



**Kennametal Hertel Limited**

Accounts for the year ended 30 June 2001  
together with directors' and auditors' reports

Registered number: 3425094



## Directors' report

For the year ended 30 June 2001

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 June 2001.

### Principal activity and business review

The principal activity of the company is the manufacture and distribution of industrial cutting tools.

Turnover for the year was £49,602,000 (2000 - £37,302,000), resulting in a loss on ordinary activities after taxation of £14,261,000 (2000 - £2,820,000). The loss in the year was affected by the full write down of an investment of £11,300,000 in Kennametal Hertel UK Holdings Limited.

The directors expect the general level of activity to remain constant.

On 1 July 2000 the trade and assets of Kennametal Hertel EDG Limited, a fellow group company, were transferred at net book value into the company as part of the continued restructuring of operations (see note 11 for details).

### Results and dividends

The results for the year were as follows:

	£'000
Retained loss, beginning of year	(2,071)
Retained loss for the year	(14,261)
Retained loss, end of year	<u>(16,332)</u>

No dividend can be paid.

### Directors and their interests

The directors who served during the year and subsequently are as follows:

P B Ferraz  
H P Mahanes (American)  
J P Rosenhamer (American)  
M S Neal (resigned 14 July 2000)  
G C Minken (resigned 31 May 2001)

No director has any interest in the shares of the company required to be disclosed under Schedule 7 of the Companies Act 1985.

## Directors' report (continued)

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### Employee consultation

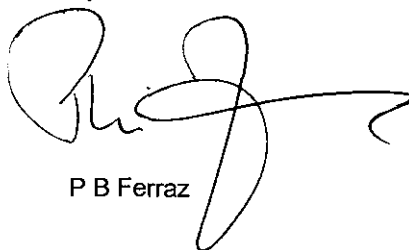
The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

### Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

PO Box 29  
Pensnett Trading Estate  
Kingswinford  
West Midlands  
DY6 7NP

By order of the Board

A handwritten signature in black ink, appearing to be 'P B Ferraz', written in a cursive style.

P B Ferraz

Director

19 April 2002

## Director's responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**To the Shareholders of Kennametal Hertel Limited:**

We have audited the financial statements of Kennametal Hertel Limited for the year ended 30 June 2001 which comprise the Profit and loss account and the Balance sheet and the related Notes numbered 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30 June 2001 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

Four Brindleyplace  
Birmingham  
B1 2HZ

19 April 2002

## Profit and loss account

For the year ended 30 June 2001

	Notes	2001 £'000	2000 £'000
<b>Turnover</b>	1		
Existing operations		36,472	37,302
Acquisitions		13,130	-
Continuing operations		49,602	37,302
Cost of sales	2	(40,768)	(28,173)
<b>Gross profit</b>	2	8,834	9,129
Other operating expenses (net)	2	(23,190)	(10,729)
<b>Operating loss</b>		(14,356)	(1,600)
Existing operations		(10,822)	(1,600)
Acquisitions		(3,534)	-
Continuing operations		(14,356)	(1,600)
Costs of a fundamental restructuring of continuing operations	3	(253)	(1,204)
Finance charges (net)	4	(473)	(340)
<b>Loss on ordinary activities before taxation</b>	5	(15,082)	(3,144)
Tax on loss on ordinary activities	7	821	324
<b>Loss on ordinary activities after taxation, being retained loss for the year</b>	18	(14,261)	(2,820)

There are no recognised gains or losses in either year other than the retained loss for the year.

The accompanying notes are an integral part of this profit and loss account.

