ($5.1 million). In addition to the cumulative effect of changes in accounting principles, first quarter 1994 results included a restructuring charge of $20.4 million (after taxes) relating to the acquisition of an 81 percent interest in Hertel.

In the second quarter of fiscal 1993, the company recorded an after-tax gain of $1.0 million ($0.05 per share) relating to the settlement of the GTE patent litigation.

STOCK PRICE RANGES AND DIVIDENDS PAID (UNAUDITED)

Kennametal's capital stock is traded on the New York Stock Exchange (symbol KMT).
The approximate number of shareholders of record as of August 10, 1994, was 2,828.
Stock price ranges and dividends paid during each quarter were as follows:

	1994		1993		Dividends Paid	
Quarter	High	Low	High	Low	1994	1993
First quarter	$19 1/16	$15 3/8	$17 1/4	$13	$0.145	$0.145
Second quarter	23	18 3/16	14 11/16	12 15/16	0.145	0.145
Third quarter	29 9/16	21 1/16	16 3/4	14	0.145	0.145
Fourth quarter	29 9/16	23 1/8	19 7/8	15 13/16	0.145	0.145
Fiscal year	$29 9/16	$15 3/8	$19 7/8	$12 15/16	$ 0.58	$ 0.58

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 which 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 conduct, and management employees are required annually to submit certificates of compliance with this code.

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

RICHARD J. ORWIG
- - - --
Richard J. Orwig
Vice President
Chief Financial and Administrative Officer

REPORT OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of three independent directors and met four times during fiscal year 1994.

The Audit Committee's charter is to monitor Kennametal'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 & Co. as the company's independent public accountants. The Audit Committee reviewed with the internal auditors and the independent 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 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.

DICK ALBERDING
- - - -------------------------
Richard C. Alberding
Chairman, Audit Committee

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, 1994 and 1993, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1994. 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, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1994, in conformity with generally accepted accounting principles.

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

ARTHUR ANDERSEN & CO.
- - - ------------------------
Arthur Andersen & Co.

Pittsburgh, Pennsylvania
August 1, 1994

ELEVEN YEAR SUMMARY
(Dollars in thousands, except per share data)

