

## Annexure II to the Directors' Report

**REPORT ON CORPORATE GOVERNANCE****Corporate governance philosophy and compliance**

Your Company's philosophy is based on a belief that good corporate governance helps to enhance stakeholders' value by focusing on long-term stakeholder value creation without compromising on integrity, social obligations and regulatory compliances. The Company's management firmly believes that good corporate governance should be internally driven and not be looked upon just as an issue of compliance dictated by statutory requirements. Your Company has complied with the mandatory and non-mandatory requirements relating to corporate governance prescribed under Clause 49 of the listing agreement, as detailed below:

**1. Composition of the Board**

The Board of Directors has 6 members (as on June 30, 2010), including the Managing Director and 5 non-executive directors who bring a wide range of skills and experience to the Board. The Company has a non-executive Chairman and the number of independent directors is one-third of the total number of directors. The Chairman is not a promoter of the Company nor is he related to any promoter or person occupying management positions at the Board level or at one level below the Board. The composition of the Board is in conformity with Clause 49 of the listing agreement. During the year under review, six meetings of the Board of Directors were held on the following dates: August 28, 2009, September 06, 2009, October 29, 2009, January 28, 2010, April 24, 2010 and May 05, 2010.

Table 1 provides particulars of the directorships, membership of Board Committees and attendance at the Board Meetings of the Company during the year under review.

**Table 1:** Particulars of directorships, membership of board committees and attendance at meetings

Name of the director	Other Directorships held *	Board committees+ (in other Companies)		Attendance at	
		Chairman	Member	Board Meetings	Last AGM
<i>Non-executive, Independent directors</i>					
Mr. M.N.Bhagwat, Chairman	3	2	1	5	Yes
Mr.Rakesh Makhija	1	-	-	5	Yes
<i>Managing Directors</i>					
Mr. Dinakar A. <sup>1</sup>	-	-	-	1	Not applicable
Mr. Santanoo Medhi <sup>2</sup>	-	-	-	2	Not applicable
<i>Non-executive directors</i>					
Mr. B.Anjani Kumar <sup>3</sup>	-	-	-	2	Not applicable
Mr. Bernard North	-	-	-	3	Yes
Mr. Frank P. Simpkins <sup>4</sup>	-	-	-	1	No
Dr. Esat Kemal Yegenoglu	-	-	-	3	Yes

Mr. Frank P. Simpkins, Mr. Bernard North, Dr.Esat Kemal Yegenoglu and Mr.B.Anjani Kumar are the nominees of Kennametal Inc., the foreign promoter. No sitting fees were paid to non-executive directors except Mr.B.Anjani Kumar.

\* Excluding office of alternate directors, non-profit associations, private & foreign companies.

+ Only the Audit and Shareholders' / Investors Grievance Committees are considered.

<sup>1</sup> Ceased to be the director with effect from September 04, 2009

<sup>2</sup> Appointed as additional director with effect from April 24, 2010

<sup>3</sup> Appointed as additional director with effect from April 02, 2010

<sup>4</sup> Ceased to be the director with effect from April 24, 2010

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### 2. Audit Committee

The terms of reference of the Audit Committee are as per the guidelines set out in the listing agreement with the Bombay Stock Exchange Limited read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time.

- a) Consequent to the resignation of Mr.Dinakar A, as Managing Director and Director of the Company with effect from September 04, 2009, his position as Member of the Audit Committee was also vacated. The Board of Directors at its meeting held on September 06, 2009 reconstituted the Audit Committee to comprise (a) Mr.M.N.Bhagwat (b) Mr.Rakesh Makhija and (c) Mr.Frank P.Simpkins as its Members.
- b) Consequent to the resignation of Mr.Frank P.Simpkins as Director with effect from April 24, 2010 his position as Member of the Audit Committee was also vacated. The Board of Directors at its meeting held on April 24, 2010 reconstituted the Audit Committee to comprise (a) Mr.M.N.Bhagwat (b) Mr.Rakesh Makhija and (c) Mr.B.Anjani Kumar as its Members.