# Balance sheet

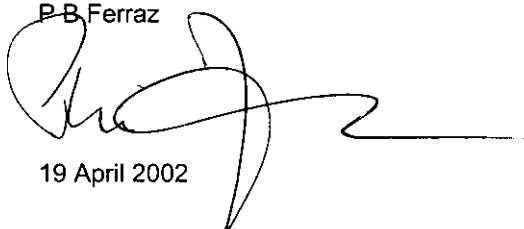
30 June 2001

	Notes	2001 £'000	2000 £'000
<b>Fixed assets</b>			
Tangible assets	9	2,945	837
Investments	10	10,039	21,339
		<u>12,984</u>	<u>22,176</u>
<b>Current assets</b>			
Stocks	12	15,817	8,412
Debtors - due within one year	13	13,452	8,190
- due after one year	13	3,000	10,207
Cash at bank and in hand		4	6
		<u>32,273</u>	<u>26,815</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(7,959)</u>	<u>(5,053)</u>
<b>Net current assets</b>		<u>24,314</u>	<u>21,762</u>
<b>Total assets less current liabilities</b>		<u>37,298</u>	<u>43,938</u>
<b>Creditors: Amounts falling due after more than one year</b>	15	(23,221)	(15,502)
<b>Provisions for liabilities and charges</b>	16	<u>(758)</u>	<u>(856)</u>
<b>Net assets</b>		<u>13,319</u>	<u>27,580</u>
<b>Capital and reserves</b>			
Called-up share capital	17	29,651	29,651
Profit and loss account	18	(16,332)	(2,071)
<b>Total shareholders' funds - all equity</b>	19	<u>13,319</u>	<u>27,580</u>

Signed on behalf of the Board

P.B. Ferraz

Director



19 April 2002

The accompanying notes are an integral part of this balance sheet.



## Statement of accounting policies

30 June 2001

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below.

### **Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Kennametal Hertal AG which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

### **Goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses and purchased goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over the directors' estimate of its useful economic life, which is twenty years. Provision is made for any impairment.

### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Leasehold improvements	Over the life of the lease
Machinery and equipment	20% per annum
Office equipment	12.5% - 33.3% per annum
Motor vehicles	25% per annum

Residual value is calculated on prices prevailing on the date of acquisition.

### **Investments**

Fixed asset investments are shown at cost less provision for permanent diminution in value.

### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

## Statement of accounting policies (continued)

### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

### Pensions

For the defined benefit schemes contributed to by the company, the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. The schemes are funded and the assets of the schemes are held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided on timing differences which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

### Leases

Rentals paid under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

### Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

## Notes to accounts

### 1 Turnover

The company's turnover and operating results were derived wholly from the company's principal activity. The detailed analysis of turnover by geographical area has been omitted as the directors believe that this information would be seriously prejudicial to the company's interests.

### 2 Cost of sales, gross profit and other operating expenses (net)

	2001			2000		
	Existing Operations £'000	Acquisitions £'000	Total £'000	Existing operations £'000	Acquisitions £'000	Total £'000
<b>Cost of sales</b>	(26,914)	(13,854)	(40,768)	(28,173)	-	(28,173)
<b>Gross profit</b>	9,558	(724)	8,834	9,129	-	9,129
Selling and distribution costs	(8,307)	(2,569)	(10,876)	(9,778)	-	(9,778)
Administrative expenses	(773)	(241)	(1,014)	(951)	-	(951)
Amounts written off investments	(11,300)	-	(11,300)	-	-	-
<b>Other operating expenses (net)</b>	(20,380)	(2,810)	(23,190)	(10,729)	-	(10,729)

The company wrote off the value of its investment in Kennametal Hertel UK Holdings Limited on the basis that it had no carrying value following the transfer of the net assets of Kennametal Hertel EDG Limited into the company at net book value.

### 3 Costs of a fundamental restructuring of continuing operations

The costs of a fundamental restructuring of continuing operations in both years arose in respect of the closure of certain manufacturing operations which has had a material effect on the nature of the company's operations.

## Notes to accounts (continued)

### 4 Finance charges (net)

#### *Investment income*

	2001 £'000	2000 £'000
Other interest receivable and similar income	<u>69</u>	<u>208</u>

#### *Interest payable and similar charges*

	2001 £'000	2000 £'000
Bank loans and overdrafts	-	2
Interest payable to fellow group companies	<u>542</u>	<u>546</u>
	<u>542</u>	<u>548</u>

#### *Finance charges (net)*

	2001 £'000	2000 £'000
Interest payable and similar charges	542	548
Less: Investment income	<u>(69)</u>	<u>(208)</u>
	<u>473</u>	<u>340</u>

### 5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2001 £'000	2000 £'000
Depreciation		
- owned assets	1,151	674
- leased assets	48	-
- Impairment of fixed asset investments	11,300	-
Amortisation of goodwill	-	40
Operating lease rentals		
- plant and machinery	147	483
- other	683	347
Auditors' remuneration		
- audit services	<u>43</u>	<u>42</u>

Amounts paid to Arthur Andersen in respect of non audit services were £nil in both years.