Fiscal year ended June 30	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
PER SHARE DATA: (1)											
Earnings (loss)	$ (0.17)	$ 0.93	$ 0.60	$ 1.00	$ 1.54	$ 1.45	$ 1.19	$ 0.85	$ 0.03	$ 0.76	$ 0.48
Dividends	0.58	0.58	0.58	0.58	0.58	0.56	0.52	0.485	0.43	0.39	0.36
Book value	12.25	11.64	11.64	11.42	11.02	9.84	9.04	8.15	7.58	8.67	8.40
RESULTS OF OPERATIONS:											
Net sales	$802,513	$598,496	$594,533	$617,833	$589,023	$472,200	$419,900	$354,450	$355,377	$341,342	$319,343
Cost of goods sold	472,533	352,773	362,967	358,529	342,434	274,929	244,026	205,682	217,999	196,593	197,527
Operating expenses (2)	263,300	200,912	196,992	200,288	179,259	138,346	124,074	112,432	111,167	107,923	96,611
Unusual charges (credits) (3)	24,749	(1,738)	-	6,350	-	-	-	-	20,402	-	-
Pretax income	25,984	34,094	20,972	38,386	55,113	50,894	43,419	31,600	771	34,312	22,860
Income taxes	15,500	14,000	8,100	17,300	23,000	20,900	19,100	14,400	200	15,289	10,900
Minority interest in losses of Hertel AG	431	-	-	-	-	-	-	-	-	-	-
Accounting changes (4)	(15,003)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(4,088)	20,094	12,872	21,086	32,113	29,994	24,319	17,200	571	19,023	11,960
FINANCIAL POSITION:											
Working capital	$130,777	$120,877	$108,104	$ 88,431	$108,954	$ 91,032	$ 99,565	$102,271	$101,442	$125,822	$125,449
Plant and equipment (net)	243,098	192,305	200,502	193,830	175,523	166,390	161,788	139,815	126,734	129,202	123,287
Total assets	697,532	448,263	472,167	476,194	451,379	383,252	359,258	326,994	300,024	327,456	322,333
Long-term debt and capital leases	90,178	87,891	95,271	73,113	81,314	57,127	74,405	72,085	69,286	34,053	35,234
Shareholders' equity (5)	322,836	255,141	251,511	243,535	231,598	204,465	186,238	166,190	153,325	216,122	211,027
OTHER DATA:											
Capital expenditures	$ 27,313	$ 23,099	$ 36,555	$ 55,323	$ 35,998	$ 28,491	$ 46,336	$ 34,111	$ 24,083	$ 24,276	$ 15,536
Depreciation	39,236	27,502	27,849	28,642	27,043	25,161	23,134	19,684	17,538	16,438	15,274
Number of employees (at year-end)	6,598	4,850	4,980	5,360	5,580	5,420	4,990	4,760	4,800	5,470	5,540
Average shares outstanding (in thousands) (1)	24,304	21,712	21,452	21,094	20,872	20,696	20,526	20,322	20,582	25,138	24,958
SELECTED FINANCIAL RATIOS:											
Sales growth	34.1%	0.7%	(3.8)%	4.9%	24.7%	12.5%	18.5%	(0.3)%	4.1%	6.9%	18.0%
Gross margin (6)	41.1	41.1	38.9	42.0	41.9	41.8	41.9	42.0	38.7	42.4	38.1
Operating margin (7)	8.3	7.5	5.8	9.6	11.4	12.5	12.3	10.3	7.4	10.8	7.9
Pretax margin	3.2	5.7	3.5	6.2	9.4	10.8	10.3	8.9	0.2	10.1	7.2
Effective tax rate	59.7	41.1	38.6	45.1	41.7	41.1	44.0	45.6	25.9	44.6	47.7
Net margin (8)	(0.5)	3.4	2.2	3.4	5.5	6.4	5.8	4.9	0.2	5.6	3.7
Return on average equity (9)	(1.5)	8.1	5.2	8.7	14.9	15.4	13.9	10.9	0.4	8.9	5.8
Total debt to capital ratio	31.3	30.2	33.7	34.9	33.4	31.9	35.8	36.0	34.3	17.6	18.1
Current ratio	1.6x	2.4x	2.0x	1.6x	2.0x	1.9x	2.3x	2.6x	2.8x	3.3x	3.2x

1 Adjusted to reflect the increased number of shares resulting from a 2-for-1 stock split in the form of a 100 percent stock dividend in August 1994.
2 Operating expenses include research and development, marketing and general and administrative expenses.
3 Unusual charges for 1994 reflect a special charge of $24.7 million related to the closing of the Neunkirchen manufacturing facility and other Hertel integration related activities. Unusual credits for 1993 reflect a favorable settlement in patent litigation partially reversing the 1991 charges. Unusual charges for 1991 reflect an adverse decision in patent litigation. Unusual charges for 1986 include the disposition of certain assets, the rationalization of production facilities and other items.
4 Accounting changes for 1994 reflect a charge of $20.1 million (net of income tax effect) for the adoption of SFAS No. 106 and a credit of $5.1 million for the adoption of SFAS No. 109.
5 During the second quarter of fiscal 1994 the company completed the sale of approximately 2.0 million shares of common stock (presplit basis) resulting in net proceeds of $73.6 million. During the first quarter of fiscal 1986, the company purchased approximately 2.4 million shares of Kennametal stock at a total cost of approximately $60 million.
6 Gross margin equals net sales less cost of goods sold, as a percentage of sales.
7 Operating margin equals gross profit less operating expenses, as a percentage of sales.
8 Net margin equals net income (loss) as a percentage of sales.
9 Without the restructuring charge and accounting changes, the return on average equity was 11.4 percent in 1994.

BOARD OF DIRECTORS

QUENTIN C. MCKENNA, 67, is Chairman of the Board of Directors and its longest-serving member. He joined the board in 1971 when he was an executive with Hughes Aircraft Corporation. Mr. McKenna joined Kennametal and became President in 1978. He became Chief Executive Officer in 1979 and remained CEO until he retired in 1991. He was elected Chairman of the Board in 1986.