All members of the Audit Committee have the requisite accounting and financial management expertise. The particulars of the members and their attendance at the meetings during the year under review are provided in Table 2.

**Table 2:** Particulars of the Audit Committee of Directors and their attendance at meetings:

Name of the Director	Number of meetings attended
Mr. M.N. Bhagwat Chairman, Non-executive, Independent	4
Mr. Rakesh Makhija Non-executive, Independent	4
Mr. Dinakar A. + Managing Director	1
Mr.Frank P.Simpkins++ Non-executive	Nil
Mr.B.Anjani Kumar+++ Non-executive	1

+ ceased to the member with effect from September 04, 2009

++ ceased to be the member with effect from April 24, 2010

+++ appointed as member with effect from April 24, 2010

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 28, 2009, October 29, 2009, January 28, 2010 & April 24, 2010.

The Chief Financial Officer (CFO), Internal Auditors and the Statutory Auditors were invited to attend the meetings of the Audit Committee.

The Company Secretary is the Secretary to the Audit Committee.

### 3. Shareholders' / Investors Grievance Committee

(a) Consequent to the resignation of Mr.Dinakar A as Managing Director and Director of the Company with effect from September 04, 2009, his position as Member of Shareholders' / Investors Grievance Committee was also vacated. The Board of Directors at its meeting held on September 06, 2009 reconstituted the Shareholders' / Investors Committee to comprise Mr.M.N.Bhagwat as its Chairman (non-executive independent director) and Mr.Frank P.Simpkins, Director as its Member.

(b) Consequent to the resignation of Mr.Frank P.Simpkins as Director and appointment of Mr.Santanoo Medhi as Director of the Company, both, with effect from April 24, 2010, the Board of Directors at its meeting held on April 24, 2010 reconstituted the Shareholders' / Investors Committee to comprise Mr.M.N.Bhagwat as its Chairman (non-executive and independent director) and Mr.Santanoo Medhi as its Member. Mr.A.C.Poovanna, Company Secretary is the Compliance Officer.

The Committee met on August 28, 2009 during the year under review and the attendance of the members at the said meeting is provided in Table 3.

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**Table 3:** Particulars of Shareholders' / Investors Grievance Committee of Directors and their attendance at the meeting:

Name of the Member	Attendance on August 28, 2009
1. Mr.M.N.Bhagwat Chairman	Attended
2. Mr.Frank P.Simpkins <sup>1</sup>	Not applicable
3. Mr.Dinakar A. <sup>2</sup> Member	Attended
4. Mr.Santanoo Medhi <sup>3</sup> Member	Not applicable

<sup>1</sup> resigned as member with effect from April 24, 2010

<sup>2</sup> resigned as member with effect from September 04, 2009

<sup>3</sup> appointed as member with effect from April 24, 2010

During the year under review, the Company received two complaints and both were redressed.

**4. Directors' / Manager's remuneration**

Remuneration paid to Directors/Manager for the year under review are detailed in Table 4 and 5.

**Table 4 :** Remuneration paid to Whole-time Directors/Manager in respect of financial year 2009-2010.

Whole-time director / Manager	Amount (Rs.)
Mr. Dinakar A. Managing Director	3,740,967 *
Mr.Santanoo Medhi Managing Director	2,724,206 **
Mr.D. Sarathy Manager	2,810,843 ***

\* Includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. Mr.Dinakar A, resigned as Director with effect from September 04, 2009

\*\* includes salary, fixed allowance, housing, leave travel allowance medical reimbursement, contribution to retiral benefits, etc. The appointment is for a period of three years from April 24, 2010 upto April 23, 2013 terminable with a notice period of three months or such notice as may be mutually determined as per the agreement dated April 24, 2010. Performance pay is based on the results achieved against the targets and certain performance criteria as set out by the Board. The payment of remuneration is subject to the approval of Central Government and Members.

\*\*\* includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. and relates for the period September 05, 2009 upto April 23, 2010.