## Notes to accounts (continued)

### 6 Staff costs

The average monthly number of employees (including executive directors) during the year was as follows:

	2001 Number	2000 Number
Administration and sales	152	126
Distribution and manufacturing	262	99
	<u>414</u>	<u>225</u>

Their aggregate remuneration comprised:

	2001 £'000	2000 £'000
Wages and salaries	9,315	5,411
Social security costs	802	494
Other pension costs	975	822
	<u>11,092</u>	<u>6,727</u>

### Directors' remuneration

#### *Remuneration*

The remuneration of the directors was as follows:

	2001 £'000	2000 £'000
Emoluments	<u>183</u>	<u>343</u>

#### *Pensions*

The number of directors who were members of pension schemes was as follows:

	2001 Number	2000 Number
Defined benefit schemes	<u>2</u>	<u>3</u>

## Notes to accounts (continued)

### 7 Tax credit on loss on ordinary activities

The tax credit on loss in each year comprises:

	2001 £'000	2000 £'000
<b>Current tax</b>		
UK corporation tax	52	324
Deferred taxation	665	-
	<hr/>	<hr/>
Adjustment in respect of prior year	717	324
- UK Corporation tax	104	-
	<hr/>	<hr/>
	821	324
	<hr/>	<hr/>

### 8 Intangible assets

	Goodwill £'000
<b>Cost</b>	
Beginning and end of year	77
	<hr/>
<b>Net book value</b>	
Beginning and end of year	-
	<hr/>

The goodwill originally arose on the acquisition of the Jan Grieveson Welding Engineering Partnership in 1995, and was acquired by the company on 1 July 1998 from Hoodco 565 Limited.

## Notes to accounts (continued)

### 9 Tangible fixed assets

	Leasehold improvements £'000	Machinery and equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
Beginning of year	335	3,845	2,184	-	6,364
Additions	86	267	79	2	434
Disposals	(20)	(662)	(1,384)	-	(2,066)
Amounts transferred from group company	109	9,335	703	41	10,188
End of year	510	12,785	1,582	43	14,920
<b>Depreciation</b>					
Beginning of year	(331)	(3,089)	(2,107)	-	(5,527)
Charge in year	(78)	(979)	(140)	(2)	(1,199)
Disposals	5	557	1,383	-	1,945
Amounts transferred from group company	-	(6,554)	(599)	(41)	(7,194)
End of year	(404)	(10,065)	(1,463)	(43)	(11,975)
<b>Net book value</b>					
Beginning of year	4	756	77	-	837
End of year	106	2,720	119	-	2,945
Leased assets included above:					
<b>Net book value</b>					
Beginning of year	-	133	-	-	133
End of year	-	85	-	-	85

# Notes to accounts (continued)

## 10 Fixed asset investments

### a) Principal group investments

Name	Country of incorporation	Principal activity	Holding	%
Kennametal Hertel UK Holdings Limited	England & Wales	Holding company	Ordinary shares	100
Hoodco 565 Limited	England & Wales	Non-trading	Ordinary shares	100

### b) Investments in subsidiary undertakings

	£'000
<b>Cost</b>	
Beginning and end of year	21,951
<b>Amounts written off</b>	
Beginning of year	(612)
Written off during the year	(11,300)
End of year	(11,912)
<b>Net book value</b>	
Beginning of year	21,339
End of year	10,039



## Notes to accounts (continued)

### 11 Transfer of net assets of Kennametal Hertel EDG Limited

On 1 July 2000 the trade and assets of Kennametal Hertel EDG Limited were transferred at net book value into the company as part of the continued restructuring of operations. The following table sets out the book values of the identifiable assets and liabilities acquired which represented their fair value to the company:

	Net book value £'000
<b>Fixed assets</b>	
Tangible	2,909
<b>Current assets</b>	
Stocks	10,400
Debtors	10,482
Cash	151
<b>Total assets</b>	<u>23,942</u>
<b>Creditors</b>	
Creditors falling due within one year	(22,683)
Creditors falling due after more than one year	(11)
<b>Provisions</b>	
Reorganisation provision	(583)
Deferred taxation	(665)
<b>Total liabilities</b>	<u>(23,942)</u>
<b>Net assets</b>	<u>-</u>

Prior to the transfer, the remaining £18,000 of net assets as at 30 June 2000 were utilised by Kennametal Hertel EDG Limited for the payment of various administrative expenses relating to the year ended 30 June 2001. The overall value of net assets transferred on 1 July 2000 was thus £nil, and accordingly no payment was made for these.

## Notes to accounts (continued)

### 12 Stocks

	2001 £'000	2000 £'000
Raw materials and consumables	911	535
Work in progress	2,639	156
Finished goods	12,267	7,721
	<u>15,817</u>	<u>8,412</u>

### 13 Debtors

	2001 £'000	2000 £'000
Due within one year:		
Trade debtors	8,449	7,249
Amounts owed by group undertakings	402	257
Other debtors, prepayments and accrued income	4,601	684
	<u>13,452</u>	<u>8,190</u>
Due after more than one year:		
Amounts owed by group undertakings	3,000	10,207
	<u>16,452</u>	<u>18,397</u>

### 14 Creditors: Amounts falling due within one year

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	8	-
Bank loans and overdrafts	894	93
Trade creditors	4,155	2,388
Amounts owed to group undertakings	1,292	1,830
Other taxation and social security	246	-
Other creditors	1,364	742
	<u>7,959</u>	<u>5,053</u>

Bank loans of £894,000 (2000 : £93,000) are repayable within one year and are guaranteed by Kennametal Inc.

### 15 Creditors: Amounts falling due in more than one year

	2001 £'000	2000 £'000
Amounts owed to group undertakings	<u>23,221</u>	<u>15,502</u>

## Notes to accounts (continued)

### 16 Provisions for liabilities and charges

	Deferred taxation	Pension obligation	Re- organisation provision	Total
	£'000	£'000	£'000	£'000
At 1 July 2000	-	520	336	856
Transferred from fellow group company	665	-	583	1,248
Charged (credited) to profit and loss account	(665)	41	322	(302)
Released unused	-	-	(69)	(69)
Utilised in period	-	-	(975)	(975)
At 30 June 2001	<u>-</u>	<u>561</u>	<u>197</u>	<u>758</u>

There were no unprovided deferred taxation liabilities at either year end.

The pension provision arises from the difference between the net pensionable cost and contributions paid and is evaluated every 3 years as part of the actuarial valuation.

Details of pensions and other post-retirement benefits are set out in notes 22 and 23.

The reorganisation provision relates to the closure of the Blaydon facility and other ongoing reorganisations within the group.

### 17 Called-up share capital

	2001 £'000	2000 £'000
<i>Authorised</i>		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called-up and fully-paid</i>		
29,651,002 ordinary shares of £1 each	<u>29,651</u>	<u>29,651</u>

## Notes to accounts (continued)

### 18 Reserves

	£'000
At 1 July 2000	(2,071)
Retained loss for the year	(14,261)
At 30 June 2001	(16,332)

### 19 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Retained loss for the year	(14,261)	(2,820)
New shares issued	-	10,000
Net addition to shareholders' funds	(14,261)	7,180
Opening shareholders' funds	27,580	20,400
Closing shareholders' funds	13,319	27,580

On 1 June 2000, the company issued 10,000,000 ordinary shares of £1 each at par to fund the expansion of the company.

### 20 Guarantees and other financial commitments

#### a) Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date:				
- within one year	-	63	21	161
- between two and five years	639	199	9	251
- after five years	-	-	355	-
	<u>639</u>	<u>262</u>	<u>385</u>	<u>412</u>

## Notes to accounts (continued)

### 21 Pension arrangements

The group provides pension arrangements for the majority of full time employees through three pension schemes; The Kennametal Pension Fund, Presto Pension Scheme and The Presto Pension Investment Plan. The related costs are assessed in accordance with the advice of professionally qualified actuaries.