QUENTIN C. MCKENNA

ROBERT L. MCGEEHAN is President and Chief Executive Officer of Kennametal. He was elected President in 1989 and CEO in 1991, succeeding Mr. McKenna. He became a member of the Board of Directors in 1989 and is chairman of the board's Nominating Committee. Prior to that, he was a Vice President from 1984 to 1989 and Director of the Metalworking Systems Division from 1988 to 1989. Mr. McGeehan is 57.

ROBERT L. MCGEEHAN

RICHARD C. ALBERDING joined the Board of Directors in 1982 and is chairman of the Audit Committee and a member of the Executive Committee. He is retired Executive Vice President of Marketing and International for Hewlett-Packard Company, which designs and manufactures electronic products for measurement and computation. He is 63 years old.

DICK ALBERDING

PETER B. BARTLETT has been a member of the Board of Directors since 1975. He presently serves on the Executive Committee and the Audit Committee. Mr. Bartlett, 60, is a General Partner of Brown Brothers Harriman & Co., a private banking firm.

P. B. BARTLETT

ROBERT N. ESLYN, 71, retired, having served as Senior Vice President of Kennametal from 1986 to 1988 and as Vice President and Group General Manager of the Metalworking Products Group until 1986. He became a director in 1988 and is a member of the board's Nominating Committee.

ROBERT N. ESLYN

WARREN H. HOLLINSHEAD, the newest member of Kennametal's board, was elected in 1990 and serves on the Committee on Executive Compensation. He retired on July 1, 1994, having served as Chief Financial Officer and as Executive Vice President of Westinghouse Electric Corporation, a technology-based manufacturing and services company. He is 58 years old.

W. H. HOLLINSHEAD

ALOYSIUS T. MCLAUGHLIN, Jr., 59, is Vice Chairman of Dick Corporation, a general contractor. A member of the board since 1986, he chairs the Committee on Executive Compensation and also serves on the Executive Committee.

A. T. MCLAUGHLIN

WILLIAM R. NEWLIN, a member of the board since 1982, is chairman of the Executive Committee. He is Managing Director of Buchanan Ingersoll Professional Corporation, attorneys-at-law. Mr. Newlin is 53 years old.

WILLIAM R. NEWLIN

EUGENE R. YOST joined the board in 1990 and currently serves as a member of the Committee on Executive Compensation. Mr. Yost, 66, was co-founder and, until 1991, Chairman of the Board of Black Box Corporation, a catalog distributor of data communication devices.

E. R. YOST

LARRY YOST has been a director since 1987 and is a member of the board's Audit and Nominating Committees. Mr. Yost, 56, is Senior Vice President, Operations Group of Allen-Bradley Company, a manufacturer and marketer of industrial automation controls, communications systems and electronic products.

LARRY YOST

CORPORATE OFFICERS

ROBERT L. MCGEEHAN is President and Chief Executive Officer. He was elected President in 1989 and CEO in 1991. He was a Vice President from 1984 to 1989. He was Director of the Metalworking Systems Division from 1988 to 1989 and General Manager from 1985 to 1988. He is 57 years old.

ROBERT L. MCGEEHAN

DAVID B. ARNOLD, 55, has been a Vice President since 1979 and became Chief Technical Officer in 1988. He was Director of Kennametal International from 1983 to 1988.

DAVID B. ARNOLD

JAMES R. BREISINGER, 44, was named Controller in 1994. He was Managing Director of Europe from 1991 to 1994. A Vice President since 1990, he was Controller from 1983 to 1991.

JAMES R. BREISINGER

DAVID T. COFER has been Secretary and General Counsel since 1982. Elected a Vice President in 1986, he is 49 years old.

DAVID T. COFER

RICHARD P. GIBSON, Director of Taxes since 1980, was named Assistant Treasurer in 1985. He is 59.

R. P. GIBSON

MICHAEL E. GODFREY, 61, was named Director of Financial Projects in 1994. He was Controller from 1991 to 1994 and was Manager of Division Accounting from 1985 to 1991.

MICHAEL E. GODFREY

JAMES W. HEATON was named Senior Vice President and Director of Customer Satisfaction in 1990. He was Director of Engineering for the Metalworking Systems Division from 1978 to 1990. He is 62.