**Table 5 :** Remuneration paid / payable to non whole-time directors for the year under review.

Non-wholetime directors	Commission (Rs.) *	Sitting fees (Rs.)
Mr.M.N.Bhagwat	1,200,000	190,000
Mr.Rakesh Makhija	500,000	180,000
Mr.B.Anjani Kumar	125,000	60,000
Mr.Bernard North	Nil	Nil
Mr.Frank P.Simpkins	Nil	Nil
Dr.Esat Kemal Yegenoglu	Nil	Nil

\* payable in financial year FY11

The criteria for determination of commission to Non-Executive Independent Directors as approved by the Board, includes attendance at the meetings of the Board / Board Committees, chairmanship of the Board / committees of the Board, individual responsibilities and additional contribution to the Company.

The Company presently has no Employee Stock Option Plan.

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### 5. General Meetings

Date & time	Location	Special Resolutions passed
42 <sup>nd</sup> AGM - 2007 October 26, 2007 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore - 560073	Appointment of Mr.Dinakar A, as Managing Director and fixation of his remuneration.
43 <sup>rd</sup> AGM - 2008 October 31, 2008 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore - 560073	Nil
44 <sup>th</sup> AGM - 2009 October 29, 2009 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore - 560073	Appointment of Mr.D.Sarathy as Manager of the Company as defined under Section 2(24) of the Companies Act, 1956.

#### Postal Ballot

No resolution was passed by postal ballot during the year ended June 30, 2010 and as on date, the Company does not have any proposal to pass any special resolution by way of postal ballot.

#### 6. Disclosures

- The Company has adopted a Code of Internal Procedures and Conduct for Prevention of Insider Trading.
- The Company has in place a Code of Conduct applicable to the Board of Directors as well as the Senior Management. The Managing Director has confirmed and declared that all the members of the Board and Senior Management personnel have affirmed compliance with the Code of Conduct for the year 2009-2010.
- Mr.B.Anjani Kumar, Director holds 10 equity shares in the Company. No other Director holds any shares in the Company.
- No penalties were imposed or strictures passed on the Company by Bombay Stock Exchange Limited, SEBI or any statutory authority on any matter relating to capital markets during the last three years

The Company places the requisite information about related party transactions before the Audit Committee from time to time. Please refer to Notes on Accounts for materially significant related party transactions. None of the said transactions were potentially in conflict with the interest of the Company at large.

- There has been no accounting treatment different from that prescribed in the Accounting Standards laid down by the Institute of Chartered Accountants of India (ICAI) notified under section 211(3C) of the Companies Act, 1956.
- The Company being a part of Kennametal Group ("the group"), complies with the whistle blower policy of the group which is applicable to all employees of the group.
- The Senior Management personnel have declared to the Board of Directors that none of them or their relatives had any material, financial, commercial transactions that were potentially in conflict with the interests of the Company.
- The Managing Director and Chief Financial Officer have certified to the Board in accordance with Clause 49(V) of the listing agreement, for the year ended June 30, 2010.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the year ended June 30, 2010.
- The Company has complied with all the mandatory requirements of Clause 49 of the listing agreement. As regards the non-mandatory requirements the extent of compliance has been stated in this report against each item.

**Adoption of non-mandatory requirements**

**i) The Board**

The Company reimburses the expenses towards the maintenance of the office of its non-executive Chairman and also the expenses incurred in performance of his duties.

**ii) Shareholders' right**

The Company's quarterly and half-yearly financial results were published in the newspapers and the results were also uploaded in the SEBI's Electronic Data Information Filing and Retrieval (EDIFAR) website upto the quarter ended December 31, 2009. Thereafter, the aforesaid results were e-filed through www.corpfiling.co.in. Therefore, no individual intimations were sent to the shareholders. However, based on the requests from shareholders, if any, the Company would provide them individually.

**iii) Audit qualifications**

There are no qualifications in the Auditors' Report on the Accounts for the year 2009-2010.

**iv) Others**

The Company has not adopted the following clauses which are non-mandatory under Annexure 1D to Clause 49 of the listing agreement.