On 1 July 2000, the Principal Employer of all the schemes was changed to Kennametal Hertel Limited.

The dates and details of the most recent full actuarial valuations of each of the schemes is shown in the table below. These valuations have been reviewed by the scheme's actuaries to 30 June 2001 and updated to reflect conditions at that date, using the projected unit method.

	The Kennametal Pension Fund	The Presto Pension Scheme	The Presto Pension Investment Plan
Type of scheme	Defined benefit	Defined benefit (closed)	Money purchase
Date of latest actuarial valuation	1 July 1999	30 June 2000	30 June 2000

Main assumptions used for the two defined benefit scheme valuations are as follows (annual rates):

	The Kennametal Pension Fund 30 June 2001	Presto Pension Scheme 30 June 2001
- the inflation assumption	3%	3%
- rate of increase in salaries	4.25%	4.25%
- rate of increase in pensions in payment and deferred pensions	3%	3%
- discount rate used for scheme liabilities	6%	6%

## Notes to accounts (continued)

### 22 Additional disclosures required under transitional provisions of FRS17

Additional disclosures regarding the company's defined benefit pension schemes are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the year ending 30 June 2003.

The actuarial valuations described above have been updated at 30 June 2001 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuations were:

	The Kennametal Pension Fund 30 June 2001	Presto Pension Scheme 30 June 2001
- the inflation assumption	3%	3%
- rate of increase in salaries	4.25%	4.25%
- rate of increase in pensions in payment and deferred pensions	3%	3%
- discount rate used for scheme liabilities	6%	6%

The fair value of the assets in the schemes and the present value of the liabilities in the schemes were as follows:

	The Kennametal Pension Fund £'000	Presto Pension Scheme £'000
As at 30 June 2001		
Fair value of the scheme assets	12,965	1,205
Present value of the scheme liabilities (based on the accounting assumptions above)	(16,574)	(1,536)
Deficit	<u>(3,609)</u>	<u>(331)</u>

## Notes to accounts (continued)

### 23 Additional disclosures required under transitional provisions of FRS17 (continued)

The fair value of the scheme assets schemes and the expected rate of return at the balance sheet date can be analysed as follows:

	The Kennametal Pension Fund		Presto Pension Scheme	
	£'000	Expected rate of return (%)	£'000	Expected rate of return (%)
Equities	10,411	6.5	1,205	6.5
Fixed interest bonds	2,554	5.2	-	-
	<u>12,965</u>		<u>1,205</u>	

To eliminate the deficit on the defined benefit schemes, the group will contribute at the rate of 16% of pensionable earnings for the Kennametal Pension Fund and 14% for the Presto Pension Scheme, with effect from 1 July 2001.

The pension cost charge for the year for the schemes is shown below.

	2001 £'000	2000 £'000
Kennametal	699	822
Presto Pension	258	302
Presto Investment Plan	18	14
	<u>975</u>	<u>1,138</u>

The cost of the schemes as shown above reflects the cost of running those schemes, not borne by Kennametal Hertel Limited for the Presto Pension Scheme and Presto Investment Plan in 2000.

The defined benefit Presto Pension Plan is a closed scheme and as such under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

### 24 Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary undertaking of Kennametal Hertel AG, incorporated in Germany. The smallest group into which the results of the company are consolidated is that headed by Kennametal Hertel AG. The consolidated accounts of the group are available from Kennametal Hertel AG, Postfach 1751, 90707 Furth, Germany.

The largest group into which the results of the company are consolidated is that headed by the ultimate parent undertaking and controlling party, Kennametal Inc., incorporated in the United States of America. The consolidated accounts of the group are available from Kennametal Inc., State Route 981, South Westmoreland County Airport, PA 15650, United States of America.

## Notes to accounts (continued)

### **25 Related party transactions**

The company has taken advantage of the exemption in Financial Reporting Standard No. 8 that transactions with group entities are not disclosed as more than 90% of the voting rights of the company are held within the group headed by Kennametal Inc. and the consolidated accounts of Kennametal Inc. are available to the public.