JAMES W. HEATON

RICHARD C. HENDRICKS, 55, is Director of Corporate Business Development and has been a Vice President since 1982. He was General Manager of the Mining and Metallurgical Division from 1990 to 1992 and was General Manager of the Advanced Materials Division from 1986 to 1990.

RICHARD C. HENDRICKS

TIMOTHY D. HUDSON, 48, has served as Director of Human Resources since 1992 and was elected a Vice President in 1994. He was Corporate Manager of Human Resources from 1978 to 1992, and Manager of Human Resources, Mining and Construction Division from 1974 to 1978.

TIMOTHY D. HUDSON

H. PATRICK MAHANES, Jr., 51, is Director of Operations. He was Director of the Metalworking Manufacturing Division from 1988 to 1991 and has been a Vice President since 1987. He directed Corporate Technology from 1987 to 1988 and Manufacturing Technology from 1985 to 1987.

H. P. MAHANES

RICHARD V. MINNS has been Director of Sales for the Metalworking Systems Division since 1985. Fifty-six years old, he was elected a Vice President in 1990.

R. V. MINNS

JAMES E. MORRISON was named a Vice President in 1994. He served as Manager of Treasury Services from 1985 until he was elected Treasurer in 1987. He is 43 years old.

JAMES E. MORRISON

KEVIN G. NOWE, 42, was elected Assistant Secretary in 1993. He has also served as Assistant General Counsel since 1992. Previously, he was Senior Counsel & Corporate Secretary of Emro Marketing Company in Enon, Ohio.

KEVIN G. NOWE

RICHARD J. ORWIG, 53, has been a Vice President since 1987. He was named Chief Financial and Administrative Officer in 1994. He was Director of Administration from 1991 to 1994 and Director of Human Resources from 1989 to 1991. He was Director of Corporate Planning from 1984 to 1989.

RICHARD J. ORWIG

ALAN G. RINGLER, 44, was elected a Vice President in 1989. Now Director of Metalworking Systems Division, he was Director of Metalworking, North America, from 1991 to 1992, Managing Director, Europe, from 1990 to 1991 and Director of Marketing and Customer Service for the Metalworking Systems Division from 1989 to 1990.

ALAN G. RINGLER

MICHAEL W. RUPRICH was named President of J&L America Inc. and elected a Kennametal Vice President in 1994. He was General Manager of J&L from 1993 to 1994, National Sales and Marketing Manager from 1992 to 1993 and General Manager - East Coast Region from 1990 to 1992. He is 38 years old.

MICHAEL W. RUPRICH

P. MARK SCHILLER, 46, is Director of Kennametal Distribution Services. Mr. Schiller was elected a Vice President in 1992. He was Director of Materials Management from 1988 to 1990.

P. MARK SCHILLER

CORPORATE AND WORLDWIDE DATA

LOCATIONS, SUBSIDIARIES AND AFFILIATES (as of June 30, 1994)

CORPORATE HEADQUARTERS
Route 981 at Westmoreland County Airport
P.O. Box 231
Latrobe, PA 15650
Phone (412)539-5000

PLANT LOCATIONS-UNITED STATES
Fallon, Nevada
Henderson, North Carolina
Roanoke Rapids, North Carolina
Orwell, Ohio
Solon (Cleveland), Ohio
Bedford, Pennsylvania
Latrobe, Pennsylvania
Johnson City, Tennessee
New Market, Virginia

PLANT LOCATIONS-INTERNATIONAL
Arnhem, Netherlands
Victoria, Canada
Port Coquitlam, Canada
Kingswinford, England
Ris Orangis (Paris), France
Ebermannstadt, Germany
Mistelgau, Germany
Nabburg, Germany
Vohenstrauss, Germany

CONSOLIDATED SUBSIDIARIES
Hertel Cutting Technologies Inc., United States
Kennametal Australia Pty. Ltd., Australia
Kennametal Foreign Sales Corporation, Barbados
Kennametal Hertel AG, Germany (82%)
Kennametal Ltd., Canada
Kennametal GTS Pte. Ltd., Singapore
J&L America Inc., United States
Kennametal Hertel G.m.b.H., Germany