- Clause (2) constitution of Remuneration Committee of Directors
- Clause (5) training of Board Members
- Clause (6) mechanism for evaluating non-executive Board Members

**7. Means of Communication**

- a. Quarterly / half-yearly / annual financial results of the Company were forwarded to the Bombay Stock Exchange Limited (where listed) immediately after the Board Meeting so as to enable hosting the same in their website and the results were also published in Financial Express (English) and Sanjevani (Kannada) newspapers within 48 hours from the conclusion of the Board Meeting.
- b. As mandated by SEBI, information such as shareholding pattern and corporate governance report on a quarterly basis,

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Annual Report containing Directors' Report, Corporate Governance Report, Profit & Loss Account, Balance Sheet, etc. are posted by the Company in www.sebidifar.nic.in / www.corpfiling.co.in for the information of investors.

- c. Management Discussion and Analysis Report is annexed to the Annual Report

**General shareholders' information:**

**Annual General Meeting:**

The 45<sup>th</sup> Annual General Meeting of the Company is scheduled to be held at 10.30 a.m. on Tuesday, October 26, 2010 at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560073.

**Book Closure:**

The Register of Members and share transfer books will remain closed from October 22, 2010 to October 26, 2010 [both days inclusive]

**Table 6:** Financial calendar for the year 2010-11.

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2010	October, 2010
Un-audited results for the quarter ending December 31, 2010	January, 2011
Un-audited results for the quarter ending March 31, 2011	April, 2011
Audited results for the year ending June 30, 2011	July / August, 2011

**Dividend :**

An interim dividend of Rs.13/- per equity share of Rs.10/- each [130% on the paid capital of the Company] was declared by the Board for the financial 2009-2010 and May 18, 2010 was fixed as Record Date for the said purpose. The said interim dividend was paid from May 26, 2010. The Board of Directors have decided to treat the same as final dividend and therefore no additional dividend payment is recommended for the year 2009-2010.

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### Stock Exchange :

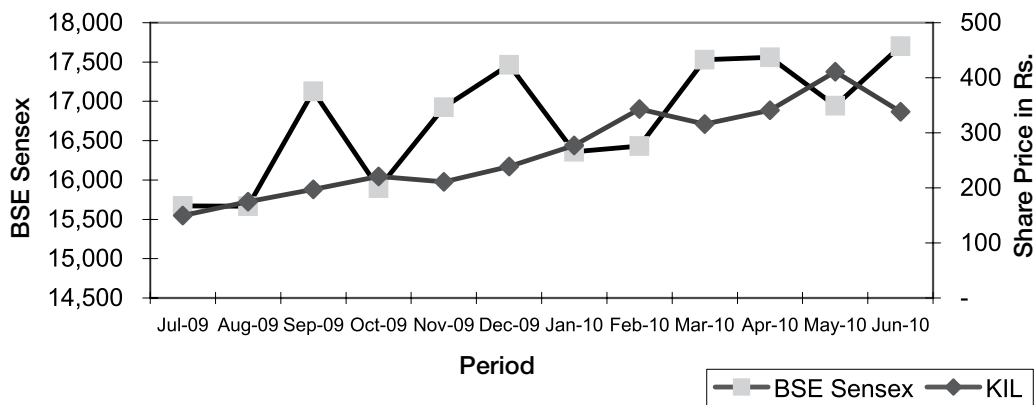
The equity shares of the Company are listed with Bombay Stock Exchange Limited, Mumbai. (scrip code : 505890) and the listing fee has been paid for the year 2010-2011.

**Table 7: Market Price Data - High/Low [closing price] on BSE, during each month of the period under review.**

		High (Rs.)	Low (Rs.)
July	2009	170.45	146.05
August	2009	226.55	174.00
September	2009	222.15	196.65
October	2009	234.85	212.05
November	2009	241.85	210.85
December	2009	272.25	234.05
January	2010	332.10	267.50
February	2010	352.95	318.15
March	2010	333.80	308.90
April	2010	405.80	338.20
May	2010	410.65	343.45
June	2010	462.40	334.75

Source: Website of the Bombay Stock Exchange Limited - [www.bseindia.com](http://www.bseindia.com)

**Table 8 : Share price performance in comparison with BSE Sensesx\***



\*Based on BSE Sensex (close) / share price (close) on the first trading day of the month.

