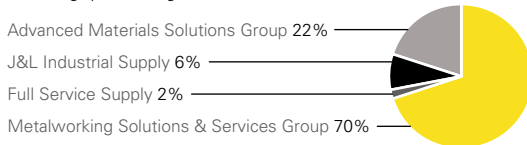


Operating Income by Business Segment  
(excluding special charges)



**Continued Success at Cash Flow Generation and Debt Reduction** We were particularly pleased to continue to deliver against our balance sheet and cash flow objectives despite the weak industrial manufacturing environment. Total debt was reduced 32 percent, or about \$200 million year-over-year, including approximately \$120 million from the issuance of equity. Notably, our free operating cash flow again exceeded \$100 million, at \$122 million, despite a decline in earnings. This achievement means that we have delivered more than \$450 million in cumulative free operating cash flow in the past three years. This important benchmark of financial performance demonstrates the fundamental strength of our businesses, our implementation of effective systems to manage financial resources, and our ability to manage for cash generation in difficult times.

**Growth – The Widia Acquisition** The strategic acquisition of Widia was a result of our systematic efforts to earn the right to grow, balance our global revenues more evenly between domestic and international markets and further strengthen our already undisputed number two global market share position in metalworking. Due to the improvements that we have made to the balance sheet, organizational structure and management team, we are well positioned to take advantage of this compelling opportunity.

This acquisition is the perfect fit at the right price. Obtaining a leading maker of metalworking brands in Europe, and the number one supplier in India, is of great strategic importance to our business. The strong strategic fit will allow us to leverage our core competencies and to fulfill a fundamental component of our value proposition, which is to improve our customers' competitiveness with superior products and technical support around the world. The combination of Kennametal and Widia is good for our customers, our shareowners, our employees and the industry as a whole.

To assure a rapid start, we actively advanced our integration plans prior to the close of the sale. I remain confident that we will accomplish our objectives within the 12-month time frame to which we originally committed. Our integration teams are now in place on the ground in Europe and in India, and they include key members from both our U.S. and European operations. In fact, the team leader was one of the leaders of the highly successful Hertel integration following its acquisition in Germany eight years ago.

**Capitalization** Finally, in addition to Widia, we completed a very successful refinancing of the company. We issued 3.5 million shares of common stock, \$300 million of senior unsecured notes and secured a new three-year revolving credit facility, all at very attractive terms. These transactions represent a significant upgrade of our capital structure and reflect the strong credit story the company has developed over the past three years.