CONSOLIDATED SUBSIDIARIES of Kennametal Hertel AG
Kennametal Hertel France S.A., France
Kennametal Hertel Belgium S.A., Belgium
Kennametal Hertel Nederland B.V., Netherlands
Nederlandse Hardmetaal Fabrieken B.V., Netherlands
Karl Hertel G.m.b.H., Austria
Hertel Iberica S.A., Spain
Hertel Japan Limited, Japan

OTHER LOCATIONS
Bangkok, Thailand
Bombay, India
Raleigh, North Carolina
Seoul, Korea

AFFILIATED COMPANIES
(% ownership indicated)
Kennametal Ca.Me.S., S.p.A., Milan, Italy (51%)
Kennametal Hertel S.p.A., Milan, Italy (20%)
Kobe Kennametal K.K., Tokyo, Japan (49%)
Kennametal - Idemitsu Corporation, Latrobe, PA (50%)

CORPORATE DATA

TRANSFER AGENT REGISTRAR OF STOCK AND DIVIDEND DISBURSING AGENT
Mellon Bank N.A.
c/o Securities Transfer Service
P.O. Box 444
Pittsburgh, PA 15230

STOCK LISTING
New York Stock Exchange, Symbol KMT

INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen & Co.

ANNUAL REPORT ON FORM 10-K
Form 10-K, as filed with the Securities and Exchange Commission, will be available in September 1994. A copy may be obtained without charge by contacting the investor relations department at (412)539-5137.

INFORMATION
Securities analysts, shareholders, news media and others seeking financial information should contact Mr. Michael J. Mussog, Manager of External Reporting, at (412)539-4617. News media and others seeking general information should contact Mr. William P. Kennedy, Manager of Product Publicity, at (412)539-5765.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN
This plan provides shareholders with a convenient way to acquire additional shares of Kennametal capital stock without paying brokerage fees or service charges. Participants may reinvest their dividends, plus optional cash if desired, to acquire these additional shares. Mellon Bank N.A. administers the plan and acts as the agent for the participants. For more information, contact the company's secretary at (412)539-5204.

EQUAL OPPORTUNITY EMPLOYER
Kennametal is an equal opportunity employer. All matters regarding recruiting, hiring, training, compensation, benefits, promotions, transfers and all other personnel policies will

continue to be free from all discriminatory practices.

ANNUAL MEETING
The annual meeting of shareholders is scheduled for Monday, October 31, 1994, at the Corporate Technology Center in Latrobe, PA. Notice of the meeting will be mailed on or about September 23, 1994, to shareholders of record on September 6, 1994. All shareholders are cordially invited to attend. Proxies will be solicited by the Board of Directors.

(Page 38)

The following are trademarks of Kennametal Inc. and are used as such herein: block style K, Kennametal, KCD25, KM-LOC, KM, KC, KCD, KC9010, KC9025, Finding Better Ways, J&L and Kennametal Hertel. Hertel is a trademark of Hertel AG and is used as such herein.

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[Logo]
Kennametal Inc.
Latrobe, PA 15650
(412) 539-5000

(Back Cover)

APPENDIX TO EXHIBIT 13
FURNISHED IN ACCORDANCE WITH RULE 309 OF REGULATION S-T

NARRATIVE DESCRIPTION OF GRAPHIC AND IMAGE
INFORMATION IN REGISTRANT'S
1994 ANNUAL REPORT TO SHAREHOLDERS

Page of Annual Report	Description of Graphic or Image Information
Front Cover	Photograph of KC990 (TM) in action.
Page 1	Graphs containing the following information appear on bottom of page:

YEAR	NET SALES (MILLIONS OF DOLLARS)
1990	589.0
1991	617.8
1992	594.5
1993	598.5
1994	802.5

YEAR	EARNINGS (LOSS) PER SHARE (DOLLARS)
1990	1.54
1991	1.00
1992	0.60
1993	0.93
1994	(0.17)

YEAR	DIVIDENDS PER SHARE (DOLLARS)
1990	0.58
1991	0.58
1992	0.58
1993	0.58
1994	0.58

Page 2	Illustration of Robert L. McGeehan, President and Chief Executive Officer appears on left side of page.
Page 3	Illustration of Quentin C. McKenna, Chairman of the Board appears on right side of page.
Page 8	Photograph of Ford Mondeo crankshafts on production line appears on top of page.
Page 8	Photograph of the KM-LOC (TM) clamping device appears on bottom right of page.
Page 9	Photograph of three people at tool crib counter appears on bottom right of page.
Page 10	Photograph of automated coating tray appears on bottom right of page.
Page 11	Photograph of Management Information Systems team in computer control room appears on top of page.