### Share transfer agents

Work related to both physical / demat shares is handled by M/s. Alpha Systems Private Limited, No.30, "Ramana Residency", 4th Cross, Sampige Road, Malleswaram, Bangalore - 560003, Phone: 080 - 23460815 to 818. Fax: 080 - 23460819. e-mail: [alfint@vsnl.com](mailto:alfint@vsnl.com).

### Share transfer system

The authority relating to transfer of shares has been delegated to a share transfer committee consisting of the Managing Director as its Chairman, Vice President - Manufacturing and the Company Secretary as its members. The Committee meets

fortnightly or as often as may be necessary to ensure that the transfer process is completed without delay.

### Dematerialisation of shares

The Company's shares are admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL] and the ISIN allotted for the equity shares of the Company is INE717A01029. 84% of the non-promoters equity shares of the Company are held in demat form.

There are no outstanding GDRs / ADRs / other convertible instruments.

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**Table 9 :** Pattern of shareholding as on June 30, 2010

Category	No. of shares	Percentage (%)
<b>Promoters</b>		
Meturit AG. - 11,208,840		
Kennametal Inc. - 8,167,173	19,376,013	88.16
<b>Public</b>		
Mutual Funds	202,164	0.92
Financial Institutions/Banks	1,040	0.00
Foreign Institutional Investors	20,553	0.09
Bodies Corporate	347,768	1.58
Individuals & others	2,030,702	9.25
<b>Total</b>	<b>21,978,240</b>	<b>100.00</b>

**Table 10 :** Distribution of shares as on June 30, 2010

No. of shares	No. of shareholders	Shares held
1 - 5,000	4,649	1,352,159
5,001 - 10,000	50	353,881
10,001 - 20,000	23	330,897
20,001 - 30,000	8	195,940
30,001 - 40,000	1	34,893
40,001 - 50,000	0	0
50,001 - 100,000	2	132,893
100,001 and above	3	19,577,577
<b>Total</b>	<b>4,736</b>	<b>21,978,240</b>

**Plant location**

8/9th Mile, Tumkur Road, Bangalore - 560 073, Karnataka.

**Address for correspondence**

For all matters relating to shares, demat, remat, annual report, etc.

Alpha Systems Private Limited  
 Unit: Kennametal India Limited  
 No. 30, "Ramana Residency", 4th Cross,  
 Sampige Road, Malleswaram,  
 Bangalore - 560 003  
 Phone : 080 - 23460815 to 818.  
 Fax : 080 - 23460819.  
 e-mail: alfint@vsnl.com

For dividend queries and other general matters:

The Company Secretary  
 Kennametal India Limited  
 8/9th Mile, Tumkur Road,  
 Bangalore - 560 073.  
 Phone: 080-28394321 and 22198345  
 Fax: 080 28397572  
 e-mail:poovanna.ammatanda@kennametal.com

e-mail: in.investorrelation@kennametal.com  
 for the purpose of addressing investor complaints and also to take necessary follow-up action.

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**MD CERTIFICATION**

To,

The Members  
Kennametal India Limited

Pursuant to the Clause 49 of the listing agreement with Bombay Stock Exchange Limited, this is to confirm that all the Members of the Board and the Senior Management of the Company have confirmed compliance with the Code of Conduct of the Company for the year ended June 30, 2010.

For Kennametal India Limited

Santanoo Medhi  
Managing Director

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**AUDITORS' REPORT ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT (S)**

**To the members of Kennametal India Limited**

We have examined the compliance of conditions of corporate governance by Kennametal India Limited for the year ended June 30, 2010, as stipulated in clause 49 of the Listing agreement(s) of the said Company with the stock exchange in India.

The compliance of conditions of corporate governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we report that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Price Waterhouse**  
Firm Registration No.007568S  
Chartered Accountants

Bangalore  
August 13, 2010

**Usha A Narayanan**  
Partner  
Membership Number 23997