Page 11	Photographs of KCD25 (TM) insert grade in action appear on bottom left of page.
Page 12	Photograph of mining roof drill bits appears on top left of page.
Page 13	Photograph of customer ordering from a J&L catalog appears on top right of page.
Page 13	Photograph of selected Hertel products including solid carbide drill bits and milling products appears on bottom of page.
Page 14	Photograph of 1994 McKenna award winners appears on top left of page.
Page 14	Photograph of Kennametal truck at loading dock appears on bottom right of page.
Page 15	Graphs containing the following information appear on page:

YEAR	SALES PER EMPLOYEE (THOUSANDS OF DOLLARS)
1990	106.7
1991	113.5
1992	116.4
1993	121.8
1994	125.2

EXPENSES YEAR	RESEARCH AND DEVELOPMENT (MILLIONS OF DOLLARS)
1990	13.3
1991	14.8
1992	13.7
1993	14.7
1994	15.2

YEAR	CASH FLOW FROM OPERATIONS (MILLIONS OF DOLLARS)
1990	68.0
1991	43.4
1992	47.3
1993	42.0
1994	30.2

YEAR	RETURN ON EQUITY (PERCENTAGE)
1990	14.9
1991	8.7
1992	5.2
1993	8.1
1994	(1.5)

YEAR	DEBT TO CAPITAL (PERCENTAGE)
1990	33.4
1991	34.9
1992	33.7
1993	30.2
1994	31.3

YEAR	CAPITAL INVESTMENT CAPITAL EXPENDITURES (MILLIONS OF DOLLARS)
1990	36.0
1991	55.3
1992	36.6
1993	23.1
1994	27.3

YEAR	CAPITAL INVESTMENT DEPRECIATION (MILLIONS OF DOLLARS)
1990	27.0
1991	28.6
1992	27.8
1993	27.5
1994	39.2

Inside Back Cover	The symbol for use of recycled paper appears in the lower right corner.

Outside

Back Cover The Kennametal logo appears in the middle of the page on the left side.

EXHIBIT 21

PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction in Which Organized or Incorporated
Hertel Cutting Technologies Inc.	Tennessee, United States
Kennametal Australia Pty. Ltd.	Australia
Kennametal Foreign Sales Corporation	Barbados
Kennametal Hertel AG	Germany
Kennametal Ltd.	Ontario, Canada
Kennametal GTS Pte. Ltd.	Singapore
J&L America Inc.	Michigan, United States
Kennametal Hertel G.m.b.H.	Germany

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included or incorporated by reference in this Form 10-K, into the Company's previously filed registration statements on Form S-8, Registration No. 2-80182, Form S-8, Registration No. 33-25331, Form S-8, Registration No. 33-55768, Form S-8, Registration No. 33-55766 and Form S-3, Registration No. 33-61854, including the prospectuses therein, relating to the company's Stock Option Plan of 1982, Stock Option and Incentive Plan of 1988, Stock Option and Incentive Plan of 1992, Directors Stock Incentive Plan and the Dividend Reinvestment and Stock Purchase Plan (as amended). It should be noted that we have not audited any financial statements of the Company subsequent to June 30, 1994 or performed any audit procedures subsequent to the date of our report.

ARTHUR ANDERSEN LLP

Pittsburgh, Pennsylvania
September 21, 1994

This schedule contains summary financial information extracted from the June 30,
1994 Consolidated Financial Statements and is qualified in its entirety by
reference to such financial statements.

1,000

YEAR
JUN-30-1994
JUL-1-1993
JUN-30-1994
17,190
0
143,691
9,328
158,179
332,804
467,652
224,554
697,532
202,027
0
36,712
0
0
286,124
697,532
802,513
802,513
472,533
778,389
(1,860)
0
13,811
25,984
15,500
10,915
0
0
(15,003)
(4,088)
(.17)
(.17)